

Corporate Social Responsibility in the Consumer Electronics Industry: A Case Study of Apple Inc.

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Abstract

This paper examines the interactions between consumer electronics companies, suppliers, and factory workers and the challenges corporations face in balancing social responsibility with corporate performance through a case study of Apple Inc. and its supply chain.

Introduction

To what extent are multinational corporations responsible for ensuring that workers' rights are respected? In a system where stakeholders at all levels - corporations, subcontractors, governments, NGOs, and individual workers – are dispersed around the world where no clear rules or standards exist, what actions need to be taken and by whom to maintain a minimum level of respect towards a worker's basic human rights? Though multinationals are, to some extent, becoming increasingly aware of the consequences of exploiting cheap labor and creating sweatshop conditions, lacking a widely accepted and clearly defined set of international standards for good corporate citizenship to keep them under tight control, they continue to push the boundaries of what is and is not acceptable corporate behavior in their pursuit to maximize profits.

This paper examines the interaction between corporations, workers, and governments and the challenges they face in balancing workers' rights and corporate performance through a case study of Apple Inc., a company with an intricate supply chain that has recently come under fire by the media on issues regarding labor rights.

1. The Smartphone Industry

Beginning with Apple's introduction of the iPhone in 2007, the smartphone industry has experienced explosive growth. According to the International Data Corporation, worldwide smartphone shipments have overtaken that of regular cell phones in the first quarter of 2013 and it is estimated that 722.5 million smartphones were shipped in 2012 alone.¹ The smartphone market has become increasingly complex to a point where it can no longer be treated as a single segment with a specific addressable market. It has many segments of its own broken down into

¹ Smartphones Expected to Grow 32.7% in 2013 Fueled By Declining Prices and Strong Emerging Market Demand, According to IDC - prUS24143513. (2013, June 4). *IDC Home: The premier global market intelligence firm*. Retrieved July 3, 2013, from <http://www.idc.com/getdoc.jsp?containerId=prUS24143513>

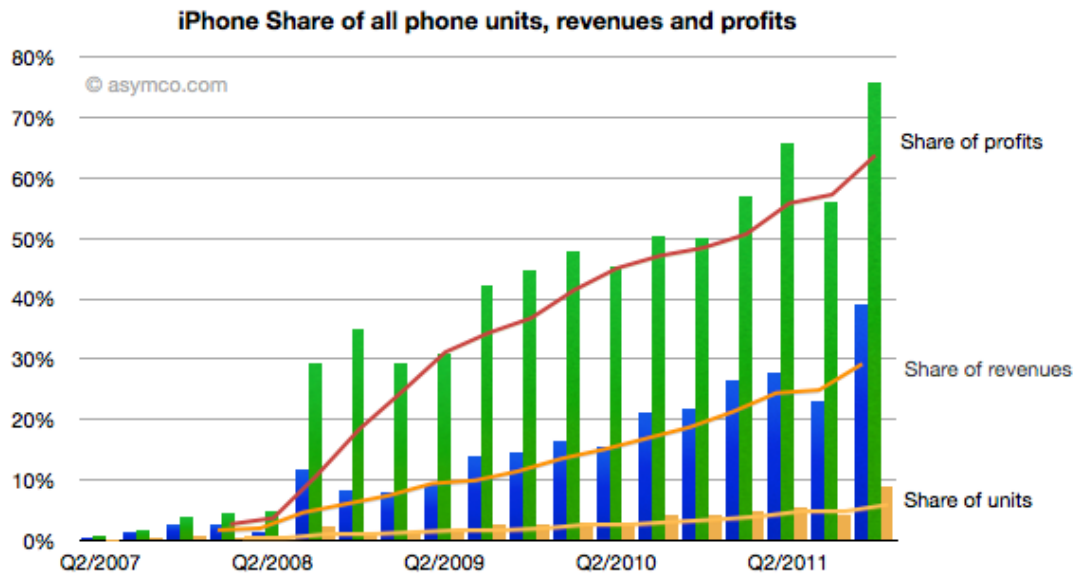
categories by operating system, pricing, and more. Despite this segmentation within the smartphone market, however, over 90% of the market is controlled by the top 10 manufacturers with Apple maintaining a significant lead in profits over the rest. During the fourth quarter of 2012, Apple took 70% of all profits generated by the smartphone market while Samsung trailed at a distant second with 25%.²

Table 1
Worldwide Mobile Phone Sales to End Users by Vendor in 2012 (Thousands of Units)

Company	2012 Units	2012 Market Share (%)	2011 Units	2011 Market Share (%)
Samsung	384,631.2	22.0	315,052.2	17.7
Nokia	333,938.0	19.1	422,478.3	23.8
Apple	130,133.2	7.5	89,263.2	5.0
ZTE	67,344.4	3.9	56,881.8	3.2
LG Electronics	58,015.9	3.3	86,370.9	4.9
Huawei Technologies	47,288.3	2.7	40,663.4	2.3
TCL Communication	37,176.6	2.1	34,037.5	1.9
Research In Motion	34,210.3	2.0	51,541.9	2.9
Motorola	33,916.3	1.9	40,269.1	2.3
HTC	32,121.8	1.8	43,266.9	2.4
Others	587399.6	33.6	595886.9	33.6
Total	1,746,175.6	100.0	1,775,712.0	100.0

Source: Gartner (February 2013)

Figure 1



Source: Asymco (February 2012)

² Q4 2012 Handset Value Share: Preliminary. (2013, January 31). Counterpoint Research. Retrieved July 3, 2013, from <http://www.counterpointresearch.com/q4-2012-handset-value-share-preliminary>

2. Globalization of Apple Inc.

Apple was established on April 1st, 1976 by Steve Jobs, Steve Wozniak, and Ronald Wayne and began as a manufacturer of the Apple I computer kit, a motherboard that merely acted as a single component of what we would today consider a complete personal computer. Over the years, Apple grew through the manufacture and distribution of its own line of personal desktop computers and went on to become the world leader in the design, distribution, and manufacturing of high tech personal computing devices.

