

# Lessons Learned on Engaging Companies on Occupational Health & Safety Issues: The collaborative investor engagement related to Foxconn April 19, 2012

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#### **About Boston Common Asset Management**

#### Firm Overview

- Specialty firm focused on environmental, social, and governance (ESG) integrated investing
- U.S. and international long-only equity investing
- Fundamental judgment, thorough research, active ownership
- Over \$1.5 billion in assets under management as of 12/31/11 (including subadvised assets)
- Employee-owned firm founded by a seasoned team
- Commitment to responsible practices



# Scope of collaborative engagement in 2010:

- Investor Statement Regarding Suicides and Working Conditions at Electronics Manufacturing Facilities
- Investor engagements with major customers of Foxconn

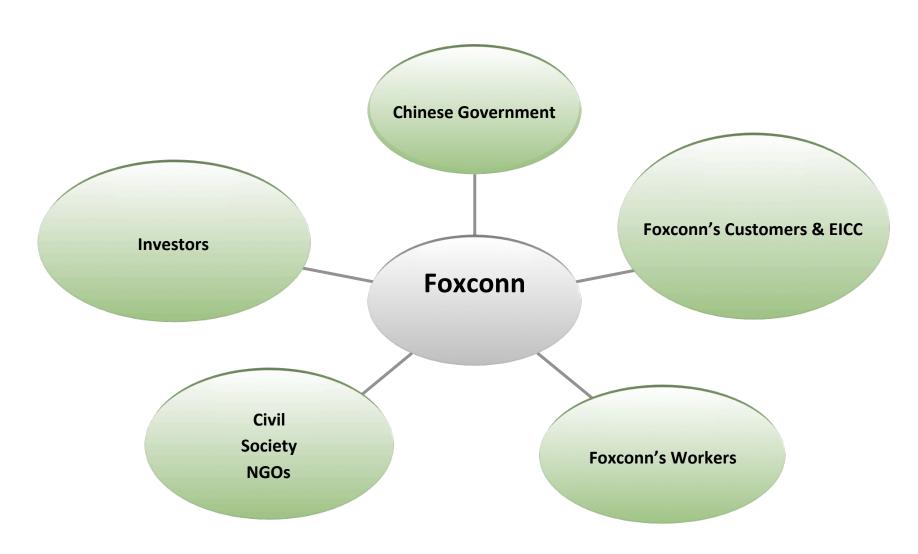


#### **Lead Investors:**

- ❖ As You Sow Conrad MacKerron
- ❖ Boston Common Asset Management *Steven Heim*
- ❖ Domini Social Investments *Adam Kanzer*
- Interfaith Center on Corporate Responsibility David Schilling
- Trillium Asset Management Jonas Kron



#### Occupational Health & Safety - Investor Collaborative Engagement related to Foxconn





## Background:

Global brand electronics companies have worked with their primary suppliers to improve the working conditions and improve environmental performance in their factories.

IBM, HP, and Dell in 2004 formed the Electronic Industry Citizenship Coalition (EICC) and formulated an industry code of conduct that about 68 companies have now endorsed or adopted, including Foxconn.

However in 2010 ten workers committed suicide that had been employed at a huge Chinese factory owned by Foxconn (Hon Hai Precision parent), a major Taiwan-based contract manufacturer that supplies Apple, Hewlett-Packard, Dell, Sony, Nintendo, Nokia, Samsung Electronics and other global brands. Foxconn has been subject of previous OHS controversies regarding overtime and working conditions.



#### Foxconn Responses in 2010:

Investigations by Foxconn and some brands found severe social issues for workers that lack social and recreation opportunities, plus they work long overtime hours to earn more money due to low pay.

Foxconn said it would raise wages at its major factory in China where the suicides occurred and it was turning management of the worker dormitories to commercial property management companies.

Foxconn announced plans to move some major production inland in China so its workers are closer to their families (and to pay cheaper wages).

However, since 2010 poor working conditions at several factories have persisted and they may be endemic for other manufacturers.



#### **Investor Actions:**

In June 2010 a small group of U.S. investors including Boston Common discussed what investors could do to raise investor concerns with companies and the industry about the worker suicides and working conditions at electronics factories in China.

Investor group held conference calls with Hewlett-Packard and Dell. Apple declined. Boston Common also met with Sony and Samsung Electronics. [Our group later talked with Apple and other companies in 2011 and 2012.]

Our investor group decided to prepare an investor statement to raise our concerns publicly, note progress the industry has made, and state our expectations for the future.

We also decided to have a short window for this engagement and launch the investor statement in July 2010 before press attention waned.



