

# **Philips Electronics**

**Overview of controversial  
business practices in 2007**

**Francis Weyzig & Irene Schipper**

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## Introduction

This company report has been prepared by SOMO (Centre for Research on Multinational Corporations). It provides an overview of business practices that could be regarded as unsustainable or irresponsible which occurred (or might have been addressed) in 2007. In addition, it describes developments on some of the issues identified in a similar overview for 2006.

The overview below describes only controversial practices and not the positive achievements of a company in the same year, except for positive developments related to some of the practices from last year's overview. Information on positive achievements can usually be found in a company's annual and/or sustainability report and on the company's website. The purpose of this report is to provide additional information to shareholders and other stakeholders of a company on controversies that might or might not be detected and reported by the company itself.

This report does not contain an analysis of a company's corporate responsibility policies, operational aspects of corporate responsibility management, implementation systems, reporting and transparency, or total performance on any issue. For some controversies, it is indicated which standards or policies may have been violated and a brief analysis is presented. Apart from this, the report is mainly descriptive.

The range of sustainability and corporate responsibility issues eligible for inclusion in this overview is relatively broad and mainly based on the OECD Guidelines for Multinational Enterprises. These Guidelines are used as a general frame of reference in addition to the company-specific standards.

Sources of information are mentioned in footnotes throughout the report. The main sources were obtained through SOMO's global network of civil society organisations, including reports, other documents, and unpublished information. Media and company information databases and information available via the Internet are used as secondary sources where necessary. Philips has been informed about the research project in advance and was given two weeks to review the report and provide corrections of any factual errors in the draft version. SOMO did not contact suppliers of Philips directly, but one of the suppliers, Sanmina SCI, indicated to Cereal, a partner organisation of SOMO, that it accepts the information on which the relevant section in this report is based.

The overview of controversial practices in this report is not intended to be exhaustive. Instead, it focuses on a limited number of issues and cases that might merit further attention or reflection. Where information about the latest developments, either positive or negative, was unavailable, it is possible that situations described in the overview have recently changed. Taking into account these limitations, SOMO believes that the report can be used for improvement and for a more informed assessment of a company's corporate responsibility performance.

For more information, please contact SOMO:

SOMO (Centre for Research on Multinational Corporations)  
Sarphatistraat 30  
1018 GL Amsterdam  
The Netherlands

Tel. +31 (0)20 6391291      e-mail: [info@somo.nl](mailto:info@somo.nl)  
Fax +31 (0)20 6391391      website: [www.somo.nl](http://www.somo.nl)

## Developments on previously decried issues

### Labour rights violations at Jabil Circuit de Chihuahua, Mexico

#### Background

In 2006, various problems in labour conditions were identified at a plant of Jabil Circuit in Chihuahua, Mexico. At the time, Philips was one of the two principal customers of Jabil Circuit, next to HP. In total, some 1,000 employees worked on production lines for Philips. The labour problems were described in last year's overview and concerned intoxication of workers, other health problems, a prohibition to organise, and excessive wage deductions.<sup>1</sup>

In 2007, Philips noted the following with regard to its relationship with Jabil Circuit:

*'Philips has carried out several audits at Jabil's premises, and has structural discussions with Jabil management on improving their sustainability performance and resolution of any non compliances found against the Supplier Sustainability Declaration. (...) this report will be made part of the discussions.'*<sup>2</sup>

At the shareholders meeting of Philips Electronics on 27 March 2007, Mr. Kleisterlee, the CEO, announced that one Mexican supplier would take measures immediately and a second Mexican supplier had agreed on an improvement plan.<sup>3</sup> It was not mentioned which of the two actions referred to Jabil Circuits. After the general meeting of shareholders, but still during the first half of 2007, the supplier relationship between Jabil Chihuahua and Philips was ended for commercial reasons, unrelated to developments regarding working conditions.<sup>4</sup>