Before Apple Inc. achieved widespread success through its sale of personal computing devices, however, it experienced a period of decline that began in the mid 1980's. John Sculley, who came on board Apple as CEO in 1983 organized a boardroom coup against Steve Jobs, who was forced to temporarily resign from Apple in 1985. During Jobs' absence, Apple released one failed product after another, made unrealistic goals and forecasts for its business, and engaged in inefficient business practices such as manufacturing its own products within the United States and creating a complex supply chain that made it difficult to adjust supply to demand.

In 1996, Jobs returned to Apple and, by 1998, regained control over the company he co-founded. After his return to power, Jobs hired Timothy Cook as the Senior Vice President for Worldwide Operations to overhaul Apple's manufacturing and distribution and better streamline its supply chain. Cook was responsible for shutting down Apple's manufacturing branch by closing factories and warehouses around the world, reducing inventory to reach greater efficiency, secrecy, and product margins. Manufacturing was then diverted to subcontractors around the world to ensure high turnarounds for products while keeping costs at a minimum. This allowed Apple to keep its new products secret before their unveiling to generate hype for its products while still maintaining its ability to meet tremendous demand.

At the same time, Apple began designing a consumer friendly all-in-one computer, which was introduced as the iMac. Apple marketed the iMac as a premium, consumer-friendly product with distinct features such as its own unique operating system and software suite that made the iMac stand out in the personal computer market. Using this new strategy, Apple was able to generate enough demand to sell 800,000 iMacs despite its high price in its first five months alone.³

After the success of the first iMac, Apple expanded its brand of premium personal computers to notebook and desktop computers, portable media devices, and digital media receivers. Among these, the most successful have been the handheld computing devices such as the iPhone and iPad, both of which generated a tremendous amount of demand and revenue for Apple, dominating their respective markets. It is estimated that the iPhone alone accounts for nearly two-thirds of Apple's net income, which was \$41 billion over \$156.5 billion in revenues in 2012.⁴

According to a report released by Apple itself,⁵ Apple's products are currently manufactured in 748 different locations and, because of the tremendous increase in demand for Apple products over the past decade, the number of workers employed by Apple and its suppliers has grown significantly. Apple claims that it has created or supported 598,500 jobs in the United States alone, though it only has 50,250 direct employees.⁶

³ 1999. Apple's Colourful Comeback. BBC News, [online] 6th January. Available at: <http://news.bbc.co.uk/2/hi/science/nature/249454.stm> [Accessed: 4th July 2013].

⁴ "Apple - Press Info - Apple Reports Fourth Quarter Results." *Apple*. Apple Inc., 25 Oct. 2012. Web. 4 July 2013. <<http://www.apple.com/pr/library/2012/10/25Apple-Reports-Fourth-Quarter-Results.html>>.

⁵ "Supplier List 2013." *Apple*. Apple Inc., n.d. Web. 4 July 2013. <http://images.apple.com/supplierresponsibility/pdf/Apple_Supplier_List_2013.pdf>

⁶ "Apple - Job Creation." Apple. Apple Inc., n.d. Web. 4 July 2013. <<http://www.apple.com/about/job-creation/>>.

Much of Apple's manufacturing operations, however, are conducted overseas. More than 600 manufacturing locations are in Asia, of which 331 are in mainland China.⁷ Outsourcing its manufacturing has allowed Apple to minimize the labor costs of manufacturing. Suppliers that have been able to take advantage of its access to the Chinese supply chain within a highly developed industrial cluster in assembling Apple's products have been particularly important in production cost reduction. According to estimates by the University of Manchester⁸, assembling iPhones in China has allowed Apple to reduce the cost of each iPhone to 47% of what it would cost to assemble them in the United States.

Not only has outsourcing production overseas reduced costs for Apple, it has also allowed unmatched flexibility in the production process. For example, Apple's major partners that assemble the iPhones such as Asustek and Foxconn maintain dormitories on factory grounds to allow almost immediate mobilization of thousands of workers and rapid adjustments to its assembly lines. Because of their relationship with these contractors, Apple is able to make last minute changes to product designs, contact its suppliers for these changes to be made, and have tens of thousands of the redesigned product be produced each day in less than a week's notice. Because of the scale of the contracts offered by Apple and competition for a partnership role with Apple, Apple's business model has a large influence over its contractors' practices and treatment of workers.

3. Globalization's Influence on the Work Environment

The same strategy of outsourcing manufacturing overseas has also raised issues regarding the treatment of workers by Apple and some of its contractors. In June 2006, an article titled

⁷ "Supplier List 2013."

⁸ Froud, Julie, Sukhdev Johal, Adam Leaver, and Karel Williams. "Apple Business Model." CRESC | Centre for Research on Socio Economic Change. The University of Manchester, n.d. Web. 4 July 2013. <[http://www.cresc.ac.uk/sites/default/files/WP111%20Apple%20Business%20Model%20\(April%202012\).pdf](http://www.cresc.ac.uk/sites/default/files/WP111%20Apple%20Business%20Model%20(April%202012).pdf)>

“The Stark Reality of iPod’s Chinese Factories”⁹ appeared on the British newspaper *The Daily Mail*. It gave an account of a visit to two factories in China where iPods, which are portable media devices designed by Apple, were assembled. The article detailed poor working conditions, extremely low wages, and forced overtime on the workers employed by Apple’s suppliers, Foxconn and Asustek. Since then, Apple and its contractors have received an overwhelming amount of press coverage regarding their treatment of workers and have been scrutinized by labor advocacy groups for their practices.

