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Case Study: Apple's Supplier Responsibility Program

Introduction

When Steve Jobs was asked to impart his thoughts on the Foxconn suicides, Jobs responded, "I actually think that Apple does one of the best jobs of any companies in our industry, and maybe in any industry, of understanding the working conditions in our supply chain – and we're extraordinarily diligent and extraordinarily transparent about it."¹ The purpose of this paper is to verify or to discredit Jobs' statement on Apple's corporate social responsibility (CSR) practices. The paper will discuss Apple's CSR policies from three different points of views: 1) Apple's self-reports, 2) third-party affirmations and criticisms, and 3) public perception of Apple.

Apple's Supplier Responsibilities Progress Report

Apple began its supplier responsibility program in 2005 with the establishment of the Apple Supplier Code of Conduct. In 2006, press allegations of poor working and living conditions at Foxconn, Apple's iPod final assembly supplier in China, led Apple to conduct inspections at 11 factories.² Since 2006, Apple has expanded supplier audits to include all final assembly suppliers as well as other suppliers. Apple publishes its audit results and findings in its Supplier Responsibilities Progress Report, which is made available to the public on an annual basis.

An Apple supplier responsibility auditor leads every audit, supported by local third-party auditors trained to use Apple's audit protocol and to assess the requirements

¹ Kafka, Peter. "Apple CEO Steve Jobs at D8: The Full, Uncut Interview." *All Things Digital*. Jun. 7, 2010. <<http://d8.allthingsd.com/20100607/steve-jobs-at-d8-the-full-uncut-interview/>>.

² "Final Assembly Supplier Audit Report." *Apple – Supplier Responsibility*. Feb. 2007. <http://images.apple.com/supplierresponsibility/pdf/Apple_SR_2007_Progress_Report.pdf>.

specified in Apple's Code. When violations are found, Apple requires that facilities implement a corrective action plan that addresses the specific violation within 90 days after the audit. Additionally, Apple states, "if a facility's actions do not meet our demands, Apple may have no choice but to terminate the business relationship."³

While self-monitoring and self-reporting is not the most reliable and transparent way for a company to show compliance with labor laws and codes of conduct, having some information provided by the company is better than nothing. In Apple's 2011 report, Apple identifies cases of involuntary labor, underage labor, exceeding working hour limits, among other violations, as well as their accompanying corrective actions. The report also dedicated a significant amount of space towards addressing the suicides that had been taking place at Foxconn and the use of n-hexane, a chemical used in some manufacturing processes, at Wintek.

Apple began publishing supplier audit reports as a reaction to press allegations of poor labor practices. If Apple did not counter press allegations, it would appear to be a tacit agreement that the allegations were correct. As such, Apple's supplier reports exist as a means to mitigate the press' ability to influence the public's perceptions of Apple. On the other hand, by providing a self-report, Apple makes itself vulnerable to criticisms by third-party entities that want to discredit Apple's claims.

Third Party Entities: Partners and Vigilantes

Apple has worked with two internationally recognized NGOs in human rights, Verité and the Fair Labor Association (FLA). Unfortunately, neither Verité nor the FLA publish

³ "Apple Supplier Responsibility: 2011 Progress Report." *Apple – Supplier Responsibility*. Feb. 2011. <http://images.apple.com/supplierresponsibility/pdf/Apple_SR_2011_Progress_Report.pdf>.

reports after auditing Apple's supplier. Thus, despite the organizations' well regarded reputations within the realm of corporate CSR, these two human rights organizations do not help to verify or discredit Apple's claims on how the company "is committed to driving the highest standards of social responsibility throughout [Apple's] supply base."⁴

Apple's Supplier Responsibility webpage also indicates that another CSR organization the company associates with is the Electronic Industry Citizenship Coalition (EICC). The EICC is a coalition of electronics and information and communications companies that promote a standardized Code of Conduct. Applicants become members by signing an EICC commitment letter, completing a self-assessment questionnaire, and submitting membership dues. The Board of Directors subsequently determines if applicants are eligible for full membership or not.⁵ A quick glance at EICC's Board of Directors reveals that every single individual on the board is from a company that is a member of EICC.⁶ Thus, the reasons EICC's assurance that member companies abide by its Code of Conduct are dubious for two reasons. First, the Board of Directors' interests are blatantly intertwined with having positive audit results. Second, EICC's sources of funding are from collecting membership dues or by providing auditing services. As such, EICC audits and verifications are not independent from the companies that they are auditing. Therefore, being a member of the EICC does not make Apple's CSR claims any more credible.

