

Summary

Philips
Mexicana

Summary based on research by:

Centro de Investigación Laboral y Asesoría Sindical A.C.
(CILAS)

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1. Introduction

This report summarises the main findings of a research conducted in 2005 on Philips Mexicana's operations and subsidiaries in Mexico. The research focused on labour conditions, including the free exercise of the rights to join a trade union and conduct trade union activities, working conditions, and issues related to Corporate Social Responsibility (CSR). The study attempts to combine recognition of progress in these areas and identification of some related problems, and incorporate these considerations within a dialogue among the social actors.

This is the second report on Philips Mexicana in the context of the FNV Company Monitor. A similar study was carried out in 2002-2003 and covered Philips Consumer Electronics (PCE) in Ciudad Juárez, Philips Construlita in Querétaro, and the Philips Lighting plant in Monterrey. This first study concluded that the Philips companies performed relatively well on various aspects of working conditions and complied with all basic labour norms. A few critical issues were identified as well, notably the low participation of workers in union affairs and the weak bargaining position of trade unions at plant level. The flexibilisation of employment and the relatively low wages at some plants were also sources of concern. Furthermore, workers and trade unions were inadequately informed about ongoing global restructuring and relocation that caused a decrease of the work force in Mexico.

Just like the first study, the present research was conducted by the Centro de Investigación Laboral y Asesoría Sindical A. C. (CILAS) and followed the standard research framework of the FNV Company Monitor project. In October 2005, after several months of discussions about the research to be conducted, CILAS signed an agreement on co-operation and confidentiality with Philips Mexicana. The local and national management of the company subsequently provided active co-operation to the study. The researchers visited six Philips production sites in different parts of Mexico and interviewed workers and trade union representatives. A special survey was conducted among workers with the lowest incomes. In addition, managers at each site provided interviews and internal company documents. The draft reports were submitted to the management of Philips Mexicana for comments and this was followed by a meeting between Philips management and CILAS for further discussions and clarifications. The final research report is therefore based on comprehensive input from workers, trade unions, and company management.

2. General characteristics of Philips in Mexico

Business description and business strategies

Philips currently has some 12 production plants in Mexico. Except for Lumisistemas, these are all located along the border with the US. The companies Philips PCBA, Philips Remote Controls, and Philips High Tech Plastics, all located in Ciudad Juárez, are not described in this report.

Philips Construlita, which was described in the 2002-2003 study, became independent from Philips again in 2005, as the Mexican shareholders restored their majority ownership and formal control over the company. The LG Philips Displays joint-venture also has a plant in Gómez Palacio, Durango.¹ A brief business profile of the six Philips companies described in this report is given below.

Consumer Electronics (PCE)

Consumer Electronics (Productos de Consumo Electrónico, PCE, also PCEP) is a large company that produces CRT, LCD and plasma televisions in Ciudad Juárez, Chihuahua, in the North of Mexico near the US border. It is a 100% Dutch investment and mainly export-oriented. Imports have decreased from 90% of inputs in 2000 to 75% in 2005. This company has been operating in the region for approximately 33 years, and thus holds a prominent position locally. However, in the last ten years, its productive capacity has decreased and many of its plants closed down as a result of the corporation's global strategy. The manufacturing of components for TV screens to LG Philips Displays in Gómez Palacio and the manufacturing of computer screens were transferred to China. Of the previous electronics manufacturing complex with ten plants, now only the main plant manufacturing televisions remains. There is no intention to close down and relocate this last plant. The company aims to be a centre of world-class manufacturing for North America and specific markets in South America and growth in production is planned. Workers make great efforts to achieve efficiency so that PCE can maintain its outstanding position within the Philips Corporation. The financial goal for 2004 was to reach sales of US\$ 200 million to recover from the lower sales in 2003.

Advance Transformer

Advance Transformer is a large *maquila* (assembly) company that consists of three plants in Ciudad Juárez, which manufacture electronic ballasts and transformers. The corporate headquarters of Advance are in the US. Since 1989, Advance Transformer operates as an alliance between Advance and the Philips Electronics North America division. Together with the manufacturing plants in Tijuana (PLE) and in Mexico City (Lumisistemas), Advance Transformer forms a separate group of Philips companies producing ballasts and transformers. Advance Transformer has not experienced substantial changes in the company's structure since 2001. Although the plants have been expanded, the company's production has decreased from 89,000 to 44,000 products in recent years. This is caused by various factors, including technological changes that led to several models being discontinued. The company largely imports its inputs from abroad and exports its products to the US. The local management aims to be a leading manufacturer of lighting products and emphasises innovative technology.

Philips Lighting Electronics (PLE)

The Philips Lighting Electronics (PLE, also PLEMSA) is a *maquila* company located in Tijuana, Baja California, in the Northwest of Mexico near the US border. It belongs to the same group of Philips companies as Advance transformer and produces electronic ballasts and transformers.

¹ This plant is not considered part of Philips for the purpose of this report.

The company was originally established in 1991 as a Mexican company supplying to Philips and was acquired by Philips in 1999. The company was incorporated into the present group of Philips companies in 2001 at a moment of market expansion. A second production plant specialised in ballasts was built in 2003 to improve production performance. There has been a decrease in permanent production and employment, together with growth in temporary employment. The current situation is characterised by substantial recovery and growth of the workforce in 2005. Paradoxically, production of transformers has decreased due to high product price rises. According to workers, transformer production has dropped as much as 50% at times and up to five production lines were suspended. The local management aims to satisfy the client to maintain the source of work. The business plan for 2005 included introducing the production of automotive ballasts, in addition to those used in general illumination.

Lumisistemas

In 2001, Philips acquired the Lumisistemas plant from the Axa Group and incorporated it into its ballasts group. Lumisistemas is located in the outskirts of Mexico City in the central part of the country and used to produce ballasts and components. However, production quantity has decreased since the acquisition because of a decrease in demand, partly due to some products being banned for the chemical substances they contained. Ballast production has been suspended since 2005 and part of the machinery and equipment has been transferred to the Advance Transformer plant in Ciudad Juárez. Production at Lumisistemas is currently limited to stamping metal boxes for ballasts for Advance and the site operates as a distribution centre for lighting parts. Approximately 80% of inputs are imported.