Once the detrimental effects of reorganizing its supply chain on laborers were revealed to the public, Apple, considered to be America’s leader in innovation and job creation, had suddenly become a poster child for the anti-globalization movement. Apple provides an interesting case that illustrates some of the potential dangers and harms globalization creates for multinational corporations and their laborers. In this section, I provide examples of abuses Apple has been accused of to analyze the changes in corporate behavior and interactions with workers globalization has caused.

N-Hexane use at Wintek^{10, 11}

In early 2009, Wintek, one of Apple’s suppliers that produced the touchscreens for the Apple iPhone, began using n-hexane at its East China LCD plant to speed up production after receiving a large order. While n-hexane acts as a better cleaning agent than alcohol, evaporating more quickly after use, it is also a narcotic that attacks the nervous system of those exposed to it.

⁹ 2006. The Stark Reality of iPod’s Chinese Factories. *The Daily Mail*, [online] 18th August. Available at: <http://www.dailymail.co.uk/news/article-401234/The-stark-reality-iPods-Chinese-factories.html> [Accessed: 4th July 2013].

¹⁰ Branigan, Tania. 2010. Chinese workers link sickness to n-hexane and Apple iPhone screens. *The Guardian*, [online] 7th May. Available at: <http://www.guardian.co.uk/world/2010/may/07/chinese-workers-sickness-hexane-apple-iphone> [Accessed: 4th July 2013].

¹¹ Barboza, David. 2011. Workers Sickened at Apple Supplier in China. *New York Times*, [online] 22nd February. Available at : <http://www.nytimes.com/2011/02/23/technology/23apple.html?pagewanted=all> [Accessed: 4th July 2013].

Workers reportedly began experiencing headaches and dizziness, eventually showing signs of serious nerve damage where many were eventually hospitalized. Doctors diagnosed the cause of the nerve damage to be the n-hexane used for cleaning the touchscreens.

Workers organized protests in early 2010 to draw attention to the incident, even hiring lawyers, lobbying for support from local government officials, and publicizing their own medical records. Though the workers were able to take advantage of health insurance that had the government and Wintek compensate them for medical expenses and sick leave, some of the other actions Wintek took in response were later called into question as well. After the incident, Wintek allegedly pressured the workers that were affected to resign and absolve the company of future liability. The company offered cash settlements or, in the case that the workers refused, insisted on them working longer hours despite their impairments. When visited by Apple employees, however, Wintek allegedly dropped the requirement to sign liability waivers before the affected workers resigned.

Despite the workers' activism and Apple's clear awareness of the situation at Wintek's factories, whether the companies reacted to the poisoning in a sound and timely manner also remains unclear. According to Students and Scholars Against Corporate Misbehavior (SACOM),¹² rumors about the poisoning began circulating in 2009, but both Wintek and Apple were slow to address the situation, making their first mention of the incident in Apple's annual review of labor conditions at its global suppliers released in 2011. The report¹³ states that 137 workers were seriously injured by a toxic chemical used in making the iPhone's screens and that Apple had ordered its suppliers to stop using n-hexane at their plants and improve occupational

¹² "Report: Apple Owes Workers and Public a Response over the Poisonings | Sacom." Sacom . Student and scholars Against Corporate Misbehaviour, 3 May 2010. Web. 4 July 2013. <<http://sacom.hk/wp-content/uploads/2010/05/apple-owes-workers-and-public-a-response-over-the-poisonings.pdf>>.

¹³ "Apple - Supplier Responsibility - Reports." Apple. Apple Inc., 14 Feb. 2011. Web. 4 July 2013. <http://www.apple.com/supplierresponsibility/pdf/Apple_SR_2011_Progress_Report.pdf>.

safety within their factories. When contacted by reporters, Apple declined to comment on the Wintek case, but assured that the company was dedicated to the highest level of corporate social responsibility. Apple claims that n-hexane is no longer being used by its suppliers and that the ventilation system at Wintek's factories had been repaired to improve working conditions.

Child Labor at the Yantai Facilities¹⁴

In late 2012, Foxconn, one of Apple's major suppliers that assemble Apple iPhones and iPads, admitted to the use of child labor at its Yantai facility in the Shandong Province through internships targeted at students below China's legal working age. According to a report by China Labor Watch,¹⁵ schools would require students to intern at the factories and even work on the assembly line to receive academic credits needed for graduation. These student interns were paid about \$244 a month and were forced to work overtime until they completed their assigned tasks. Foxconn came under fire by NGOs for neglecting to check the IDs of these workers, allowing students as young as 14 years of age, which is below China's legal working age of 16,¹⁶ to work at its factories. Foxconn has since returned the interns to their educational institutions and stated that it will conduct a full investigation on the incident and take every action necessary to remedy the situation and ensure that similar incidents do not occur.

More recently, however, Apple revealed in its 2013 supplier responsibility report¹⁷ that it had uncovered 106 cases of child labor being used by its suppliers over the past year. It indicated that a number of its suppliers had recruited underage workers using forged identification

¹⁴ Reisinger, Don. 2010. Foxconn admits to child labor law breach with underage intern hires. CNET, [online] 16th October. Available at: http://news.cnet.com/8301-1001_3-57533056-92/foxconn-admits-to-child-labor-law-breach-with-underage-intern-hires/ [Accessed: 4th July 2013].