While Apple collaborates with third-party entities like Verité, the FLA, and the EICC in order to build up more credibility from its nongovernmental organizations (NGO) like

⁴ Ibid.

⁵ EICC Frequently Asked Questions. <<http://www.eicc.info/documents/FAQs.pdf>>.

⁶ EICC Governance. <<http://www.eicc.info/GOVERNANCE.htm>>.

Centre for Research on Multinational Corporations (SOMO) and Students & Scholars Against Corporate Misbehavior (SACOM) can also publish their evaluations to detract from Apple's credibility. SOMO is a non-profit Dutch research and advisory bureau that investigates the consequences of the internationalization of business worldwide. In 2007, SOMO published a CSR company profile on Apple. In SOMO's report one of their major grievances against Apple's CSR is that there "is only very limited information available on if and how Apple verifies supplier compliance with the Apple Supplier Code of Conduct."⁷ Apple's reluctance to be scrutinized by third-party entities that are not of their choosing is evident in the fact that their supply chain is not made public. Without knowing the locations and names of Apple's suppliers, third-party entities have a much more difficulty trying to verify Apple's adherence to its Code of Conduct.

SOMO gathered data on whether or not Apple's suppliers complied with Apple's Code of Conduct through interviews with workers and factory management at 33 of Apple's suppliers. In all of the factories, workers complained about wages in one aspect or another. A Chinese supplier allegedly withheld workers' wages for the first month, which is in clear violation of Chinese labor law. Workers at a factory in the Philippines said that their wages were insufficient to subsist on, while workers at another factory revealed that cases pertaining to excessive wage deductions. In many factories, overtime was found to be compulsory, "meaning that workers are forced to do overtime and production rhythms are inhumane."⁸

⁷ "Apple CSR Company Overview." *Centre for Research on Multinational Corporations*. Feb. 2007. <http://somo.nl/publications-en/Publication_1963>.

⁸ Ibid.

SOMO also found that suppliers violated the guidelines pertaining to health and safety that are stipulated in Apple's Code of Conduct. Factory workers reveal that they work with hazardous chemicals without proper precautionary and safety equipment. Additionally, none of the factory workers interviewed by SOMO were even aware that Apple had a CSR Code of Conduct. Without this knowledge, workers do not know their rights, and thus, do not know how to protect themselves. This condition reinforces the fearful mentality that exists among workers, particularly those that revealed that they are afraid of reporting bad working conditions to auditors because they do not want to risk losing their jobs.

SACOM is a nonprofit organization established in Hong Kong. Their mission is to bring concerned students, scholars, labor activists, and consumers together to monitor corporate behavior and to advocate for workers' rights. In 2010, SACOM published a report intended to reveal the actual working and living conditions of workers in Foxconn. SACOM gathered data in two ways. First, by interviewing workers outside the factory compounds, and second, by sending in researchers that took jobs as undercover workers in Foxconn's production facilities to make first-hand observations.⁹

In addition to the compulsory overtime that was identified in SOMO's report, SACOM's report alleges, "workers cannot reject overtime work, because Foxconn requires workers to sign a Voluntary Overtime Pledge."¹⁰ During the production of the first generation iPad, one engineer recalled, "We were busy throughout a 6-month period and

⁹ "Workers as Machines: Military Management in Foxconn." *Students & Scholars Against Corporate Misbehavior*. Oct. 12, 2010. <http://sacom.hk/wp-content/uploads/2010/10/report-on-foxconn-workers-as-machines_sacom.pdf>.

¹⁰ Ibid.

had to work on Sundays. We only had rest day every 13 days. And there was not overtime premium for weekends. Working for 12 hours a day really made me exhausted.”¹¹ Chinese labor laws stipulate that overtime should not exceed 36 hours per month. Meanwhile, overtime during that time period was 140 hours.

