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## Apple, IT and the Specter of Sweatshop Labor



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**"In general, IT companies that are sourcing around the world face many of the same challenges that other industries do," said David Viederman, executive director of Verité. "All companies, regardless of industry, have to work to find leverage to change the practices of their suppliers."**

In 2006, iPod users -- not to mention [Apple](#) (Nasdaq: AAPL)  shareholders -- were stunned to hear news accounts that workers at a Chinese factory that manufactured the devices were being subjected to abusive living and working conditions.

In reality, Apple customers -- or the shareholders at least -- had little to worry about. For all the publicity that activists have been able to throw at companies such as Nike (NYSE: NKE)  for overseas labor violations, in truth they have had very little affect on any one company's bottom line, said George T. Haley, a professor of industrial marketing  at the University of New Haven and currently the director of the Center for International Industry Competitiveness.

"There will always be a part of the market that will respond to notice of sweatshops being used," he told MacNewsWorld. "But outside of that small constituency, they are hardly ever affected in the long run." Even Nike withstood a concerted campaign against it, albeit it had to spend a lot of money to do so, he acknowledged.

Apple's customers, though, are a different breed. To many of them the company's corporate image is almost as important as its product design.

What followed those news stories in summer of 2006 is a textbook example of how to not only defuse a potentially disastrous PR crisis but also how to enforce standards on contractors and subcontractors in far flung locations.

### An Audit

Apple dispatched an audit team comprised of members from its human resources, legal and operations groups to carry out an investigation of the conditions at the manufacturing site. "The team interviewed over 100 randomly selected employees representing a cross-section of line workers (83 percent), supervisors (9 percent), executives (5 percent), and other support personnel (3 percent) including security guards and custodians," according to Apple.

"They visited and inspected factory floors, dormitories, dining halls and recreation areas. The team also reviewed thousands of documents including personnel files, payroll data, time cards and security logs."

### **Its Findings**

Apple's conclusions: It found the supplier to be in compliance in the majority of the areas audited.

However, Apple did find violations to its Code of Conduct that it established the year before. It has since been working with the supplier to improve those areas, the company said.

In some respects, Apple had it easy. For starters, it view a model of what not to do by observing previous generations of companies who had fumbled such accusations. Even if activists' tactics don't hurt a company's bottom line directly, getting into a protracted standoff and being painted as a company that profits from exploited workers is something any rational firm wants to avoid.

It also makes intuitive business sense to investigate the accusations. "It's just not smart business," Haley said. "A sweatshop isn't going to turn out good, quality products. The people are working too many hours, they are not trained and so on."

Also in its favor is the fact that Apple is, well, Apple. "Most companies by now know to include clauses in contracts that forbid certain activities or that forbid a contractor from subcontracting out to another firm," he noted. In emerging markets, however, foreign-based companies often find the contracts hold little sway. The only club worth using, Haley said, is the threat to walk away if changes aren't made. To do that, obviously, one has to be a client the supplier doesn't want to lose.

For these reasons, he added, Apple's experience is not all that unusual -- except perhaps for the part where it was able to implement changes.

### **Sweatshops in the IT Supply Chain**

Sweatshop labor may have been a popular cause in the 1990s, but activists agree there are still very much part of the supply chain landscape. That said, the IT industry has made good strides in the last few years identifying where the problems are in their own operations and taking measures to address them, David Viederman, executive director of Verité, an independent nonprofit organization monitoring international labor rights abuses in offshore production sites, told MacNewsWorld.

"As the electronics industry has looked more carefully in its supply chain, it has found problems," he noted. A few years ago, three IT firms developed the Electronics Industry Code of Conduct, a common code of standards expected in suppliers. Since then, he noted, membership has grown rapidly.

"The industry as a whole is moving toward a best-practice approach, but that best-practice approach is not yet adopted by each company individually," Viederman noted.

"In general, IT companies that are sourcing around the world face many of the same challenges that other industries do. All companies, regardless of industry, have to work to find leverage to change the practices of their suppliers. They are often up against entrenched business cultures that don't value working conditions as much as they value other business factors."

### Dial-Up Disclosure

None of this is to say that activists' work in the area has been without purpose. Without a doubt, shining a spotlight on abuses has spurred companies to make changes in their supplier relationships. Some activists, though, mourn the complacency that seems to have "settled" this issue as well as the perceived decline of consumers' enthusiasm to boycott a firm for ethical reasons.

Technology, ironically, may change this stalemate.

"We are at the brink of an interesting intersection of IT and the use of sweatshop labor," Dennis Greenia, publications director for Co-op America, told MacNewsWorld. "Some conversations have been had" among NGOs (non-governmental organizations) and nonprofits about using bar code and RFID (radio frequency identification) technology to track sourcing data of a product, he said. With a full accounting of a product's pedigree made available, consumers themselves can decide if they want to spend money on that product.

"In the long term, I think we will see new technologies used far more extensively to promote social justice," he predicted. 

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