Philips Mexicana / Lighting Monterrey

Philips Mexicana has its national headquarters and a lamps production unit of the lighting division in Monterrey, in the Northeast of the country. The production unit will be referred to as Lighting Monterrey. There have been no changes in this company structure over the past five years. Recent organisational changes include implementing a 'centre of competencies' work scheme, in which responsibility for some functions is shared by two plants. The production volume of the company has been relatively constant. Almost 80% of inputs are imported and virtually all production is exported. The company's strategy includes administering the correct portfolio of products and flexibility with the client.

Electric Lamp Components (CEL)

Electric Lamp Components (Componentes Eléctricos de Lámparas, CEL) is a medium-sized *maquila* company manufacturing electronic illumination products. The company was established in Mexico in 1978, and falls under the corporate headquarters of the North America Philips Electronics Division. The company is oriented towards the internal market and does not export any products. It also reports no imported inputs, so it should be assumed that all inputs are obtained from Mexican suppliers. There have been no substantial changes in the company's operations over the past years. Business strategies are similar to those of Lighting Monterrey.

Employment and employment trends

The Mexican Federal Labour Law distinguishes between production workers (*trabajadores de base*) and other employees (*trabajadores de confianza*). The latter are defined as employees with a managerial position or a supervisory role, in office work, sales, security, or other auxiliary services. The graphs on the next page describe the employment trends at the six Philips companies. Next to permanent production workers and other employees, temporary production workers are mentioned as a separate category. Note that the graphs have different scales. The six Philips companies combined had a total of 8,170 employees in 2005, comprised of approximately one thousand temporary workers, six thousand permanent production workers, and one thousand other permanent employees. The use of temporary contracts is analysed in more detail later on.

PCE has experienced a gradual decrease of the workforce since the most recent economic crises in Mexico, from over 7,300 workers in the 1990s to less than 1,300 in 2004. The trend was reversed in 2005, mainly through an increase of temporary workers.

Advance also has a remarkably large proportion of temporary workers. These represent 23% of all production workers.

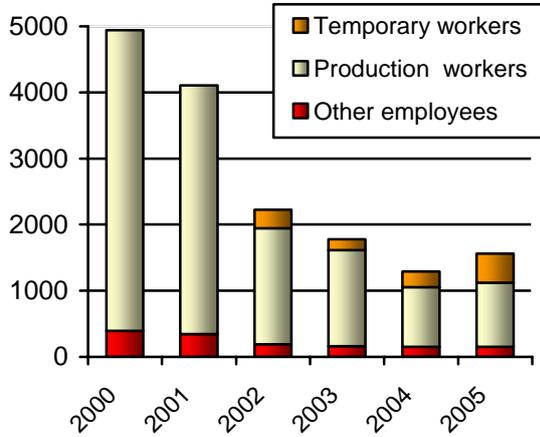
PLE affirms that it assumes responsibility to protect the job security of its workers. Although total employment has been steadily growing, from 2001 to 2002 there has been a reduction of permanent production workers. In 2002 and 2003, the company hired a large group of workers through outsourcing, reported as temporary PLE workers.

Lumisistemas shows a strong reduction in the total workforce since 2002 resulting from the downsizing, from almost 950 down to less than 120. Temporary workers, which previously constituted up to 20% of all production workers, are no longer hired. The group of other employees is least affected as distribution and sales activities are constant. The company has assured that it will also continue the production work in stamping of parts.

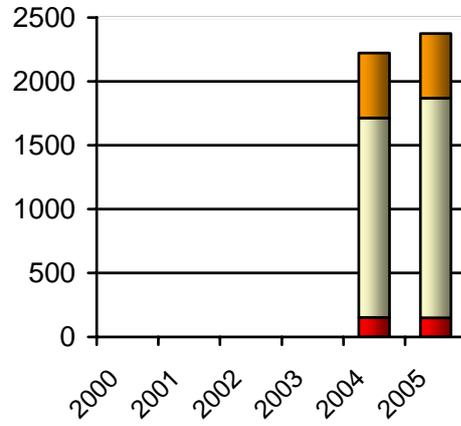
Lighting Monterrey did not report the number of temporary workers. Union representatives and workers confirmed that temporary workers do exist in the company.

CEL reports an increasing number of temporary workers since 2003, which has risen to more than a quarter of all production workers in 2005

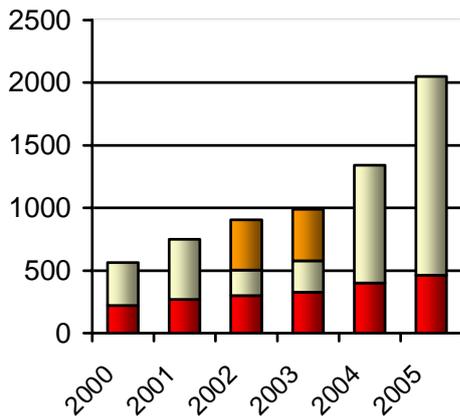
PCE (Ciudad Juárez)



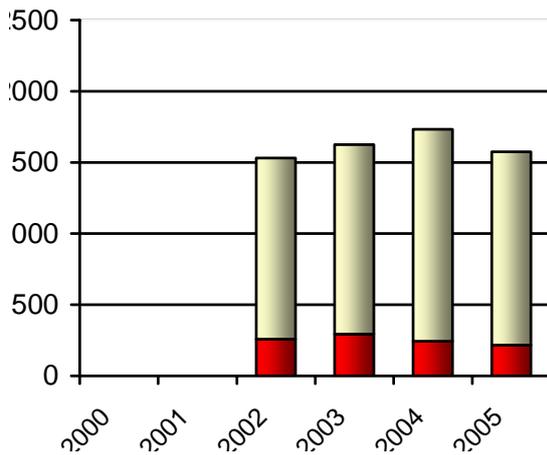
Advance Transformer (Ciudad Juárez)



PLE (Tijuana)