¹⁵ "Foxconn Employs Interns between 14 to 16." China Labor Watch. N.p., 15 Oct. 2012. Web. 4 July 2013. <<http://www.chinalaborwatch.org/news/new-438.html>>.

¹⁶ "Children's Rights: China | Law Library of Congress." *Library of Congress*. N.p., 25 Jan. 2013. Web. 9 July 2013. <<http://www.loc.gov/law/help/child-rights/china.php>>.

¹⁷ "Apple - Supplier Responsibility - Reports." Apple. Apple Inc., 25 Jan. 2013. Web. 4 July 2013. <http://www.apple.com/supplierresponsibility/pdf/Apple_SR_2013_Progress_Report.pdf>.

documents. One supplier, Guangdong Real Faith Pingzhou Electronics, which manufactured circuit board components for Apple, had its contract terminated by Apple after 74 children were found working on its assembly lines. The underage workers were knowingly supplied by Shenzhen Quanshun Human Resources, one of the region's largest labor agencies, which conspired with families to forge documents needed for employment.¹⁸

Apple has since vowed to eliminate child labor from its supply chain completely, that it will ensure its supplier code of conduct,¹⁹ which prohibits the use of workers under the age of 15 or whatever the legal age is within the particular jurisdiction, is fully adhered to. With regards to the underage workers at Guangdong Real Faith Pingzhou Electronics, Apple had them returned to their families and required the supplier to pay for the underage workers' education and an income equal to the wages paid at their factories until the children finished secondary school.²⁰ Though Apple's audit reports show improved conditions, labor issues continue to present a problem within Apple's supply chain.

Forced Overtime at Foxconn's Shenzhen Plants

In 2010, Foxconn was put under the media spotlight for overworking its employees to a point where a handful of them began committing suicide at its Shenzhen assembly plants, located just across the Hong Kong border in China, where Apple products are made.²¹ Between January and November 2010, 17 Foxconn workers attempted suicide, of whom 13 were successful.²² The

¹⁸ Garside, Juliette. 2013. Child labour uncovered in Apple's supply chain. The Guardian, [online] 25th January. Available at: <http://www.guardian.co.uk/technology/2013/jan/25/apple-child-labour-supply> [Accessed: 4th July 2013].

¹⁹ "Apple - Supplier Responsibility - Reports." Apple. Apple Inc., Jan. 2012. Web. 4 July 2013. <http://www.apple.com/supplierresponsibility/pdf/Apple_Supplier_Code_of_Conduct.pdf>.

²⁰ Garside, 2013.

²¹ 2010. Suicides at Foxconn Light and death. The Economist, [online] 27th May. Available at: <http://www.economist.com/node/16231588> [Accessed: 4th July 2013].

²² 2010. Foxconn worker plunges to death at China plant: report. Reuters, [online] 5th November. Available at: <http://www.reuters.com/article/2010/11/05/us-china-foxconn-death-idUSTRE6A41M920101105> [Accessed: 4th July 2013].

suicides raised questions as to whether the working conditions at Foxconn's factories were humane or not and led to demonstrations in Hong Kong against globalization and Apple where ritual burnings of pictures of iPhones took place. The incident also prompted a conglomerate of 20 universities in China, Hong Kong, and Taiwan to investigate the conditions within Foxconn's factories.

According to the universities' 83-page report,²³ which is based on individual interviews with over 1,800 workers from 12 different Foxconn owned facilities across nine mainland Chinese cities, the suicides were the result of harsh labor conditions and extreme numbers of overtime hours forced onto workers. Under China's labor law, the maximum number of overtime hours an employee is allowed to work is 36 hours per month, but some employees reported being forced to work 80 to 100 hours per month, sometimes without pay. Workers also reported that the fast-paced assembly process required them to finish each procedure within two seconds and that they were not allowed to make any unnecessary movements such as talking, walking around, or even smiling. 13 percent of workers reported that they had passed out during work and 24 percent of female workers reported experiencing menstrual disorders because of the stress from the harsh working conditions and long overtime hours. One worker interviewed was quoted as saying "although the salary here is better than at many other sweatshops where I worked before, you can never find someone to air your grievances with because everyone is isolated here, and you'll gradually become insane." The report concluded by calling Foxconn's factories "labor camps" that illegally abuses its workers both physically and mentally.

In response to the report, Burson-Marsteller, a PR firm representing Foxconn, made a public statement that Foxconn was committed to creating safe working conditions and positive

²³ Tam, Fiona. "Foxconn factories are labour camps: report | South China Morning Post." South China Morning Post. N.p., 29 Mar. 2012. Web. 4 July 2013. <<http://www.scmp.com/article/727143/foxconn-factories-are-labour-camps-report>>.

work environments. To address the series of suicides at its Shenzhen plants, Foxconn also put into place several countermeasures against future suicide attempts. These include suicide prevention nets around its buildings, counsellors and monks that provide emotional and spiritual guidance to its workers, and even no-suicide pledges as part of the company's employment contracts.²⁴ These factories continue to receive criticism for sweatshop conditions, however, as these countermeasures have not been completely effective in neutralizing suicides, which continue to this day.²⁵ It has even been reported that the counselors, meant to identify workers with suicidal tendencies and prevent suicides, have violated the workers' privacies by attempting to pressure the workers into informing on each other's conduct violations

