

This shift in approach to outsourcing is occurring at a time when there is an ongoing reassessment of the value of moving abroad everything that is not tied down. This is partly due to rising labor costs overseas, which “in China have recently been growing by around 20% a year,”³⁶⁵ but also because executives are taking a broader perspective of this business decision. Firms are increasingly questioning the sense of short-term cost savings at the expense of exposing themselves to the danger of longer-term threats to reputation and other problems associated with logistics, customer service, and market flexibility:

More and more U.S. businesses are realizing their decisions to move manufacturing jobs overseas wasn’t all it was cracked up to be. . . . [As a result], 40 percent of manufacturing firms believe there is an increased effort to move manufacturing plants back to the U.S. from countries such as China and India. In addition, 38 percent of the companies researched indicated that their direct competitors have already brought manufacturing jobs back to the U.S. from overseas. . . . rising labor costs in emerging countries, high oil prices and increasing transportation costs and global risks, such as political instability, are the motivating factors in bringing manufacturing operations back home.³⁶⁶

In spite of this reassessment, however, it is also clear that *reshoring* will not solve all the employment issues caused by globalization (“if 10% of China’s electronics production was moved to the U.S., China would lose 300,000 jobs. Yet, just 40,000 new jobs would be created in the U.S. Put another way, if all of China’s manufacturing output was magically transported to the U.S. tomorrow, the U.S. unemployment rate would decline by only 2.75 percentage points after accounting for the effects of automation”),³⁶⁷ even while it might help firms create more efficient and responsive supply chains.³⁶⁸

Case Study: Foxconn

Although some firms are reconsidering the value to their business of outsourcing; for others, outsourcing makes clear business sense. Apple is one of these companies. One reason for this is that, today, the best electronics in the world are made most efficiently in Asia. And, one company in particular does it bigger and better than anyone else:

Foxconn (also known by its parent company’s name, Hon Hai) is the world’s largest contract manufacturer. . . . Across China, it employs 1.4m on 28 campuses. . . . In the past decade it has gone from being one of many invisible firms in the electronics supply chain to the world champion of flexible manufacturing. Barclays, a bank,

forecasts that the company's revenues will exceed NT\$3.9 trillion (\$134 billion) this year.³⁶⁹

Apple, along with many other major consumer electronics firms, is highly reliant on Foxconn. According to some reports, "about half of all consumer electronics sold in the world today are produced at [Foxconn's] mammoth factory campus in Shenzhen, China."³⁷⁰ As such, the firm makes a large percentage of Apple's iPhones and iPads. While Foxconn is able to make those products well, however, they are also able to make them extremely efficiently:

Apple had redesigned the iPhone's screen at the last minute, forcing an assembly-line overhaul. New screens began arriving at the [Chinese] plant near midnight. A foreman immediately roused 8,000 workers inside the company's dormitories, according to the executive. Each employee was given a biscuit and a cup of tea, guided to a workstation and within half an hour started a 12-hour shift fitting glass screens into beveled frames. Within 96 hours, the plant was producing over 10,000 iPhones a day.³⁷¹

In spite of the remarkable economic value Apple receives from outsourcing much of its production to firms such as Foxconn, like Nike before it, Apple has also received some negative press for its extended supply chain in Asia. In particular, as its biggest supplier, conditions at Foxconn's factories have drawn the greatest media attention³⁷² and have covered a range of issues related to employees striking,³⁷³ rioting,³⁷⁴ committing suicide,³⁷⁵ being underage and underpaid,³⁷⁶ and being poisoned.³⁷⁷

As a result of the press coverage and coinciding with the change in leadership from Steve Jobs to Tim Cook, Apple has moved to alter stakeholder perceptions of its commitment to an ethical supply chain by taking a number of steps to improve conditions at Foxconn's factories. First, Apple released a report that comprehensively assessed working conditions in firms "that represent 97% of its materials, manufacturing and procurement spending"—the most detailed report on its supply chain that Apple has released:

The report found 62% of suppliers violated Apple's working hours standards of 60 hours per week. . . . Apple also said it found 112 facilities that weren't properly storing, moving or handling hazardous chemicals. . . . Nearly a third of its suppliers didn't abide by Apple's standards on wages and benefits, the company said. The audits also found five facilities that employed underage workers.³⁷⁸

Second, Foxconn announced that it will improve working conditions for all employees at its factories—increasing wages, reducing overtime, and generally

improving employees' working conditions.³⁷⁹ Third, Apple announced a commitment to have all its supplier factories audited by the third party organization, the Fair Labor Association (FLA), along with a promise to stop working with those suppliers that “do not measure up to its labor and human rights standards.”³⁸⁰ Finally, following the FLA's audit, Apple and Foxconn agreed to implement the changes recommended—in particular in relation to pay and overtime. As Foxconn announced:

“We will continue to support Apple's initiatives to ensure that its business partners are in compliance with all relevant China laws and regulations and the FLA's Workplace Code of Conduct.” The recommendations included reducing work hours to a maximum of 40 hours a week and limiting overtime to a maximum of 36 hours a month—the legal maximum in China.³⁸¹

A Sustainable Supply Chain – Mallen Baker³⁸²

Mallen Baker provides the outline of a broad framework of steps that firms can use to build a sustainable supply chain:

- Create a picture of what is out there ... [identify] where the hidden issues lurk.
- Prioritise your engagement ... start by identifying the areas of the biggest risk.
- Be clear about your own standards ... what [are] the standards you would expect to enforce?
- Focus on ways to measure performance ... What changed ...? How do you know?
- And, as always, get top level buy-in ... [senior management] have to get the strategic business case for prioritizing action in this area.

In spite of all the negative stories that have emerged in the Western press about Foxconn, its oppressive factory conditions, and its relationship with Apple, two points are worth keeping in mind. The first point concerns the effect these stories have had on public perceptions of Apple—arguably, “they have not impacted Apple's reputation one jot.”³⁸³ The second point is the position of Foxconn's

employees, many of whom moved from the countryside in China to its big cities in pursuit of economic progress. In response to Foxconn's commitment to bring its overtime rules in line with Chinese laws, "allowing workers to work no more than nine hours of overtime a week" and improve health and safety conditions (which some fear will reduce margins and threaten jobs), employees are beginning to push back:

Nets to catch would-be jumpers still sag ominously from Hon Hai Precision Industry Co.'s buildings. But two years after a spate of suicides at the Apple Inc. supplier's campus here, workers are more concerned about another measure designed to protect them: limits on overtime. . . . more than 15 workers on the Shenzhen campus said in interviews that they work more than the legal limit of nine overtime hours a week. A majority said they work 10 to 15 overtime hours and would prefer more, having left their distant homes to make money in this southern Chinese boomtown on the border of Hong Kong.³⁸⁴

Amid these conflicting incentives and pressures, Apple's commitment to its key supplier appears genuine. This is confirmed in subsequent press coverage of the progress being made at Foxconn's facilities³⁸⁵ and is reinforced by Apple's public statements on its website:

Apple is committed to the highest standards of social responsibility across our worldwide supply chain. We insist that all of our suppliers provide safe working conditions, treat workers with dignity and respect, and use environmentally responsible manufacturing processes. Our actions – from thorough site audits to industry-leading training programs – demonstrate this commitment.³⁸⁶

In acting to protect its reputation, Apple is merely the latest firm to learn from the trial and errors of earlier pioneers, such as Nike. For these firms, their reputations and the values around which their brands are built are core strategic assets. And, in some respects, the supply chain is more of a strategic issue for Apple, given that supplier contracts are usually longer in the consumer electronics industry than "the three-month terms common in the apparel business." This necessarily "gives Apple a much bigger stake in the long-term success of Foxconn as a supplier, and makes it less attractive to cut and run to a cheaper option."³⁸⁷ As such, there is a clear strategic imperative for multinational firms today to respond to stakeholder concerns about the sustainability of their supply chains in ways that

are transparent and acceptable in terms of standards applied by stakeholders, both at home and overseas:

In April 2005, Nike surprised the business community by suddenly releasing its global database of nearly 750 factories worldwide. No laws presently require a company to disclose the identity of its factories or suppliers within global supply chains. Yet, between the early 1990s and 2005, Nike went from denying responsibility for inhumane conditions in its factories to leading other companies in full disclosure—a strategic shift that illustrates how a firm can leverage increased transparency to mitigate risk and add value to the business.³⁸⁸

In general, factory audits conducted by independent, third parties are increasingly being used by firms. In spite of the challenges (“At HP, for example, only seven of the 276 factories in its supply chain fully complied with its code of conduct at the last audit.”),³⁸⁹ audits are perceived as a solution whereby Western firms can continue to operate in low cost environments, local employees can continue to benefit from their presence, and NGOs can receive some assurance that the local employees are not being abused.³⁹⁰ Best practice, pushed by firms such as Nike and GAP (and now Apple), dictates that firms should work with contractors to improve conditions when violations occur and, only in persistent cases, sever ties due to workplace violations.³⁹¹ Ultimately, for these firms that rely on effective supply chains, the potential risks far outweigh the short-term cost outlays:

Some say Apple should copy an idea from Henry Ford [who] . . . paid his employees enough to afford a Model T. Will the workers who assemble iPads one day be able to own one? With wages soaring in China, that may not be a pipe dream. Given that wages account for only 2% of the retail price, bumping them up would hardly cripple Apple’s margins. And removing the “sweatshop” stigma might help its global reputation.³⁹²

What is clear is that outsourcing is not going away, even as Apple investigates the possibility of bringing some production back to the U.S.³⁹³ Establishing an efficient and effective supply chain is essential to firms seeking to reach markets worldwide. As their supply chains become longer, however, firms run into increasingly complex stakeholder conflicts. A CSR lens provides a means to navigate these complexities as firms seek to locate operations in the region that offers the best mix of location, employee skills, and lower costs. What is important from a CSR perspective is to ensure firms adhere to their legal and social obligations and that it is *best* practice, rather than *worst* practice, that is recognized and rewarded by stakeholders.

CEO Perspective

Tim Cook (Apple)

As a company and as individuals, we are defined by our values. Unfortunately some people are questioning Apple's values today, and I'd like to address this with you directly. We care about every worker in our worldwide supply chain. Any accident is deeply troubling, and any issue with working conditions is cause for concern. Any suggestion that we don't care is patently false and offensive to us. As you know better than anyone, accusations like these are contrary to our values. It's not who we are. . . . Every year we inspect more factories, raising the bar for our partners and going deeper into the supply chain. As we reported earlier this month, we've made a great deal of progress and improved conditions for hundreds of thousands of workers. We know of no one in our industry doing as much as we are, in as many places, touching as many people. . . . We will continue to dig deeper, and we will undoubtedly find more issues. What we will not do—and never have done—is stand still or turn a blind eye to problems in our supply chain. On this you have my word. You can follow our progress at apple.com/supplierresponsibility.³⁹⁴

Online Resources

- Apple Supplier Responsibility, <http://www.apple.com/supplierresponsibility/>
- China Labor Watch, <http://www.chinalaborwatch.org/>
- EICC Code of Conduct, http://www.eicc.info/eicc_code.shtml
- Electronic Industry Citizenship Coalition, <http://www.eicc.info/>
- Fair Labor Association, <http://www.fairlabor.org/>
- Foxconn CSR Report, http://www.foxconn.com/CSR_REPORT.html
- Institute for Supply Management, <http://www.ism.ws/>
- International Labor Organization, <http://www.ilo.org/>
- Labour Behind the Label, <http://www.labourbehindthelabel.org/>
- NikeWatch Campaign, <http://www.oxfam.org.au/campaigns/labour-rights/nikewatch/>
- Social Accountability International (SAI), <http://www.sa-intl.org/>
- Sweatshop Watch, http://www.change.org/sweatshop_watch
- Verité, <http://www.verite.org/>