One individual case of alleged harm due to inappropriate working conditions remains unaddressed, however, and as Philips could still play a constructive role in it, this case is described below. Philips notes, however, that further evidence would be required, because *'(...) as a result of last year's review, the Company [i.e. Philips] has received no indications supporting these allegations.'*<sup>5</sup>

#### No permission to leave the plant and seek medical assistance

In September 2005, a female employee asked her supervisor to move her to another production line when she found out that she was pregnant. According to the Mexican organisation Cereal, which aims to improve working conditions in the electronics industry and provides support to workers, she was working on a production line for television components with solder containing lead and tin. The protective gear provided for this type of work consisted of gloves and safety glasses.<sup>6</sup> According to Philips, the product involved concerns a lead free process.<sup>7</sup> The supervisor refused her request.

On 17 November, being three months pregnant, she arrived to her work not feeling well and noticed that she was bleeding, but she did not get permission to leave until nine hours later. After

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<sup>1</sup> A copy of the relevant section is included in E. van Weperen, CSR voting advice: Discharge of executive board members, Aug 2007, <[http://www.vbdo.nl/files/download/76/CSR\\_voting\\_advice.pdf](http://www.vbdo.nl/files/download/76/CSR_voting_advice.pdf)> (accessed Feb 2008), p. 32-36.

<sup>2</sup> Philips, comments on draft overview, 15 Mar 2007.

<sup>3</sup> E. van Weperen, CSR voting advice: Discharge of executive board members, Aug 2007, <[http://www.vbdo.nl/files/download/76/CSR\\_voting\\_advice.pdf](http://www.vbdo.nl/files/download/76/CSR_voting_advice.pdf)> (accessed Feb 2008), p. 11-12.

<sup>4</sup> E-mail correspondence between SOMO and Cereal, Feb 2008.

<sup>5</sup> Philips, comments on draft overview, 15 Mar 2007.

<sup>6</sup> E-mail correspondence between SOMO and Cereal, 18 Mar 2008.

<sup>7</sup> Philips, comments on draft overview, 17 Mar 2008.

she left the plant, she was admitted to the hospital. The baby had not grown properly and she had a miscarriage.<sup>8</sup>

After the miscarriage, the employee did not receive any economic, psychological or medical assistance from Jabil or Philips. In July 2007, Cereal contacted the Electronics Industry Code of Conduct (EICC) group, of which Jabil is a member, and had discussed the issue with Philips at an EICC meeting in Guadalajara, as the incident according to Cereal happened on a line producing for Philips, for them reason to involve the “Brand”. Philips further explains: *‘Even though the Philips product involved concerns a lead free process, Philips has re-addressed this issue with Jabil to verify the situation leading to the conclusion as set out above.’*<sup>9</sup> The employee of Jabil Circuit resigned in October 2007 without having received any help or compensation from the company.<sup>10</sup>

## Labour rights violations at Sanmina SCI Systems de México

### Background

In 2006, various problems in labour conditions were identified at Sanmina SCI Systems de México, an electronics manufacturer with five plants in Guadalajara with a total of more than 10,000 employees. Worldwide, Philips is one of the 15 top customers of Sanmina SCI.<sup>11</sup> Although it may not be the principal customer of Sanmina SCI in Guadalajara, it is known that at least one of the plants produces for Philips.<sup>12</sup>

The labour problems at Sanmina SCI in Mexico in general were described in last year’s overview and concerned repeated temporary contracts for plant workers, a so-called *phantom* trade union, recruitment discrimination, and excessive wages deductions.<sup>13</sup> These findings were communicated to Philips in February 2007. Philips noted the following:

*‘Philips has carried out several audits at their premises, and has structural discussions with Sanmina on their sustainability performance as well, also in EICC context. (...) this report will be made part of the discussions.’*<sup>14</sup>

As explained above, at the shareholders meeting of Philips Electronics on 27 March 2007, it was announced that Sanmina SCI would take measures immediately or had agreed on an improvement plan.<sup>15</sup> In 2007, Philips continued to purchase from Sanmina SCI.<sup>16</sup> Developments on each of the labour issues identified last year and on one new issue are presented below.