4. Apple and Corporate Responsibility

Despite these allegations of labor rights abuses by its suppliers, however, Apple itself has, in many ways, been proactive in addressing working conditions within the factories that produce their products. The company had already established a Supplier Code of Conduct in 2005,²⁶ a year before the initial allegations of sweatshop conditions by the Mail on Sunday. Apple has repeatedly stated that it works closely with its suppliers to ensure that the code of conduct is being upheld and that workers' rights are being respected. In 2007, the company began conducting audits on its suppliers and posting annual supplier responsibility reports on its own website. Critics, however, have questioned whether the purpose of Apple's actions is to truly improve the working conditions within its supplier's factories or to simply avoid bad PR at minimum cost by addressing only the most visible of the abuses. Despite these criticisms, some

²⁴ 2011. You are NOT allowed to commit suicide: Workers in Chinese iPad factories forced to sign pledges. The Daily Mail, [online] 1st May. Available at: <http://www.dailymail.co.uk/news/article-1382396/Workers-Chinese-Apple-factories-forced-sign-pledges-commit-suicide.html> [Accessed: 4th July 2013].

²⁵ 2013. Reports: 3 More Foxconn Employees Commit Suicide. The Daily Mail, [online] 20th May. Available at: <http://www.pcmag.com/article2/0,2817,2419223,00.asp> [Accessed: 4th July 2013].

²⁶ "Apple - Supplier Responsibility - Reports." Apple. Apple Inc., 2008. Web. 4 July 2013. <http://images.apple.com/supplierresponsibility/pdf/Apple_SR_2008_Progress_Report.pdf>.

of Apple's actions have indeed led to improved conditions for workers under its suppliers. Because of pressure from Apple, the use of child labor, excessive overtime, and unsafe practices by suppliers have been reduced and benefits and pay for workers have increased. This section provides a brief overview of some of the improvements Apple's reactions have brought to the working conditions under its suppliers.

Worker and Manager Training²⁷

Since it began releasing supplier responsibility reports in 2007, Apple has also made it a requirement for its suppliers to implement training programs designed by Apple for factory managers and workers. Through these programs, managers and supervisors are trained on management practices such as worker-management communication, anti-harassment policies, and worker protections. Workers, on the other hand, are provided with information on local laws, workers' rights, and occupational health and safety. Both groups are informed on Apple's Supplier Code of Conduct during these training sessions. Furthermore, Apple has offered specialized training on topics such as prevention of underage labor and chemical safety for some managers and workers. Apple claims that over 2.3 million workers have participated in its training programs since 2007 with participation continuing to grow rapidly.

Beginning in 2008, Apple has also offered to its suppliers' employees the Supplier Employee Education and Development (SEED) program to help assist workers in their professional and personal development. Not only does this program offer classes in technical, software, management, and other skills, workers are also able to take advantage of Apple's partnerships with universities to obtain higher education and advanced degrees. Apple estimates

²⁷ "Apple - Supplier Responsibility - Empowering Workers." Apple. Apple Inc., n.d. Web. 5 July 2013. <<http://www.apple.com/supplierresponsibility/empowering-workers.html>>.

that over 200,000 workers have participated in the SEED program at nine final assembly factories since the program's launch and plans to fund an expansion in the future.

Elimination of Safety Hazards, Excessive Overtime, and Child Labor^{28, 29}

According to Apple, 350 Apple employees have been trained on process safety topics and deployed in suppliers' factories since 2011 to improve workplace safety conditions. Apple has trained a further 261 supplier personnel on the use of personal protection equipment, 95 on chemical safety, and 77 on control of hazardous energy stored in factory equipment. Apple has also required its suppliers found to be in violation of occupational safety guidelines set by its Supplier Code of Conduct to correct these violations immediately. These suppliers must provide its workers proper personal protective equipment, secure emergency exits within their facilities and ensure that they are unlocked, and conduct in-house occupational hazards monitoring activities.

Apple has also made attempts to reduce the incidence of excessive overtime at suppliers' factories. In 2011, the company began tracking the number of hours worked by factory employees, contacting the suppliers as they found code of conduct violations to address the issue. Apple expanded the program to track over one million employees by 2012 and began publishing the monthly compliance rate on its annual supplier responsibility reports. According to Apple, 92% of its suppliers were found to be in compliance with Apple's requirement that factory employees work no more than 60 hours a week and the average hours worked per week was just under 50.

²⁸ "Apple - Supplier Responsibility - Health and Safety." *Apple*. Apple Inc., n.d. Web. 5 July 2013. <<http://www.apple.com/supplierresponsibility/health-and-safety.html>>.

²⁹ "Apple - Supplier Responsibility - Labor and Human Rights." *Apple*. Apple Inc., n.d. Web. 5 July 2013. <<http://www.apple.com/supplierresponsibility/labor-and-human-rights.html>>.

Another area Apple has stated that it has been successful in is the elimination of child labor at its suppliers' factories. Apple states that they are making efforts to eliminate the use of child labor not only by their suppliers but also within the entire consumer electronics industry. As in the case of Guangdong Real Faith Pingzhou Electronics Co., Ltd. and Shenzhen Quanshun Human Resources Co., Ltd. who were found to have been exploiting child labor in Yantai mentioned earlier in this paper, Apple has pursued a zero tolerance policy for child labor and ensured that the victims of child labor were returned to school and compensated for damages and lost time. Apple has also targeted 84 suppliers operating in regions at high risk of child labor problems through its Prevention of Underage Labor training program and offered instructions on effective methods of age verification and fraud prevention.

Third-Party Oversight³⁰

In January 2012, in an effort to improve transparency and eliminate labor rights violations within its suppliers' factories, Apple joined the Fair Labor Association (FLA), a non-profit organization that promotes the protection of workers' rights. Just a month after joining, the FLA conducted a series of audits on some of Apple's largest suppliers including Foxconn. The findings and recommendations of these audits were published by the FLA on their website³¹ to improve Apple's transparency and keep the electronics company accountable. Apple and the FLA continue to work together to monitor suppliers and ensure that they implement the recommendations made through these audits.