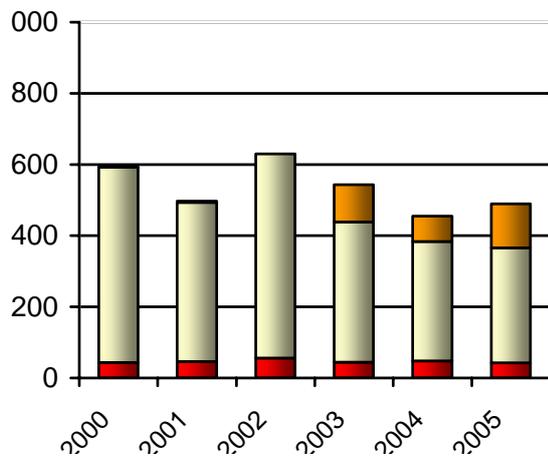


Lighting Monterrey ¹⁾

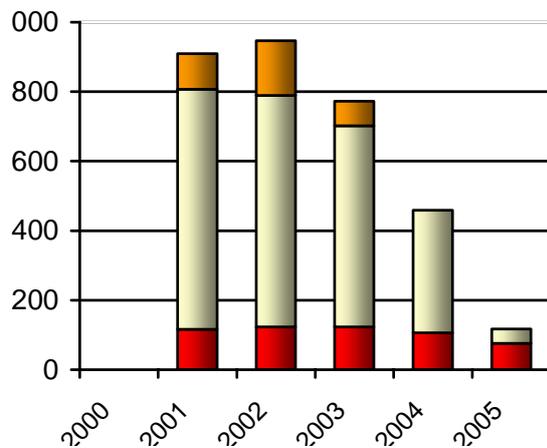


¹⁾ Temporary workers not reported

CEL (Ciudad Juárez)



Lumisistemas (Mexico City)



Company management and relations with the corporation

The Philips companies in Mexico have different levels of autonomy with respect to the corporation. The local management perceives their autonomy to be moderate to high, but in the case of PLE, the union is of the opinion that the corporation’s influence is dominant. Annual business goals are also set at different levels. For Advance Transformer these are mainly determined by the local management, for PLE and Lighting Monterrey by the corporation, and for the other companies by local and Latin American regional management in combination. Most companies have one board member from abroad, but at PCE the situation is inversed and nine out of ten board members are not from Mexican origin.

For most companies, the main decisions taken at the global, regional and/or national level include:

- mergers and acquisitions
- joint-ventures and strategic alliances
- relocation, new plants, plant closures
- business strategies
- innovations and technology
- product development
- appointment of top executives
- production cuts

Issues decided upon at the local level usually include:

- working methods
- work organisation
- collective bargaining
- human resource training
- appointment of middle management

The responsibility for various issues is also shared by the corporate management, notably the national headquarters in Monterrey, and the local company management, for example:

- labour relations policy
- policies reducing the size of the labour force
- changes in management styles
- selection of suppliers

The main difference was noted with regard to decisions concerning the use of outsourcing and subcontracting. For Lighting Monterrey and CEL these were taken at the local level, for Advance Transformer by different management layers in combination, and for PCE, PLE, and Lumisistemas mainly by corporate management.

Corporate Social Responsibility

The six companies consider that Corporate Social Responsibility (CSR) includes, amongst other things, philanthropy and community investment. Examples of this type of initiatives are health campaigns, support for schools, sport events, a community link programme, and a variety of donations to local government services and charities. Philips Mexicana received a ‘Socially Responsible Company’ award from the Mexican Centre for Philanthropy (CEMEFI).

Labour issues are also considered part of CSR. All local management groups state that the corporate General Business Principles of Philips are available in Spanish and known by all employees. For most companies this was confirmed in interviews with workers and union representatives. Workers at Advance Transformer and CEL, however, were unfamiliar with them. Lumisistemas seems to be most active in the distribution of the business principles and related norms and organises training courses about them as well. Apart from the General Business Principles, rights and obligations of employees are also included in the (Financial) Code of Ethics, Collective Bargaining Agreements (CBAs, or CCTs in Spanish) and Internal Work Regulations (RIT in Spanish).

At most companies, the Human Resources (HR) manager is in charge of CSR policies as far as labour issues are concerned. Most companies carry out internal evaluations on the implementation of CSR policies. In addition, PCE submits a social responsibility report to the corporation. There have been no valid complaints about violations of the business principles during the past 5 years. Two grievances were presented at Lumisistemas in 2005, but these did not regard actual violations. However, it should be taken into account that complaints procedures are probably not functioning in companies where workers are unfamiliar with the business principles. There have been no external evaluations of the implementation of CSR policies.

Conditions in the supply chain

With regard to supply chain management, it should be recalled that most Philips companies import over 75% of their input. For CEL no data on imports were available. CEL is also the only company that explicitly assumes responsibilities for labour conditions at suppliers and subcontractors, and specifically refers to health and safety standards. PCE, Advance Transformer, and PLE explicitly state that they do not assume responsibility for labour conditions at suppliers and subcontractors. Lumisistemas and Lighting Monterrey did not make a statement in this regard. However, in 2005, PCE did carry out a Sustainability Workshop with key suppliers, in order to disseminate the company's sustainability policy, including on basic labour norms and health and safety. Most Philips companies communicate their Code of Ethics to suppliers and expect or require them to comply with national labour legislation. None of the companies mentioned the application of Philips' global Supply Management/Purchasing Code of Ethics for purchasing staff.

Possible actions in case of non-compliance with required labour standards range from discussions to termination of the supplier relationship. However, none of the companies actually verifies working conditions at suppliers except within the Philips plants, so this is merely a theoretical issue. This strongly contrasts with the stringent quality controls that apply to all suppliers and subcontractors. In the cases of PCE, PLE, and Lighting Monterrey, these also involve frequent visits for on-site inspections.

3. Labour relations

Active unions within the companies

PCE

The company has a local trade union called the Industrial Union of Maquiladora Workers (SITM). It is affiliated to the Confederation of Mexican Workers (CTM), the largest union confederation in Mexico that is closely linked to the populist PRI party, which ruled Mexico for 71 years. The Secretary General is a company employee. There have been no attempts to form another trade union or for another trade union to challenge the current union's position. The trade union's strategy is to keep the workers informed about any changes related to production or collective bargaining. In order to facilitate the management's growth objectives, the union considers it necessary to keep the company competitive, aiming at a decrease in operation costs, and investing in training the workers.