SACOM also emphasizes the prevalent physical and mental abuse within Foxconn’s militaristic management system. The report details instances of supervisors yelling at workers for minor mistakes or working too slowly. SACOM’s report also describes excessive physical punishment, such as security guards hitting workers with electrical batons. In fact, 2 of the 18 suicides that occurred at Foxconn in 2010 have been linked to excessive brutality. Family members of two suicide victims, Ma Xianqian and Liu Zhijun, reportedly found wounds and bruises on their bodies. This raised questions about whether Ma and Liu’s deaths were really suicides or if they were actually beaten to death.¹²

While both SOMO and SACOM’s reports both seek to shed more light on Apple’s opaque CSR practices, readers should also evaluate the credibility of the reports provided by these two NGOs. Arguably, SOMO is more believable than SACOM for several reasons. First, there are obvious stakeholders that SOMO is accountable towards, whereas that is not the case for SACOM. At the beginning of its CSR profile on Apple, SOMO declares its sources of funding for this particular project. Their financiers are the Ministry of Foreign Affairs in the Netherlands, member organizations of the International Consumer Research, and two development organizations.¹³ As such, SOMO’s report is (in theory) responsible

¹¹ Ibid.

¹² Ibid.

¹³ “Apple CSR Company Overview.”

for relaying information derived from their research as accurately as possible to their stakeholders.

On the other hand, SACOM provides no information whatsoever on its sources of funding. Because SACOM is not held accountable to any particular individuals or organizations for the accuracy of their reporting, their report is less credible than SOMO's. In fact, SACOM has a considerable amount to gain by publishing allegations of poor working conditions against Apple's supplier, Foxconn. SACOM's stated mission is to bring "concerned students, scholars, labor activists, and consumers together to monitor corporate behavior and to advocate for workers' rights."¹⁴ The more SACOM is able to make Apple's CSR negligence a more salient issue in the minds of consumers, the more SACOM is able to achieve its goals. Thus, relatively speaking, SACOM has more incentives than SOMO to publicize Apple's egregious violations of labor laws.

Public Perception

Despite negative press allegations and NGO criticisms of Apple's CSR practices, Apple continues to rank highly among the minds of consumers for its corporate social responsibility. Based on a survey conducted by Boston College Center and Reputation Institute, consumers in the U.S. ranked Apple as the company with the sixth highest rating in perceptions for social responsibility.¹⁵ A report by the Reputation Instituted concluded that "delivering high quality products and services is the number one driver of trust,

¹⁴ Students & Scholars Against Corporate Misbehavior. "Mission." <<http://sacom.hk/mission>>.

¹⁵ "Corporate Reputation and Social Responsibility Rankings." *Boston College Center for Corporate Citizenship*. 2010. <<http://www.bccccc.net/index.cfm?pageId=2202>>.

admiration and respect.”¹⁶ These are all areas that Apple has excelled in. Furthermore, the study showed that companies like Apple, which have strong and visible leaders like Steve Jobs, help position the company as visionary companies in the minds of consumers. Particularly when an identifiable leader is paired with strong financial performance, global consumers also tend to think more highly of the company.¹⁷ While none of these factors have to do with a company’s CSR labor practices, they nonetheless pertain to why the general public thinks very highly of Apple.

Apple’s consumer base is also incredibly diverse. Because people buy Apple products for a variety of different reasons, it is particularly difficult for groups like SACOM to appeal to Apple’s customer base to adjust their consumption accordingly. Some customers like to buy Apple products because they are intuitive to operate, they are a hip alternative to PCs, and they are viewed as fashionable items. Other customers that Apple appeals to are early technology adopters and technologically savvy individuals who enjoy having innovative electronic products.¹⁸ As can be seen in the graph below, Apple’s revenue evidently was not affected by the Foxconn suicides in 2010. Major media outlets such as *The New York Times*, *CNN*, *USA Today*, and technology blogs like *Gizmodo*, all reported on the 13 suicides that occurred between March and May of 2010.¹⁹ Despite widespread press circulation of Apple’s negligence to take responsibility in its supply chain, Apple’s revenue experienced steep growth in the months immediately following the