# Investor Statement and EICC/Foxconn Replies:

The PRI posted our investor statement on the PRI Clearinghouse on July 13, 2010. We also invited co-signers via US listserves for the Interfaith Center on Corporate Responsibility and US Social Investment Forum (US SIF). Investor interest was quite strong and immediate.

Steering committee released the investor statement and issued a press release on July 21, 2010. The investor statement had 45 institutional investor signatories from six countries. By year end 2010 there were over 50 signatories including a few new large investors. (New signatories are still welcome.)

In late July and early August of 2010 Foxconn and the EICC prepared responses to our investor statement. The EICC letter was published on the Business & Human Rights Resource Centre website.



# **Investor Statement Highlights:**

However, we believe the issues raised by this human tragedy **go far beyond** the specifics at **Foxconn**, **and implicate broader systemic challenges**.

While some improvements in workplace conditions and compensation have been achieved [in the past decade], there is little evidence of dramatically improved conditions. Part of the problem is the unwillingness of most global brands to disclose the nature and severity of many of the problems found at these facilities, and what they are doing to address them.

A more sustainable manufacturing system, which provides living wages and decent working conditions for workers is in everyone's best interests, reducing the risk of high employee turnover, work stoppages, high relocation costs and consumer boycotts.



# **Investor Statement Highlights:**

We support the efforts of these companies and their suppliers to improve working and living conditions for workers by:

- Providing safe and non-abusive workplaces that give workers a meaningful voice in maintaining and improving conditions.
- Offering vigorous on-going training on worker rights, factory procedures, communication and grievance mechanisms.
- Closely following limits on overtime and making sure that overtime is voluntary.
- Training line supervisors and managers to eliminate harassment and other forms of abuse.
- Supporting workers rights to trade union representation and collective bargaining.
- Studying whether the social situation for migrant workers plays a role in anxiety, stress and suicide among workers and, if so, identifying social and industry policies to address this problem.



## But NGOs Skeptical of Foxconn and EICC Claims:

In October 2010 a group of NGOs working on workplace human rights issued a press release that was skeptical of the progress claimed by Foxconn and EICC in improving working conditions in their factories.

GoodElectronics, Bread for All, SACOM, makeITfair and the International Metalworkers' Federation urged "the electronics industry to show leadership by taking responsibility for decent labour standards for the workers in the global electronics supply chain. Reforming buying practices would be a first urgent step."

The Hong Kong-based labor rights group Students and Scholars Against Corporate Misbehaviour (SACOM) published their report on Foxconn *Workers as Machines; Military Management in Foxconn*. "The overall conclusion of the report is that Foxconn's labour practices are illegal and unethical. The purchasing practices of brand companies sourcing from Foxconn put direct pressure on workers."

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# Fast Forward to Today and Lessons Learned Can investors have an impact?

- Even if they are not shareholders, investors can challenge companies on OHS issues.
- Press attention builds our leverage with companies. Some companies give investors access because they believe in it versus other companies that give access because of the media attention.
- Big, lasting changes are propelled by (sporadic) media disclosure and "endless pressure applied endlessly" – applied not by investors but by multiple constituencies raising same set of issues.



#### Lessons Learned to Today

#### How can investors keep the pressure up?

- The whole resource issue We need someone with resources and staff time to drive it. "We could have done more."
- Investors need better data from companies and expert help to assess supplier OHS performance and to put OHS problems and reported violations in perspective. Real systemic problem or isolated case?
- Power of rigorous questions can show seriousness of investors and that we are not going away.
- FLA's recent Foxconn audit report showed hundreds of corrective actions by Foxconn but only about four by Apple. Shows attenuated nature of these relationships. Investors need to push through nevertheless.



# Lessons Learned Today

- Investors lack data and reporting by companies to know if they audit their supply chains and the results, e.g. improved OHS performance. Also, maybe it is not a strength of EICC to do advanced auditing involving competitors.
- The publicity and public nature of the FLA Foxconn audits will drive the largest changes. Foxconn was a cover story in 2010 and Apple in 2012.
- The public and investors need to move all the other companies that hide out of the public spotlight to adopt aggressive auditing of suppliers and push improved OHS performance.
- Investors need appropriate data points so we can compare companies.
  How to judge?... "There are tons of problems and the NGOs are right," or
  "Foxconn is much like other big factories in China" or "Foxconn is
  exemplary because it didn't have these 15 problems that are typical."



#### For more information:

See: http://www.csrwire.com/press\_releases/30094-International-Investor-Coalition-Urgently-Calls-for-Improved-Working-Conditions-in-Electronics-Manufacturing-Facilities

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