Also during 2012, in consultation with Verité, an international non-profit that specializes in ensuring that labor issues are addressed within its clients' supply chains, Apple developed the Sustainable Workforce Program. Through this program, Apple is exploring practices that

³⁰ "Apple - Supplier Responsibility - Accountability." *Apple*. Apple Inc., n.d. Web. 5 July 2013. <<http://www.apple.com/supplierresponsibility/accountability.html>>.

³¹ "Apple." *Fair Labor Association*. N.p., n.d. Web. 5 July 2013. <<http://www.fairlabor.org/affiliate/apple>>

promote open communication between the workers, suppliers, and Apple itself to ensure that the workers' concerns are addressed and implement the practices that are found to be most effective across all of its suppliers. Apple claims that its initiatives have involved over 47,000 workers through participating suppliers to date and continue to facilitate communication between workers and managers.

In yet another effort to introduce third-party oversight to its supply chain, Apple joined the Initiatief Duurzame Handel (IDH) Electronics Program in 2012. Launched in 2011 by the IDH, a non-profit that promotes sustainable trade, in collaboration with the Chinese Government and electronics giants such as Dell, Hewlett-Packard, and Philips, the program aims to reduce worker turnover rates and wastage, improve energy efficiency, and facilitate dialogue between workers and managers.³² The program has been funded with a budget of 4.8 million Euros and has implemented sustainability training for workers and managers. The IDH plans to expand this program and implement its Entry Point Assessments (EPA) methodology where they will conduct surveys, interviews, and assessment on workers and managers to help identify improvements that can be made at supplier factories.

5. Apple's Shortcomings and Recommendations Moving Forward

These actions by Apple listed in the previous section have helped produce tangible results within the consumer electronics industry. One outstanding example of Apple's achievements that has received praise is that the company, along with other electronic giants such as Intel, Hewlett-Packard, and Motorola, has gone from being one of the most notorious consumers of conflict minerals, mineral resources from the Congo sold to fund armed conflicts in the eastern part of the country, within the consumer electronics industry in 2010 to becoming a leader in the effort

³² "Program - Sustainable Trade Initiative." *Accelerating and up-scaling - Initiatief Duurzame Handel*. N.p., n.d. Web. 5 July 2013. <<http://www.idhsustainabletrade.com/electronics-program>>.

to identifying conflict-free sources for use by electronics suppliers.³³ Workers employed by Apple's suppliers have also recently reported improved safety within the workplace, increased wages, and less abuse and overtime hours.³⁴

Apple's supply chain, however, is still far from completely solving all of its workers' rights issues. Critics point out that many of Apple's suppliers still employ workers under sweatshop conditions. Suicides by Foxconn factory workers continue to be a problem with one occurring as recently as May 2013.³⁵ Some even argue that, given Apple's enormous profit margins, the actions the company has taken to these issues are very minimal, done only to improve public relations. In this section, I give examples and provide analyses of some of Apple's failings at addressing the labor issues it faces and recommendations on what the company should do moving forward.

FLA's Conflict of Interest

Although Apple maintains that the company joined the FLA to introduce third-party monitoring to its suppliers and increase transparency, critics argue that the FLA has done little to improve working conditions under Apple's suppliers and that Apple's membership merely serves as window dressing to maintain its corporate image. The Economic Policy Institute (EPI) has pointed out that, while the FLA's report praises Foxconn for its progress in improving conditions for workers, many of the changes that have been instituted are insignificant, ineffective, or

³³ Berlowitz, Phil and Nichols, Michelle. 2012. Intel, Apple Leading Charge Against Conflict Minerals; Nintendo Making 'No Known Effort'. Reuters, [online] 8th August. Available at: http://www.huffingtonpost.com/2012/08/15/intel-apple-conflict-minerals-nintendo_n_1785885.html [Accessed: 5th July 2013].

³⁴ Bradsher, Keith and Duhigg, Charles. 2012. Signs of Changes Taking Hold in Electronics Factories in China. New York Times, [online] 26th December. Available at: <http://www.nytimes.com/2012/12/27/business/signs-of-changes-taking-hold-in-electronics-factories-in-china.html?pagewanted=all> [Accessed: 5th July 2013].

³⁵ Daily Mail, 2013.

temporary.³⁶ For example, as part of its action plan, the FLA required Foxconn to increase the number of workers in a union leadership committee to at least three, but did not specify any requirements for the ratio of workers to management within the committee or how the workers were elected. The committee now consists of three workers and 29 managers and the way the committee operates has hardly changed from how it was before the addition of the workers. The EPI also points out that the FLA's audits were conducted during June and July of 2012 when production demands were relatively low and that the FLA deliberately chose this time period to hide the sweatshop conditions of Foxconn's factories. By August and September of that year, production had increased significantly to meet the demand for Apple's new iPhone 5 where reports of new instances of abuse and labor rights violations by Foxconn began to appear. Furthermore, with regards to reducing overtime hours, the FLA has given Foxconn a deadline of July 2013 just to meet China's legal requirements instead of forcing immediate action.