### Repeated temporary contracts

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<sup>8</sup> E-mail correspondence between SOMO and Cereal, 18 Mar 2008.

<sup>9</sup> Philips, comments on draft overview, 17 Mar 2008.

<sup>10</sup> E-mail correspondence between SOMO and Cereal, Feb 2008.

<sup>11</sup> Sanmina SCI, Prospectus, 2006, <[http://www.shareholder.com/sanm/downloads/Sanmina-SCI\\_Prospectus2006.pdf](http://www.shareholder.com/sanm/downloads/Sanmina-SCI_Prospectus2006.pdf)>; Sanmina-SCI Corporation, Form 10-K, 2005, <[http://yahoo.brand.edgar-online.com/EFX\\_dll/EDGARpro.dll?FetchFilingHTML1?SessionID=9f81f2b12EMBC8Z&ID=4098040](http://yahoo.brand.edgar-online.com/EFX_dll/EDGARpro.dll?FetchFilingHTML1?SessionID=9f81f2b12EMBC8Z&ID=4098040)> (accessed Feb 2007).

<sup>12</sup> E-mail correspondence between SOMO and Cereal, Feb 2007.

<sup>13</sup> A copy of the relevant section is included in E. van Weperen, CSR voting advice: Discharge of executive board members, Aug 2007, <[http://www.vbdo.nl/files/download/76/CSR\\_voting\\_advice.pdf](http://www.vbdo.nl/files/download/76/CSR_voting_advice.pdf)> (accessed Feb 2008), p. 32-36.

<sup>14</sup> Philips, comments on draft overview, 15 Mar 2007.

<sup>15</sup> E. van Weperen, CSR voting advice: Discharge of executive board members, Aug 2007, <[http://www.vbdo.nl/files/download/76/CSR\\_voting\\_advice.pdf](http://www.vbdo.nl/files/download/76/CSR_voting_advice.pdf)> (accessed Feb 2008), p. 11-12.

<sup>16</sup> Sanmina-SCI Corp, Form 10-K for the Period Ending 29 Sep 2007, <<http://www.shareholder.com/Common/Edgar/897723/1047469-07-9573/07-00.pdf>> (accessed Feb 2008), Exhibit 10.59 p. 3.

In some plants, Sanmina SCI employed workers for several years on series of temporary contracts. This is a common practice in the electronics industry in Mexico but is illegal under Mexican law. In practice, it increases job insecurity, rights to vacation days, and rights to compensation in case of dismissal. Sanmina SCI responded that it would sever links with some employment agencies and implement a plan to reduce the number of subcontracted employees to 60% in 2007.<sup>17</sup>

As of July 2007, the number of temporary employees has fallen to 48% (6,400) of the total workforce and repeated temporary contracts have been abandoned. However, one of the employment agencies to which Sanmina SCI outsources the recruitment and contracting of temporary plant workers is forcing workers to sign voluntary resignation letters from time to time. This has the same detrimental effect on job security and rights to compensation in case of dismissal as repeated temporary contracts.

Cereal discussed the problem with a representative of Sanmina SCI. The company responded:

*'Sanmina SCI's HR staff has had several meetings with all of our [employment] Agencies. In these meetings, we have discussed "best practices" in managing outsourced labor. (...) Finally, we are investigating CEREAL's claim that our agencies have the unfair practice of asking employees to sign an advanced resignation notice.'*<sup>18</sup>