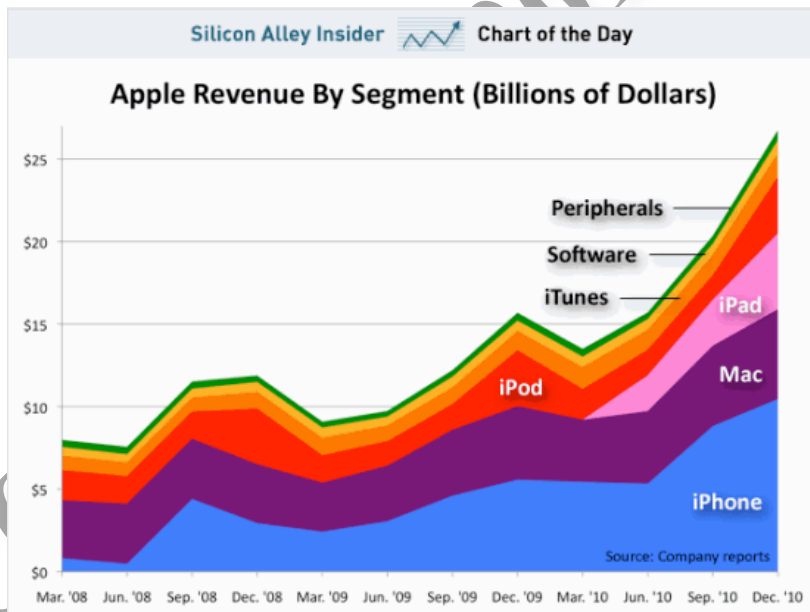
¹⁶ “Global Reputation Pulse 2010.” *Reputation Institute*. 2010. <<http://cordis.europa.eu/fp7/ict/enet/documents/publications/rep-iinst-global-pulse-rpt2010.pdf>>.

¹⁷ Ibid.

¹⁸ Yoffie, David B. and Renee Kim. “Apple Inc. in 2010.” *Harvard Business Review*. Apr. 13, 2010.

¹⁹ “Workers as Machines: Military Management in Foxconn.”

suicides. Apple's increase in revenue beginning in the spring quarter of 2010 can be attributed to the launch of the highly anticipated first generation iPad, which went on sale in April. Apple's revenues climbed even further in the summer and through the winter, largely due to the launch of the iPhone 4, which went on sale in late June. The iPhone 4 also generated high levels of anticipations from Apple's customer base for many reasons. The hardware itself is thinner than its predecessor, the display has higher resolution, the processor is faster, the camera is much improved and comes with flash, and the new phone has a video conferencing camera.²⁰ These were all reasons for previous iPhone 3Gs users to upgrade to the new version. As such, the immense hype that came with Apple's successful launches of the iPad and iPhone 4 arguably drowned out the news regarding the living and working conditions of laborers who produced these products.



Source: "Amazing Revenue Ride for the Apple iPad." *Jon Rognerud Small Business Web Tips*. <http://www.jonrognerud.com/amazing-revenue-ride-for-the-apple-ipad/>

²⁰ Diaz, Jesus. "iPhone 4: The Definitive Guide." *Gizmodo*. Jun. 7, 2010. <<http://gizmodo.com/#!5557101/iphone-4-the-definitive-guide>>.

Conclusion

When Apple published its first supplier responsibility progress report in 2007, its stated purpose was to address press allegations of poor working and living conditions. This signals that Apple clearly understands the power of media to affect public perceptions. As such, by publishing its own Supplier Responsibility Progress Reports annually, Apple seeks to mold the public's perception of Apple's CSR policies before the press publishes stories that have the potential to harm Apple's reputation. In order to further project an image of taking CSR seriously, Apple also works with third-party entities like Verité, the FLA, and the EICC to increase its credibility. However, none of these third-party organizations publish reports on Apple's CSR after working with Apple on labor issues. This gives rise to suspicions and questions about what they may be hiding. If Steve Jobs really wants Apple to live up to his claim that Apple does one of the best jobs in the industry when it comes to CSR policies, the first thing he needs to do is to make Apple's CSR program more transparent. The first steps he can take are to reveal Apple's supply chain and publicize Verité and the FLA's reports.

In looking at Apple's recent sales records, it is rather unlikely that Apple will push its CSR policies to be more transparent and more comprehensive than its current state. Despite media reports of Apple's poor labor practices, Apple's product innovative and exciting product launches have easily overpowered reports that pertain to other aspects of Apple. Particularly as Apple's product cycle has seemingly settled in a predictable pattern, iPods are updated every September, iPhones in June, and now iPads in the spring, Apple's consumers are constantly buzzing about new features and designs – while the toiling manufacturing processes that result in these exciting products are hardly considered.

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