FLA's methodologies have also been a subject of academic study where it has been found that the FLA does indeed underperform as a third-party auditor and even underreports labor rights violations in certain areas compared to others. A Pennsylvania State University study³⁷ has found that, compared to the Worker Rights Consortium (WRC), the FLA reports significantly fewer violations related to a worker's right to organize and form a union. The same paper has suggested that, because membership in the FLA requires a fee to be paid by the corporation joining and the FLA is heavily corporate influenced compared to other third-party auditing groups, there is high likelihood that there is a conflict of interest in the FLA conducting audits for its members. With the FLA's funding dependent on demand for third-party audits by

³⁶ Nova, Scott, and Isaac Shapiro. "Polishing Apple: Fair Labor Association gives Foxconn and Apple undue credit for labor rights progress." *Research and Ideas for Shared Prosperity*. Economic Policy Institute, 8 Nov. 2012. Web. 5 July 2013. <<http://www.epi.org/publication/bp352-polishing-apple-fla-foxconn-labor-rights/>>.

³⁷ Anner, Mark. "Corporate Social Responsibility and Freedom of Association Rights: The Precarious Quest for Legitimacy and Control in Global Supply Chains." *Politics & Society* 40.4 (2012): 609-644. Print.

multinational corporations and a large part of its board of directors composed of executives from the very companies it monitors, there is potential that incentives exist for the nonprofit to misreport in its audits and allow suppliers to continue their violations of workers' rights. Support for this argument can be found by looking at independent investigations conducted by other third party groups with little or no corporate ties. Both SACOM and China Labor Watch have consistently found more labor rights violations committed in the same factories as what was reported by the FLA and reports inaccuracies in some of the FLA's claims.^{38,39,40, 41} Based on these findings, it has been called into question as to whether Apple is truly committed to advancing workers' rights and creating safer working conditions or is only interested in implementing just enough reforms to maintain a good image.

The introduction of a third-party auditor is clearly a step forward for Apple in terms of corporate social responsibility. If Apple truly intends to become the industry leader in protecting workers' rights, however, it will have to introduce auditors that are neither dependent on the continuation of labor rights violations for funding nor influenced by corporations in its decision making. The FLA, funded by the corporations they audit and led by executives of the corporations that commit the abuses against workers,⁴² does not provide suitable oversight to Apple's suppliers. Instead, Apple must enlist the support of oversight organizations that are

³⁸ "FLA waters down rights violations at Apple suppliers." *Student and Scholars Against Corporate Misbehaviour*. N.p., 18 Feb. 2012. Web. 5 July 2013. <sacom.hk/archives/931>.

³⁹ "Apple Concedes Problems in Supply Chain at Last: FLA Report Omits Work Stress and Forced Internship | Sacom." *Student and scholars Against Corporate Misbehaviour*. N.p., 30 Mar. 2012. Web. 5 July 2013. <<http://sacom.hk/archives/946>>.

⁴⁰ "FLA report shows some policy changes at Foxconn but few improvements for workers." *Student and Scholars Against Corporate Misbehaviour*. N.p., 24 Aug. 2012. Web. 5 July 2013. <sacom.hk/archives/956>.

⁴¹ "Keeping Pressure on Apple to Promote Real Changes at Apple and Foxconn." *China Labor Watch*. N.p., n.d. Web. 6 July 2013. <<http://www.chinalaborwatch.org/news/new-412.html>>.

⁴² "Board of Directors." *Fair Labor Association*. N.p., n.d. Web. 6 July 2013. <<http://www.fairlabor.org/board-directors>>.

university led and truly independent of corporate influence such as the WRC or SACOM to conduct audits on its suppliers.

Secretive Practices and Lack of Transparency

One area in need of significant improvement before Apple can eliminate labor rights abuses by its suppliers is its level of transparency. Apple is renowned for keeping information on its products and services secret, both to the public and within its own corporate structure, until the day of the official launch or announcement and takes extraordinary measures in doing so. This has led to Apple becoming an overall opaque corporation. According to Transparency International, an NGO that monitors and publicizes information on the transparency of corporate and political bodies, Apple ranks as the 15th least transparent company among the 105 most valuable multinational corporations in its Transparency in Corporate Reporting index.⁴³

Many of Apple's secretive practices involve its suppliers as well; often times the factory campuses of where Apple products are made are gated off and do not allow entry to the public, security guards and local police are employed to prevent trespassing at these facilities, and factory workers are required to sign confidentiality agreements and live in dormitories within the factory campuses.⁴⁴ This high level of secrecy makes it difficult for outsiders, including third-party whistleblowers, to become aware of the conditions within Apple's suppliers' factories, allowing violations of workers' rights to go on completely unnoticed.

⁴³ Kowalczyk-Hoyer, Barbara. "Transparency in corporate reporting: Assessing the world's largest companies." *Transparency International - the global coalition against corruption*. N.p., 10 July 2012. Web. 6 July 2013.
<http://files.transparency.org/content/download/459/1891/file/2012_TransparencyInCorporateReporting_EN.pdf>.

⁴⁴ Daily Mail, 2006.

While Apple has conducted audits of its suppliers on its own and released annual reports of its findings on its website since 2007, this has done little to solve the problem regarding the company's lack of transparency. Though its supplier responsibility reports contain data on what percentage of its suppliers comply with Apple's Supplier Code of Conduct and some examples of violations, they do not specify which supplier is responsible for each violation nor break down the specific nature of each code of conduct violation. Because Apple does not name the violators of its Supplier Code of Conduct, it is impossible for third parties to determine the source of the violations through these reports.⁴⁵ This spreads any negative publicity due to the violations among all of Apple's suppliers, creating a collective action problem where the suppliers do not have to correct these violations to improve their reputations. In its current form, Apple's Supplier Responsibility Progress Reports serve little purpose but to provide acknowledgement by Apple that its suppliers continue to violate Apple's Supplier Code of Conduct and to communicate that Apple is supposedly taking actions to address these violations.