Lumisistemas

Since 1985, Lumisistemas has a local trade union affiliated to the Confederation of Workers, Farmers, and Employees of Mexico (COCEM). This is one of Mexico's oldest confederations and also closely linked to the PRI party. There have been no other unions. Union membership fees are deducted from the workers' wages. The union leader is from outside the company and with the downsizing of the company's operations, the number of delegates has been reduced from six to three. They were not interviewed; instead the company channelled CILAS exclusively to the union leader. The management does not interfere in the union and affirms that relations with the union and with workers have been excellent.

Lighting Monterrey

Lighting Monterrey has a local company-specific trade union called the Union of Workers and Operators of Philips Mexicana. It is affiliated to the National Federation of Independent Unions (FNSI), which has its headquarters in Monterrey, and is present in assembly plant companies along the northern Mexican border. The federation's history is characterised by rigorous preservation of peaceful labour relations, despite labour problems that occur. The union's General Secretary is a company employee. Union membership fees are deducted from the workers' wages.

Advance Transformer, PLE and CEL

There is no trade union or any other kind of labour organisation in these companies. The management did not comment on the issue. Workers did not know of any attempt to form a union organisation and are apparently unaware whether a union exists or not. Workers at CEL appear to be rather indifferent to this.

Freedom of Association

- ILO convention 87 (protection of unions) ratified 01-04-1950
- ILO convention 135 (employee representatives) ratified 02-05-1974

Mexican laws provide the basis for the formation of independent unions, but political and legal practices like contractual clauses that limit union freedoms, bureaucracy and practices of patronage, do not contribute to it. For instance, the foundation of new unions and the affiliation of employees to other unions can be prevented with a so-called “exclusion clause” in collective bargaining agreements: employers, in agreement with trade unions, may dismiss employees that leave a trade union. If a union exists, usually all production workers are members, but other employees cannot be affiliated to the same union and rarely have a union of their own.

PCE

The CBA stipulates that affiliation to the trade union is compulsory for production workers and has an exclusion clause. However, both the company and the trade union state that no workers have ever been dismissed for having disaffiliated or been expelled from the union. No cases of discrimination against workers for trade union activities have been reported. The Secretary General is exempted from normal working duties with full wage payments. The shop stewards have temporary permits to be away from work in order to perform certain trade union activities, but they are not allowed to carry out union activities within the company. Very few union assemblies are organised and most activities take place outside working hours. Union representatives can only access the work place to hold personal interviews with the workers. The trade union is free to distribute information among its members within the company premises after approval by the Human Resources management. In addition to the CBA, the company has agreements with the union on work rules, training, health and safety, suspension of activities, and wage scales.

Lumisistemas

Similar to PCE, union membership is compulsory for production workers and the CBA has an exclusion clause, but it has never been used. Union delegates can carry out their tasks without restrictions and are not discriminated against. Union leaders have access to the workplace but only to personally speak with workers. Meetings within the plant and dissemination of union information are allowed after previous authorisation. The union’s attitude toward company objectives and initiatives has been co-operative and open to negotiation, based on dialogue.

Lighting Monterrey

Similar to PCE and Lumisistemas, union membership is compulsory for production workers and the CBA has an exclusion clause, but it has never been used. There have been no cases against workers for union activities. The Secretary General is exempted from normal working duties with full wage payments. The company provides special permits to delegates for union activities and meetings. Other union meetings are held in the offices of the federation. Assemblies are held every two months. The CBA also provides for a union office at the plant site and support for

materials used by the office. The union characterises the relationship with the company as co-operative regarding for example work organisation and company's objectives and initiatives. It has no relations with unions of company's suppliers or subcontractors.

Advance Transformer, PLE and CEL

The corporate Presidency of Human Resources states it is not opposed to the existence of trade unions. The most recent version of the Philips' General Business Principles explicitly recognises workers' right to organise in trade unions, within the framework of the Mexican law. In the absence of unions, working conditions are specified in individual contracts. No initiatives to discourage trade union organisation were identified.

The lack of trade unions in such large companies may nonetheless be a source of concern in Mexico. It is well known, for example, that an important number of companies in the region has CBAs with union organisations that are unknown to the workers and do not represent them in order to discourage potential initiatives to create authentic trade unions.

Collective bargaining

- ILO convention 98 (collective bargaining) not ratified

Mexico has not ratified ILO convention 98 with the argument that the national law already complies with its contents. However, while the Mexican law may go beyond international norms for some aspects, the implementation of free and voluntary negotiations is problematic (for example because of the aforementioned exclusion clause). Articles 357 of the Federal Labour Law and further oblige an employer to negotiate a collective contract when unionised workers request to do so.

PCE

The first CBA between PCE and the union was signed more than 30 years ago. CBA and wage revisions start in December and end in January each year. The most recent wage revision was conducted in January 2006 and the most recent CBA revision took place in January 2005. The negotiations are performed by a General Committee composed of workers and a legal advisor. Union demands are set forth in general assemblies, based on proposals made by the General Committee that tends to limit demands so that they remain within the regional guidelines. Although there have been some clashes of interests between the company and the union, such as the progressive closure of the plants that originally formed the company, there have been no strikes. This situation has not changed since 2002-2003.

Lumisistemas

The CBA and wage negotiation committee does not include workers but only the external union leader and a lawyer. The last CBA review was in January 2006. Although the company has not threatened to leave the country, the union perceives an environment of uncertainty due to the substantial downsizing of production activities.

Lighting Monterrey

There is a CBA which has been administered by the union since 1958. The most recent contract review took place in September 2004 and wages were reviewed in September 2005. On this occasion, wages were increased by 5% while inflation was estimated at 3%. The union leaders, who are company workers, participate in the union committee for wage and contract negotiations. In addition to the CBA, the company has other agreements signed with the union, including a health and safety agreement, training programme, Internal Work Regulations (RIT), hiring and seniority structure regulations, and an agreement on productivity.

Advance Transformer, PLE and CEL

Since there are no trade unions, there is no collective bargaining and working conditions are specified in individual contracts. The Internal Work Regulations (RIT) of these companies also contain clauses similar to those in the CBAs of the other companies. The important difference is that the RITs are not negotiated. There have not been any important disputes regarding labour conditions during the past five years.

