

Discussion Case: *Apple's Supplier Code of Conduct and Foxconn's Chinese Factories*

In March 2012, the Fair Labor Association (FLA) released the results of an independent, month-long investigation, commissioned by Apple, on labor conditions at three enormous Chinese factories where the company's iPhones, iPads, and other popular consumer electronics were manufactured. The FLA, a nongovernment organization committed to promoting fair labor practices globally, found a number of serious violations of Apple's

supplier code of conduct, as well of its own standards. Among the key findings of the audit were these:

- During peak production periods, all three factories, which were operated by the Taiwanese firm Foxconn, had exceeded the mandated limit of 60 hours of work per week, and many employees had been required to work more than seven days in a row.
- Fourteen percent of workers had not received fair pay for overtime. Workers were paid in 30-minute increments, so if an employee worked 55 minutes of overtime, for example, she would be paid for one half hour, not for the full period worked.
- Almost two-thirds of workers said that their pay did not meet their basic needs. Average wages at Foxconn's plants, the report said, were about \$426 to \$455 a month, including overtime.
- Almost half said they had experienced an accident or injury at work or had personally witnessed one. Many workers said they were in pain by the end of their workday.

Particularly worrisome was the FLA's discovery that Foxconn had instructed employees on how to respond to questions during earlier audits conducted by Apple, using what the FLA called a "cheat sheet" to avoid detection of code violations.

At the time of the report, Apple was riding a wave of business success, lifted by a series of innovative products and services. In 2012, Apple was the largest publicly traded company in the world by market capitalization, with revenues exceeding those of Google and Microsoft combined. The company directly employed more than 60,000 people and operated more than 350 stores in 10 countries, as well as its iTunes online music store. *Fortune* magazine had named Apple the most admired company in the world for four years in a row.

But there was a dark side to the company's success. Since the 1990s, Apple had outsourced almost all of its manufacturing, mostly to China. The company's biggest supplier was Foxconn, which by 2012 had become the largest manufacturer of consumer electronics in the world. Foxconn's facility in Shenzhen, China—one of three audited by the FLA—operated like a good-sized city, with its own dormitories, cafeterias, hospital, swimming pool, and stores. In its complex of factories, 300,000 workers—many of them young women and men from rural areas—churned out electronics for Sony, Dell, IBM, and other major brands, as well as Apple.

In 2006, a British newspaper ran a story alleging mistreatment of workers at the Shenzhen facility. Apple investigated and found some violations of its supplier code of conduct, which it had introduced in 2005. The following year, the company published its first annual supplier responsibility progress report. By 2011, Apple had inspected nearly 400 suppliers and had terminated 11 for serious violations.

In 2010, a series of developments focused a fresh spotlight on harsh conditions in Foxconn's factories. In a few short months, nine workers committed suicide by throwing themselves from the upper floors of company dormitories. (Foxconn responded by putting up nets to catch jumpers, raising wages, and opening a counseling center.) In 2011, two separate explosions at factories where iPads were being made (one was Foxconn's facility in Chengdu), apparently caused by a buildup of combustible aluminum dust, injured 77 and killed four. At Wintek, another Chinese supplier, 137 workers were sickened after using a toxic chemical called n-hexane to clean iPhone screens.

In January 2012, the public radio show *This American Life* broadcast a feature by monologist Mike Daisey about his interviews with workers leaving their shifts at Foxconn's Shenzhen facility, which related in dramatic fashion their disturbing stories. Although Daisey's piece was later criticized for not being entirely factual, it prompted some listeners

to launch a petition drive on www.change.org that quickly garnered more than a quarter million signatures calling on Apple to protect workers that made their iPhones.

Just one week later, Apple announced it had joined the Fair Labor Association, the first electronics company to do so. The FLA, founded in 1999, was a nonprofit alliance of companies, universities, and human rights activists committed to ending sweatshop conditions. At Apple's request and with the company's financial support, the FLA immediately undertook the most extensive audit ever conducted of conditions in China's electronics supply chain. Auditors spent weeks inspecting Foxconn's three big Chinese factories, and 35,000 workers filled out anonymous questionnaires—on iPads—about their experiences.

In response to the FLA's findings, Apple issued a statement saying, "Our team has been working for years to educate workers, improve conditions and make Apple's supply chain a model for the industry, which is why we asked the FLA to conduct these audits." For its part, Foxconn agreed to reduce overtime from 80 to 36 hours per month by July 2013, while raising wages to prevent workers from losing income. It also agreed to pay workers retroactively for unpaid overtime and to improve health and safety protections. "That's a major commitment," said the head of the FLA. "If Apple and Foxconn can achieve that, they will have set a precedent for the electronics sector."

Sources: "The Forbidden City of Terry Guo," *The Wall Street Journal*, August 11, 2007; "The Man Who Makes Your iPhone," *Bloomberg Businessweek*, September 9, 2010; "Fair Labor Association Secures Commitment to Limit Workers' Hours, Protect Pay at Apple's Largest Supplier" [press release], March 29, 2012, www.fairlabor.org; "A Trip to the iFactory: 'Nightline' Gets an Unprecedented Glimpse Inside Apple's Chinese Core," February 20, 2012, www.abcnews.go.com; "How the U.S. Lost Out on iPhone Work," *The New York Times*, January 21, 2012; "Electronics Giant Vowing Reforms in China Plants," *The New York Times*, March 29, 2012; "Apple's Chief Puts Stamp on Labor Issues," *The New York Times*, April 1, 2012; and "Apple Moves from Laggard to Sector Leader on Transparency," March 30, 2012, www.socialfunds.com. Apple's Supplier Responsibility Progress Reports are available at www.apple.com/supplierresponsibility. The Fair Labor Association report is available at www.fairlabor.org/transparency/complaints-investigations.