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Center for Research on Multinational Corporations (SOMO)

# Research

The latest surveys, studies and reports

## Labor issues continue to blight computer industry

By Bart Slob, SOMO

The information and communications technology (ICT) hardware sector is characterized by extremely high levels of outsourcing. Brand-name companies like Acer, Dell and HP, also called original equipment manufacturers (OEMs), outsource major parts of their production processes to contract manufacturers (CMs), which have production facilities in many countries and employ far more people (up to 70,000 - 80,000 employees) than the OEMs.

### Labor issues in the supply chain

It's not surprising that the main issues related to working conditions in this sector occur at CMs that supply to the well-known companies and the contractors' operations are often concentrated in low-wage countries in Asia.

To investigate this phenomenon, SOMO conducted research and commissioned field research studies on nine CMs – all first- and second-tier suppliers to Acer and Fujitsu-Siemens Computers – in the Philippines and China. During the course of the SOMO research project, it became apparent that these nine companies supply not only Acer and Fujitsu-Siemens, but also Dell, Apple, HP, Sony, Philips, Lenovo, Nokia, Microsoft and IBM. SOMO found that labor issues at the factories of these CMs are particularly concerning and need to be addressed urgently by the CR policymakers of brand-name companies.

### Modus operandi of the sector

Many of these brand companies use the so-called barebone strategy, meaning they purchase almost-readymade computers from CMs without a processor, RAM, hard drive and other optional accessories such as W-LAN modules. To reduce lead times, these parts are usually put in after shipment, close to main consumer and business-to-business markets.

Brands use different CMs to ensure constant supply. The fact is, however, that a relatively small number of CMs supply to nearly all the leading OEMs such as Dell, IBM, Acer and HP.

In 2004, Quanta and Compal, two of the world's largest ODMs, manufactured 54.4 percent of all notebooks available on the world market. Competing brands sell near identical computers with identical specifications. For example, the same barebone notebook computers are used for some models in the Acer Aspire, Hitachi Flora, Dell Smartstep and the Fujitsu-Siemens Amilo ranges.

### SOMO research results

The following is an overview of the main issues identified by SOMO's research:

- **Excessive hours:** During peak production season, many workers work 12 hours a day, six days a week. At a CM in China, workers complained they hadn't had a day-off for months during peak season.
- **Wages:** Wages of most workers at the companies SOMO researched are insufficient to cover expenses related to food, let alone rent, clothing and education. In four factories researched in China, basic wages are below the local minimum wage.
- **Health and safety:** Workers in the sector often have to work with hazardous materials and substances without proper protection or health and safety measures. In most factories, occupational health and safety conditions are unsatisfactory. Assembly workers suffer from long hours, work-related stress, noise, bad ergonomics and chemical exposure. Other health problems include skin allergies, respiration problems, noise hazards, dizziness and nausea. These problems are mainly provoked by the lack of protection for workers and defective ventilation in workplaces.

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- *Freedom of association and collective bargaining:*

At companies researched in the Philippines, attempts to organize unions are thwarted. The management strongly advises workers not to organize or to join a union. In China, there is only one, state-controlled union – the All China Federation of Trade Unions (ACFTU). It's the only trade union recognized in the country. It exercises a legal and heavily protected monopoly over all subsidiary union organizations and trade union activities. It remains under the control of the Communist Party, which appoints its officials. Thus by law, there is no possibility of forming truly independent unions in China.

### **The industry's response**

After the thorough shake-up caused by Catholic Agency for Overseas development's (CAFOD) "clean up your computer" campaign in 2004, some companies began acknowledging the labor issues in their supply chains. In late 2004, several leading companies developed the Electronic Industry Code of Conduct (EICC). The code is currently endorsed by HP, IBM, Dell, Cisco, Intel, Microsoft, Sony and some key contract manufacturers.

The organizers share a vision of creating enhanced social, economic and environmental conditions for all workers in the technology industry's supply chain, and making it more efficient for common suppliers to comply with a single set of agreed-upon high standards. In the code, clear reference is made to responsible supply chain management: "At a minimum, participants shall require its next-tier suppliers to acknowledge and implement the code."

In spite of the relevance of this initiative, some major companies like Acer and Fujitsu-Siemens Computers, refrain from endorsing the code. The development of the EICC certainly is a step in the right direction, although it's not clear how compliance with the code is to be monitored. Most of the companies that have endorsed the code are still in the early stages of implementation. Notwithstanding the ambition and the good intentions of its developers, there is an eminent credibility gap. At least one of the CMs that endorse the EICC is known to have its employees in China work 12 hours a day for months without a single day off.

### **Supply chain issues according to NGOs and unions**

In 2005, SOMO and CEREAL organized a roundtable meeting on the ICT sector for NGOs and trade union organizations in Guadalajara, Mexico. During the meeting, participants formulated a list of demands

reflecting the most urgent CR issues to be addressed in the ICT hardware sector. They may be insightful for major companies in the sector that want to consider the concerns of their stakeholders:

- Implementation of the core conventions of the International Labor Organization (ILO) throughout the supply chain. Eight ILO Conventions have been identified by the ILO's Governing Body as being fundamental to the rights of human beings at work including freedom of association, collective bargaining, abolition of forced labor, equal remuneration, nondiscrimination and worst forms of child labor.
- Wages should cover basic needs.
- Workers should be able to learn about their rights.
- Gender exploitation should be fought.
- Health and safety measures should be improved.
- All companies in the sector need to abide by the Basel Ban. The Basel Ban was incorporated as an amendment to the Basel Convention in 1995 and prohibits the export of hazardous waste from developed (OECD) countries to developing (non-OECD) countries. The Basel Ban applies to export for any reason, including recycling.
- Extended producer responsibility (EPR) needs to be an essential principle in any company in the sector. EPR is a policy principle to promote total lifecycle environmental improvements of product systems by extending responsibilities of the manufacturer of the product to various parts of the product's life-cycle, and especially to the take-back, recovery and final disposal of the product.

In recent years, the industry has given much attention to the environmental concerns raised by civil society organizations. Many improvements have been made – notably in the EU, where state-of-the-art legislation on waste and on the removal of hazardous substances was developed. Addressing labor issues throughout the supply chain, on the other hand, has not been a priority for companies in the ICT hardware sector. This is bound to change soon. Public awareness of these issues has increased considerably with the help of NGO campaigns and the efforts of the industry to improve labor conditions. Nevertheless, research indicates there are still many challenges ahead.

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