Workers Committees

All six companies have various committees in which workers actively participate. In the case of PLE, the election process to participate in these committees is defined by the trade union without the company's intervention. Details for the other companies are not available. All companies, including those without a trade union, have at least the following three committees:

- Training Committee
- Profit Sharing Committee
- Health and Safety Committee

Some companies have also one or more committees for the following issues:

- | | |
|---|--|
| <input type="checkbox"/> CBA and wage negotiation | <input type="checkbox"/> Seniority structure and promotion |
| <input type="checkbox"/> Production work teams | <input type="checkbox"/> Sports and other activities |
| <input type="checkbox"/> Savings fund | <input type="checkbox"/> Workers' education |
| <input type="checkbox"/> Pension and retirement | |

Access to information

PCE provides the trade union with relevant information regarding different themes, such as production issues, company policies, and business results in a regular and timely fashion. The trade union claims that information requests are usually met, except for information on the company's budget, financial matters, product development or wages earned by the non-production workers. The company considers this information confidential.

Advance Transformer mainly communicates company information to workers through department meetings and workers committees. Workers stated that they are not informed in a timely, regular or relevant way. Their requests for information about the company's policies and

activities are attended, but data about the company's local, national or global development are not provided.

PLE affirms that it provides relevant and timely information to workers, although it recognises this is not done on a regular basis. The information refers to internal production issues, local company development, and global development of the company. Workers confirm that the information is generally provided.

Lumisistemas communicates company data through meetings, posters, pamphlets, and notice boards. The union affirms that company information is timely, regular and relevant, and addresses mainly local issues. Information requests are usually satisfied.

Lighting Monterrey, similar to PLE, recognises that relevant information is provided in a timely manner to the union and workers, but not on a regular basis. The information includes local issues as well as company developments at the global level. Union requests for information are usually satisfied.

CEL communicates company information to workers primarily through departmental meetings, posted notices and also individually distributed memorandums. The company provides information to the workers in a timely manner, although not on a regular basis, on local production issues as well as corporate developments at the global level. Information requests from workers are usually met.

4. Labour conditions

Child labour

- | | |
|--|---------------------|
| • ILO convention 138 (minimum age) | not ratified |
| • ILO convention 182 (worst forms of child labour) | ratified 30-06-2000 |
| • ILO convention 90 (night work of children) | ratified 20-06-1956 |

Articles 173 to 180 of the LFT prohibit the employment of children under 14 years of age. Within restrictions, children older than 15 are allowed to work. Restrictions include parental permission, prohibition of work at night and dangerous work, no more than 6 working hours a day, no overtime nor work on Sundays. Additionally, at least 18 days paid vacation a year, special protection and regular medical check-ups are mandatory.

PCE, Lumisistemas and Lighting Monterrey

All these Philips companies have a policy of not employing workers under 18, even though the CBA of PCE states 16 as the minimum age. Wal-Mart, PCE's main customer, demands that only workers over 18 are hired. No instances of child labour were reported.

Advance Transformer, PLE and CEL

These companies have a policy of not hiring workers under 18 and company information suggests this is adhered to. However, some workers reported that minors would be working in these companies, but did not offer precise information. At Advance Transformer, this would concern five minors working 9 hour shifts plus overtime, and at PLE some underage workers in

the dayshift also making overtime hours. At CEL, 34 workers between 16 and 18 years old were reported to work a 9-hour shift without overtime. This information was not confirmed via other sources, though.

Forced labour

- ILO convention 29 (forced labour) ratified 12-05-1934
- ILO convention 105 (forced labour) ratified 01-06-1959

Article 5 of the Mexican constitution prohibits forced labour, except for penalties imposed by the authorities.

All Philips companies

All six Philips companies prohibit the use of any form of forced or bonded labour. No evidence was found that it would occur at any of the companies.

Discrimination

Mexican legislation regarding discrimination is in accordance with all conventions, but, in reality, cultural and social practices limit the access of women to jobs that are better paid.

All Philips companies

All six Philips companies prohibit any form of discrimination with regard to, for example, gender, ethnic identity, religion, social origin, or political opinions. No evidence of discriminatory practices was found, although gender balances and treatment of women requires a closer analysis. In general, women are underrepresented in higher positions at most of the Philips companies. Advance Transformer is an exception with six female managers. Perhaps not by coincidence, Advance is also the only company that offered special opportunities for training and promotion to women. In 2005, 17 female workers and 3 male workers participated in extensive human development workshops to manage community issues. The event was sponsored by the International Labour Organisation (ILO) and the Mexican Ministry of Labour (STPS). Lighting Monterrey promotes certification and upward classification of female worker levels as an affirmative action.

At PCE, a few cases of supposed sexual harassment of supervisors towards subordinates were reported. In one case, an investigation by the company resulted in a preventive report, which avoided further problems. A second case led to the dismissal of the supervisor. A worker at Advance Transformer mentioned cases of women that had not been hired because they were pregnant, but no further documentation was available to confirm this allegation.

Wages

- Ratified ILO conventions: 26, 95, 99, 131

Wage in Mexico may not be less than the fixed minimum and the notion of a living wage is recognised in accordance with the ILO convention. However, in reality, purchasing power has declined by about 70 percent since 1980. Hence the current minimum wage for workers, 46.80 pesos a day (approximately €3.40) is not sufficient to maintain a family.

Due to the government policy of maintaining restraints on wages, they have consistently lagged behind inflation. In 2004, for example, predicted inflation rose from 3.0% to 4.0% and real inflation eventually reached a level of 5.18%, while the increases in minimum, industrial and services wages were 4.2%, 4.5% and 4.5% respectively. As a point of reference, average wages earned by workers assembling electronic goods in 2005 were 124-128 pesos per day, according to official information.

Overview

The following table presents the lowest daily basic wage paid by the six Philips companies, excluding bonuses. For four of the companies, the wage category occupied by most workers is also mentioned.

Table 1: Minimum and most frequent wages

	Minimum daily wage (pesos)	Minimum daily wage (€)	Mostly paid daily wage (pesos)	Mostly paid daily wage (€)
PCE	46.80	3.40	51-56	3.70-4.10
Advance Transformer	46.80	3.40	47-49	3.40-3.60
PLE	69	5.00	76	5.50
Lumisistemas	99 ¹⁾	7.20	.	.
Lighting Monterrey	100	7.20	.	.
CEL	48	3.50	48	3.50

¹⁾ This is the lowest daily wage actually paid; the lowest wage specified in the CBA is 72 pesos.

