

Summary

About NXP and its trip to the top

NXP Semiconductors N.V., based in Eindhoven, the Netherlands, is a key supplier of chips and semiconductors that are used in billions of passports, mobile phones, tablets and cars. It is also involved in the revolutionary “Internet of Things” (IoT) as co-inventor of a new wireless technology called Near Field Communication (NFC).

Last year, NXP got selected by Apple to supply the NFC technology for ‘Apple Pay’. Getting Apple on board confirms the success NXP is having: in 2014, enterprise value grew by 45% and net income grew by 54%. Recently, NXP announced the \$11.8 billion acquisition of Freescale Semiconductor Ltd., this deal is the biggest deal in almost nine years for the chip industry.

Workers paying the price

When it spun off from Philips in 2006 and was purchased by a private equity (PE) consortium the future wasn’t quite this bright. The company faced a billion dollar debt on its balance sheets. Combined with the global financial crisis and a low demand for NXP’s products, massive reorganisations followed, including the slashing of 4,500 jobs in 2008.

Recently, the company started having issues with trade unions in the Philippines and in Thailand. These cases represent a break from the heritage of good industrial relations that NXP got from Philips. In this report SOMO aims to give a detailed account and background of the conflict with the trade unions. SOMO also questions if these conflicts can entail a business risk for NXP.

Aim & methodology

This research has been carried out based on desk research and through local contacts in Thailand and the Philippines including GoodElectronics Thailand (GET) and the Metal Workers Alliance of the Philippines (MWAP). The goal is to provide workers with more insight into the business strategies of NXP and to use these insights to recover the relationships between NXP and the unions, as well as to inform shareholders about social issues at NXP.

Findings

NXP claims to have good relationships with all its employees and views the disputes with the unions as regular discussions that can take place between company and employee representatives. The case studies indicate otherwise, however. The cases show that NXP violates workers’ rights as laid down in the ILO Conventions regarding working hours and freedom of association.

The background of the conflicts can be found in a number of elements. The sites in Thailand and the Philippines are back-end facilities, which are driven by low-cost manufacturing in a competitive market with many rivals. The presence of a union is often seen as an obstacle to competing for lower wages and increased flexibility. Furthermore, the private equity (PE) takeover must be taken into account. PE investors have a short-term interest in yielding high rates of return. As a result, unions’ concerns and demands and worker satisfaction can get pressured.

In its annual report, NXP does not mention the disputes in Thailand and the Philippines. By ignoring and hence not addressing the conflicts, the company is putting its business relations with its biggest brand customers such as Apple and Samsung at risk. First of all, because strikes can disrupt

production. Secondly, because these customers are sensitive for negative publicity in their supply chain. They could reconsider their business with NXP, at a time when NXP is in a good position to profit optimally from upcoming developments, like the mobile payments market.

Recommendations

For NXP:

- NXP should adapt its policies and practices to international labour standards, including the eight fundamental ILO Conventions, not least ILO Convention 1 stipulating a maximum working week of 48 hours.
- NXP should not refer to what is allowed by local authorities if this means violating international labour standards, in this case NXP should go beyond legal compliance.
- NXP should be careful not to play down their disputes with the local trade unions. While NXP considers their employee relations to be good; we recommend NXP to re-evaluate their employee relations and take pro-active steps and invest in the improvement of their relations with local trade unions.

The insights from the report provide the following leverage points and possibilities for creating openings:

For (international) trade unions and labour groups:

- Collaboration can be sought with major shareholders, such as the Norwegian government, and the pension fund 'Texas Teacher Retirement System', both known for shareholder actions.
- Another point of leverage is NXP's biggest customers Apple and Samsung; both representing about 10% of total revenue. This means that Apple as well as Samsung has leverage over the company. They can both be approached for dialogue to pressure NXP into solving the collective bargaining disputes.
- NXP is registered under Dutch law. This means that the Dutch government has leverage over the company and that for example stakeholders can submit an OECD complaint to the Dutch National Contact Point.

For shareholders:

- Shareholders should require NXP to be transparent about social issues and pressure the company to refrain from actions that hamper workers' ability to exercise their trade union rights.
- Shareholders should pressure NXP to invest in the improvement of their relations with local trade unions and specifically pressure NXP to solve the conflict in Thailand in compliance with the ILO Conventions, especially regarding working hours, freedom of association and collective bargaining rights.

For the EICC:

- NXP is misusing the EICC code to justify the implementation of regular working days of twelve hours. The EICC should be aware of that and act upon it.