If Apple is serious about becoming a socially responsible corporation, it must end its secretive practices that prevent the public from observing its business practices and the working conditions within its suppliers' factories. More public access to Apple and its suppliers' facilities should be permitted, terms within their confidentiality agreements should be loosened, and more detail should be included in Apple's Supplier Responsibility Progress Reports. By increasing transparency and subjecting Apple and its suppliers' practices to more public scrutiny, Apple and its suppliers will be forced to improve working conditions for factory workers or face negative media attention and possibly even legal actions.

Extreme Profit Maximizing Business Practices

⁴⁵ "Apple - Supplier Responsibility." *Apple*. N.p., n.d. Web. 6 July 2013. <<http://www.apple.com/supplierresponsibility/>>.

One former Apple executive, who was interviewed by the New York Times on condition of anonymity, has stated that Apple had known about labor abuses in its suppliers' factories for years, but it could have easily prevented it all in a matter of days if the company wished.⁴⁶ While there are few manufacturers in the entire world that have the capability of mobilizing enough factories and workers to meet the production demand of Apple's iPhones and iPads, making it extremely costly and time consuming for Apple to find alternatives that allow for fair treatment of factory workers, the sheer amount of profit Apple makes and the purchasing power it commands should make it possible for the consumer electronics giant to eliminate harsh working conditions within its suppliers' factories without turning out a net loss. The Centre for Research on Socio-Cultural Change at the University of Manchester estimates that Apple made a profit of \$451.55 on each iPhone 4 it sold, a margin of 71.7%.⁴⁷ For over a year now, Apple's net worth has been over \$500 billion and was reported in December 2012 that they have \$137.1 billion in on hand cash available,⁴⁸ which should easily be enough to correct all of Apple's Supplier Code of Conduct violations.

Instead of taking action to reduce abusive management practices within its supply chain, however, Apple has done the opposite by engaging in cost minimizing business practices that pressure suppliers to cut corners on production. The increasingly intricate designs and massive demand for iPhones, combined with the low margins Apple forces on its suppliers, has led suppliers to compete with each other by forcing excessive overtime on workers, engaging in unsafe production practices, and employing underage workers. For example, in October 2012,

⁴⁶ Duhigg, Charles and Barboza, David. 2012. In China, Human Costs Are Built Into an iPad. New York Times, [online] 25th January. Available at: <http://www.nytimes.com/2012/01/26/business/ieconomy-apples-ipad-and-the-human-costs-for-workers-in-china.html?pagewanted=all> [Accessed: 6th July 2013].

⁴⁷ Froud et al.

⁴⁸ Dillet, Romain. 2013. Apple's Pile Of Cash Is Still Growing, Up 6% To \$145 Billion. Tech Crunch, [online] 23rd April. Available at: <http://techcrunch.com/2013/04/23/apple-cash-q2-2013/> [Accessed: 6th July 2013].

Foxconn implemented new quality control standards for the iPhone 5 that required precision down to 2 hundredths of a millimeter, leading to increased incidences of abuses within its factories.⁴⁹ Workers went on strike to protest the overly demanding working conditions and for being forced to work during the Chinese Golden Week holiday. This is despite Foxconn's new pledge to improve compliance with Chinese labor laws and Apple's Supplier Code of Conduct, which was made after the FLA's audits found violations within Foxconn's factories. Even with the efforts made by Apple and its suppliers so far to improve labor conditions, Apple's unrelenting profit maximizing policies, where the elimination of workplace abuses is only secondary to profits, has led to continued suffering by factory workers.

If Apple increased its efforts to make its supply chain free of workplace abuses, not only would it improve the working conditions in its suppliers' factories, other consumer electronics giants will also be forced to follow Apple's example as many of them share the same suppliers. As the industry leader, Apple can do this by increasing funding to its work environment improvement efforts, providing financial incentives to its suppliers by shifting its supply chain to give preference to suppliers with a better record on labor rights issues, and demanding less out of each supplier to reduce the pressure to cut corners on production. As the anonymous Apple executive stated, this should not be a difficult task for Apple to accomplish given its ability to perform exceedingly well in every other way and the amount of resources the company has available.

While there is still much to be done by Apple and its suppliers to eliminate labor rights violations, there has certainly been some visible progress. Improvements have been reported not only in Apple's own Supplier Responsibility Reports but also by the same members of the news

⁴⁹ Pepitone, Julianne. 2012. Foxconn workers strike over iPhone 5 demands, labor group says. CNN Money, [online] 7th October. Available at: <http://money.cnn.com/2012/10/05/technology/mobile/foxconn-iphone-5-strike/index.html> [Accessed: 6th July 2013].

media that put the labor rights violations committed by Apple's suppliers into the media spotlight in the first place.⁵⁰ So long as the media continues to put pressure on Apple and its suppliers to make improvements within their factories, conditions should continue to improve. The question remains, however, on what must be done to make the next leap forward and who should be responsible for addressing labor rights issues.

For a long time now, there has been much debate over corporate social responsibility. There are questions on whether corporations should act solely on economic considerations or also on social and moral considerations, how these considerations should be measured and accounted for, and how far down the supply chain a corporation's responsibilities should extend. Some believe corporations must follow a certain established set of standards that protect the rights of workers while others have suggested that non-corporate bodies such as governments, international institutions, and unions should take the lead in labor reforms and oversight. In recent years, corporations are feeling increasingly more pressure to take responsibility for the behavior of its partners overseas – a trend that will hopefully continue until laborers around the world become completely free of workplace abuses.

⁵⁰ Bradsher and Duhigg, 2012.

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