Note: Pesos to € converted at 13.80: 1.

Source: Philips Mexicana

Selected results from small surveys among workers receiving the lowest wages in four of the companies are presented in the next table. The survey investigated the economic situation of the respondents' households. Main questionnaire items included the presence of other income earners in the household, other work (self-employment) next to the job at Philips, whether the income from Philips was considered sufficient (based on total income rather than basic wage), and the presence of working children. Most respondents were in the age range 18-40. Occasionally minor workers were included too. The typical respondent has a household of 3-5 members with at least 2 people economically dependent on the worker's income. A minority of

surveyed workers constituted the main source of household income. A more detailed analysis per company is given below.

Table 2: Results from household survey (answers in percentages, rounded to 5%)

	N	Other income earners	Also self-employed	Income not sufficient	Children 14-16 working	Children 16-18 working
PCE	24	80	.	80	5	25
Advance Transformer	33	90	30	70	15	.
PLE	Not applied					
Lumisistemas	Not applied					
Lighting Monterrey	18	90	.	70	.	.
CEL	14	>50	15	35	.	35

Source: worker surveys

PCE

The lowest wage of the company is the official minimum wage. The management is of the opinion that the lowest and average wages are comparable to those of other companies, whereas the highest are more competitive. The unions consider wages to be high in general. However, semi-qualified workers earn at most 93 pesos (€6.70) per day, which is far below the industry average. Considering that workers receive bonuses and basic food allowances, and, if they meet the requirements, also receive punctuality and attendance bonuses, the highest daily wages they could receive is between 88 pesos (€ 6.40) for workers in the lowest category and 134 pesos (€9.70) for semi-qualified workers. The survey among workers in the lowest wage scale shows that most consider the minimum wage insufficient to cover basic household expenses.

Advance Transformer

The company claims that the wages it pays are the same as those paid by other local companies in the maquila sector. The workers, however, are of the opinion that their wages are low. A majority of the surveyed workers in the lowest wage scale considers the minimum wage insufficient to cover basic needs and five of them have children below age 16 working to supplement the household income.

PLE

The lowest wage at the El Águila ballast production plant is higher than at the Insurgentes Plant. The wage paid to new workers is the official minimum. The management argues, however, that as workers achieve higher classifications, wages increase compared to averages at similar companies in the area. Workers perceive that wage levels are low compared to other companies and insufficient to adequately cover the needs of a family. A survey among workers in the lowest wage scale was not applied.

Lumisistemas

The company and the union perceive that that wages are similar to or higher than those of other companies in the region or in the same industrial area. The lowest daily wage specified in the CBA is 72 pesos, but the lowest wage category actually occupied is 99 pesos per day, more than twice the minimum wage.

Lighting Monterrey

The company and trade union consider that wages are somewhat higher or at least equivalent to those of other companies in the same sector and region. Whereas the minimum wage is similar to Lumisistemas and considerably higher than the minimum of most common wages at the other four companies, a majority of surveyed workers in the lowest wage scale considers the wage to be insufficient. It is worth noting that most were women and half of them were the primary economic support for their families.

CEL

At CEL the lowest wage was 48.00 pesos per day, just above the official minimum. Although the company suggests that wages are at least equal to other companies in the region and manufacturing sector, this is not supported by the reference data. Most surveyed workers were also of the opinion that their wages are too low to cover basic expenses and five of them had working children below age 18, to supplement the household income.

Bonuses

An annual Christmas bonus of 15 days' wage paid for a complete working year is mandatory. Bonuses can be an important complement to regular wages in Mexico.

PCE

The following bonuses are mentioned in the CBA:

- ❑ Welcome bonus: 200 pesos (€14.50) upon joining the plant
- ❑ Second/third shift bonus: 35 pesos (€2.50) in proportion to the hours worked per week
- ❑ Perfect attendance bonus: 70 pesos (€5.10) per week
- ❑ Perfect punctuality bonus: 60 pesos (€4.30) per week
- ❑ Assistance bonus: 15-31 pesos (€1.10-2.20) per week for the lowest categories and 34-91 pesos (€4.50-6.60) for qualified and semi-qualified posts
- ❑ Annual attendance bonus: 25x daily wage
- ❑ Christmas (end-of-year) bonus: at least 15x daily wage
- ❑ Weekly food allowance: 138 pesos (€10) in basic food items

Furthermore, there is a monthly productivity bonus of 1.25%- 5% of a worker's wages, depending on individual, group or area efficiency, delivery of units, output quality and financial results. This bonus is also agreed with the union, who thus participates in implementing and granting it. When a worker is entitled to all of them, the bonuses might in theory double a daily minimum wage. On average, these benefits are 36% of the wage, which the company considers a good package.

Advance Transformer

Apart from the workers' fixed wages, Advance gives its workers additional payments in the form of bonuses for meeting punctuality and attendance records, as well as for achieving the work productivity goals. Bonuses might represent a 20%-47% increase in the workers' total weekly income in cash.

PLE

Workers may receive additional income through an attendance bonus of 45 pesos (€3.30) per week subject to perfect attendance and completion of full working hours. They also receive weekly vouchers equivalent to 100 pesos (€7.20) for groceries and other basic purchases.

Lumisistemas

An agreement between the union and the management determines the attendance bonus, ranging between 63 pesos (€4.60) and 105 pesos (€7.60) per month.

Lighting Monterrey

The company pays a weekly cash bonus for attendance and punctuality and a monthly bonus for productivity or performance. These bonuses are established in agreement with the union, but the union does not participate in their allocation. An agreement also exists for a productivity bonus, which is allocated through a performance measurement system connected to monthly performance of each production line within their respective units. After having levelled off negative results, and based on each line's scores, workers obtain dividends ranging from 0 to 20% of their monthly wage.

CEL

The company has weekly and monthly bonuses for achievement of punctuality and attendance records, productivity, skills and certification. Data on individual bonuses were not available, but together they can raise the minimum wage by up to 19%. For higher wages, potential bonuses constitute a larger proportion of the total remuneration.

Profit sharing

The Federal Labour Law contains provisions on profit sharing. The National Commission sets a percentage for profit sharing of taxed enterprise profits. One part of this sum must be divided equally among all employees, taking into account the number of days worked, and the remainder is divided in proportion to wages.

All Philips companies

All companies except Lighting Monterrey made profits during the past five years and implemented profit sharing through a joint profit sharing committee. The necessary financial information about company performance is usually made available to workers. For PLE, the payments amounted to

a substantial 1,200-1,500 pesos (€85-110). At Lumisistemas, while production was downsized, there has been a sharp increase in profit sharing in 2005 compared to earlier years.

Working hours

- ILO conventions: 30, 52, and 14: ratified

The Federal Labour Law specifies that working between 6:00 and 20:00 hours falls under the day shift. Work that is done for up to 3.5 hours outside this time period is defined as mixed, while work that last more than 3.5 hours between 20:00 and 6:00 is a night shift. The maximum working day consists of 8 hours for the day shift, 7.5 for mixed shifts and 7 for night shifts with at least half an hour break per shift.

All Philips companies

Working hours and shift schedules differ slightly between the Philips companies:

- ❑ Day shift (all companies): 45-48 hours per week. Examples of working schedules are 5 days of 9 hours (PCE) and 6 days of 8 hours (Lighting Monterrey) per week.
- ❑ Mixed shift (all companies except Lighting Monterrey): 40-45 hours per week.
- ❑ Night or flexible shift (all companies except PLE and Lighting Monterrey): 27-42 hours per week.

At Advance Transformer workers claim that maximum working hours are not always respected.

Overtime is a normal practice and is higher during times of peak demand. At PCE and CEL, average overtime during peak production is approximately 10% of total hours worked. At other the companies it is much lower. There are no indications that overtime leads to an increase in workplace accidents.

Workers are generally informed about overtime requirements one to three days in advance. At Lumisistemas, a weekly calendar is posted allowing workers to plan participation in overtime shifts. The CBAs of PCE and Lumisistemas and Internal Work Regulations (RIT) of Advance Transformer establish that workers must accept overtime requests when necessary. In practice, workers of PCE and Advance Transformer are nonetheless allowed to refuse. The union of Lumisistemas, on the other hand, indicates that overtime is compulsory. In accordance with the labour law, overtime is paid double and this makes overtime attractive for workers to gain additional income. Therefore overtime is usually accepted or even welcomed.

Social security

- ILO convention 102 (minimal social security) ratified 12-10-1961
- ILO conventions 42, 17, 19 ratified

The Mexican Social Security Law states that a public institute, financed by employees, employers, the state or a combination of these, has to provide assistance to employees or their families in the case of working accidents or social calamities. This includes health care and medical assistance, social security and pensions to cover working risks, disease, maternity,

disability and retirement. The public institute that implements this law is the decentralised Mexican Institute of Social Security (IMSS). The Federal Law of Workers in Service of the State also deals with these issues. For pensions there exists also a Savings System for Retirement.

All Philips companies

The permanent and temporary workers of all six Philips companies are registered at the IMSS and are entitled to the corresponding social security schemes. PCE has a broader and more complex agreement with regard to benefits and social security that includes life insurance, a savings fund, and scholarships of 1,000 pesos (€72) per year for studying children.

Health and safety

- | | |
|---|---------------------|
| ▪ ILO convention 148 (environmental conditions) | not ratified |
| ▪ ILO convention 155 (safety and health) | ratified 01-02-1984 |
| ▪ ILO convention 161 (health services) | ratified 17-02-1987 |
| ▪ ILO convention 170 (chemical products) | ratified 17-09-1992 |
| ▪ ILO convention 174 (prevention of industrial accidents) | not ratified |
| ▪ ILO convention 12 | ratified |

Employers have to follow the orders of the authorities concerning the adjustment of their installations. In practice, protective measures depend to some extent on an enterprise's economic capacity and level of development. The Mexican Labour Law states that employees have the right to training provided by their employers.

All Philips companies

Site visits at PCE, Advance Transformer and PLE confirmed that these companies have all basic health and safety provisions, such as availability of drinking water, toilets, fire extinguishers, first aid kits, and adequate ventilation. PCE, PLE, Lumisistemas and Lighting Monterrey provide various forms of training in occupational safety and accident prevention. Data on this issue for the other two companies was not available.

PCE also organised other health activities such as vaccination campaigns and noted that its health and safety measures are subject to audits by Wal-Mart, its main customer. At PLE Recent environmental and safety improvements include the replacement of dangerous substances such as alcohol and thinner with other less aggressive substances.

The most common types of working accidents in the Philips companies were crushed fingers, contusions, and minor injuries such as cuts and burns. Commuting accidents and broken bones were also mentioned. The highest number of work-related accidents per year was reported by Advance Transformer. During 2005, 26 accidents occurred resulting in 257 lost working days on a total of almost 2400 employees.

5. Reorganisations, outsourcing, and work flexibility

Reorganisations and relocation

The Federal Labour Law specifies that in case of collective lay-offs, severance pay will be at least three months of wage.

PCE

The company has substantially reduced its production since the 1990s and the number of permanent production workers decreased from almost 1,500 in 2002 to less than 1,000 in 2005. The company informed workers and the trade union about the reorganisations. On some occasions this happened months or even a year in advance, on other occasions less than a month notice was given. Some workers were relocated to other Philips plants and outplacement courses were offered to administrative workers. They received severance payments in accordance with the law.

Lumisistemas

After the most manufacturing operations were closed down, the number of production workers was gradually decreased from over 650 in 2002 to less than 50 in 2005. The management informed the trade union and workers through a meeting with union representatives and informal meetings with workers. On one occasion, when more than 200 workers were laid off, authorities from the Ministry of Labour were present during the announcement. Apart from legally required severance payments, compensation packages included retirement plans with additional benefits and job-seeking advice was offered to dismissed employees.

Subcontracting²

All six Philips companies currently subcontract on-site catering and cleaning services to external service providers. Some of the companies subcontract advisory services, transport, waste collection, research and development, or temporary administrative posts. The CBA of PCE explicitly recognises the right of the company to subcontract certain services. In the past two years, reduced demand for subcontracted services by PLE led to the dismissal of subcontractor employees. They received severance payments in accordance with the law.

² Subcontracting is understood as the engagement with another company for the supply of services or products. Outsourcing is understood as the assignment of certain functions that were previously performed by the contracting company to an external agent.

Outsourcing

PCE outsourced the production of TV chassis to another company in Mexico. The outsourcing agreement allows a certain degree of flexibility with regard to order placement, but requires just-in-time delivery of the component and fines apply in case of late delivery. The union recognises that the outsourcing strategy constitutes a compromise between the union and the management.

Advance Transformer recently transferred security and cleaning services to external service providers in order to save costs. The company dismissed its own workers previously employed in these areas. In some cases, former workers were re-hired.

Lighting Monterrey outsourced the department of varnishing and painting of exterior lamps and the packaging of finished products. The outsourcing of activities reportedly did not affect employment or the position of the union.

Work Flexibility

The CBAs and Internal Work Regulations of the Philips companies specify various forms of flexibility in employment. They are briefly explained below:

- ❑ Flexibility in working days, shifts, and working hours (see also section on working hours). This is regularly applied;
- ❑ Use of temporary employees (see next section);
- ❑ Suspension of work with payment of 50% of wages and bonuses (PCE). This is appreciated by the union as a way to stabilise employment;
- ❑ The use of piecework and hourly-based employment (PLE and Lighting Monterrey). It is not clear whether this is also applied in practice;
- ❑ Job rotation and transfers between departments and plants (all companies). This is supported by multi-skilled training, which has a positive effect on personal development of the workers. The original wages and classifications of workers are respected in case of transfers.

Temporary workers

All Philips companies use temporary workers in periods of peak production. They receive the same wages and benefits as permanent workers, but are usually hired in the lower wage scales.

PCE had 442 temporary workers at the end of 2005 and used up to 785 temporary workers on one occasion of peak demand. They are employed for one to six months and may get a permanent contract afterwards. The management stated that the use of temporary workers did not have an impact on job security and the average income level. However, the union perceived that their presence generates uncertainty for workers.

Advance Transformer hires temporary workers to enable greater flexibility as well, thus over time replacing permanent workers that used to carry out the same tasks. Temporary workers are hired for one to two months and may get no more than two temporary contracts. Most of them eventually become permanent workers.

PLE does not have any temporary workers at present and uses them occasionally. They are always hired in the lowest wage scale and sometimes become permanent workers after three months.

Lumisistemas used to hire temporary workers with an average contract duration of approximately three months before most manufacturing operations were closed down.

Lighting Monterrey uses temporary workers during specific periods of the year and, according to the union, to enhance flexibility. On one occasion, 200 temporary workers were hired for 90 days. When they achieve certification of their skills level, they frequently obtain a permanent contract.

CEL had 124 temporary workers compared to 323 permanent production workers at the time of the research, but this number varies during the year. In July 2005, for example, there had been 145 temporary workers, but this had dropped to 85 in October before rising again to 124. Although the management stated that temporary contracts had not affected job security, the decrease of permanent employment alongside the increase of temporary employment is evident.

6. Conclusions

It is a sign of openness that Philips Mexico collaborated in this second research on the company in the context of the FNV Company Monitor. In general, the six investigated Philips companies comply with international basic labour norms, national labour legislation, and labour standards in the corporation's General Business Principles. Furthermore, all companies offer sound bonuses and benefits, social security arrangements and health and safety measures. A few more critical issues are outlined below. These are largely similar to the issues identified for two of the current companies in the 2002-2003 study, suggesting that improvements in labour relations have been limited.

In some companies, employees were not familiar with Philips' General Business Principles. Hence, the global implementation of Corporate Social Responsibility (CSR) instruments is still not complete. Furthermore, several companies explicitly refused to assume responsibility for labour conditions at supplier and subcontractor companies. This seems at odds with Philips' corporate policies. The contrast between the frequent on-site visits to suppliers to inspect compliance with quality requirements, and the lack of monitoring on labour conditions at the same suppliers is also remarkable.

Labour relations are a responsibility of the local management and strongly differ among the six Philips companies. PCE, Lumisistemas and Lighting Monterrey have local trade unions each affiliated to a different federation or confederation. There have been no conflicts between the unions and the managements, although the low participation of workers in union affairs continues to be a problem in some cases. All trade unions have adequate access to information about local strategies and performance, but this is not the case for information about regional or global developments. Advance Transformer, PLE and CEL do not have unions. Although there are no indications that workers would not be completely free to organise themselves, the lack of unions in these three large companies is a point that requires attention. There is no exchange of

information between the local unions or workers, let alone discussions or negotiations between workers' representatives and the management at the national level. As a consequence, labour conditions differ considerably among the six companies.

Although Philips has a policy of not hiring workers under 18, several underage workers would reportedly be employed by Advance Transformer, PEL and CEL, the three companies without unions. Some of them would make overtime hours as well, which is not allowed under national legislation. The matter could not be fully confirmed though, and might require further investigation.

No cases of discrimination were reported. At most companies, women are underrepresented at higher levels and the management has not taken active steps to address this. Advance Transformer stands out as an exception, with special training and promotion opportunities for women and six female managers working there currently.

Wage disparities between the companies are large: Advance Transformer and CEL have many workers earning the official minimum wage, whereas the lowest paid production workers at Lumisistemas and Lighting Monterrey earn more than twice the minimum wage. The average wage in the electronics industry in Mexico is almost three times the minimum wage and a survey among workers confirmed that the lowest wages are insufficient to cover basic expenses. As a consequence, some Philips employees are also self-employed or have working children under 16 to supplement the household's income.

Reorganisations and flexibility in employment continue to be a source of concern. At PCE, production has finally stabilised after years of downsizing and the company's commitment to protect job security is reflected in complex and diverse employment mechanisms, such as the option to suspend operations while continuing employment and 50% of wage payments. The operations of Lumisistemas have also been severely reduced, but severance payments were observed and additional assistance was provided to dismissed workers.

Overall, there is a trend towards increased flexibility. This involves flexible working hours and overtime, which at PCE and CEL reaches high levels during peak production. In some cases, overtime can even be compulsory and although this seems not to give problems in practice, the issue might require further attention. The use of temporary employees is also growing further, which has a negative effect on job security and potentially on average wage classifications. Finally, some companies have also increased the outsourcing of services and manufacturing activities to other companies. While responsibilities for labour conditions at subcontractors are not recognised, this remains a critical issue.