### **Phantom trade union**

Sanmina SCI has a so-called *phantom union*, which collaborates with the management. While the union had not disclosed its existence to the workers themselves, all plant workers are automatically affiliated to it.<sup>19</sup> Although such practices are relatively common in Mexico,<sup>20</sup> they violate core conventions of the International Labour Organisation (ILO) and the OECD Guidelines for Multinational Enterprises. In 2007, this situation had not changed.<sup>21</sup> Additional information about this specific problem is available from the SOMO website.<sup>22</sup>

### **Recruitment discrimination**

In the past, there have been indications of discriminatory practices during recruitment by employment agents for jobs at Sanmina SCI. Cereal therefore called for better monitoring of employment agents.<sup>23</sup> Although it is not clear to what extent better monitoring has been implemented, no new cases of discriminatory practices have been reported for 2007.<sup>24</sup>

### **Excessive wage deductions**

From the workers' point of view, Sanmina SCI makes excessive wage deductions for punctuality failures. In 2006, the deduction for a missed working day was 200 pesos (€12.40), compared to

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<sup>17</sup> Cereal, New technology Workers: Report on Working Conditions in the Mexican Electronics Industry, 2006, <[http://www.imfmetal.org/main/files/06071816152666/Cereal\\_electronics\\_report.pdf](http://www.imfmetal.org/main/files/06071816152666/Cereal_electronics_report.pdf)> (accessed Feb 2007), p. 18-21.

<sup>18</sup> Cereal, Electronics multinationals and labour rights in Mexico, Oct 2007, <<http://www.business-humanrights.org/Documents/Cereal-Report-English-Oct-2007.pdf>> (accessed Feb 2008), p. 30.

<sup>19</sup> Cereal, New technology Workers: Report on Working Conditions in the Mexican Electronics Industry, 2006, p. 42.

<sup>20</sup> See e.g. SOMO, Philips Mexicana – Summary report, 2006, <<http://www.fnvcompanymonitor.nl/images/stories/publications/PhilipsMexicosummaryreport.pdf>> (accessed Jul 2007), p. 8-11.

<sup>21</sup> E-mail correspondence between SOMO and Cereal, Feb 2008. See also the additional information about this specific on the SOMO website, <[http://somo.nl/publications-en/Publication\\_2476](http://somo.nl/publications-en/Publication_2476)> (available as of Jul 2008).

<sup>22</sup> See <[http://somo.nl/publications-en/Publication\\_2476](http://somo.nl/publications-en/Publication_2476)> (available as of Jul 2008).

<sup>23</sup> A copy of the relevant section is included in E. van Weperen, CSR voting advice: Discharge of executive board members, Aug 2007, <[http://www.vbdo.nl/files/download/76/CSR\\_voting\\_advice.pdf](http://www.vbdo.nl/files/download/76/CSR_voting_advice.pdf)> (accessed Feb 2008), p. 32-36.

<sup>24</sup> E-mail correspondence between SOMO and Cereal, Feb 2008.

average earnings of 90 pesos (€5.60) per day.<sup>25</sup> In 2007, the system of wage deductions at Sanmina SCI was not changed.<sup>26</sup> Companies generally argue that this is legally allowed.

### **Health, safety and sexual harassment**

In 2006 and 2007, there were several cases of health and safety problems and sexual harassment at Sanmina SCI in Guadalajara. A pregnant woman was not allowed to sit down and was dismissed after two days of sick leave, for example, and worker that started working without any training lost both hands during a machine accident. A female employee was harassed by a supervisor, who demanded that she had sex with him and threatened to fire her sister. After the HR manager refused to intervene, the women resigned. These cases were later successfully resolved. Sanmina SCI provided the best treatment and prosthesis available to the worker that lost her hands, and the woman that was harassed was re-hired and her supervisor fired. However, these cases suggest that internal prevention measures and complaint mechanisms are insufficient.<sup>27</sup>

### **Context: positive response to individual cases**

To put the information into context, it should be noted that Sanmina SCI has generally responded to individual cases of workers' problems, raised by the Mexican organisation Cereal, in a satisfactory manner. Cereal therefore concluded: *'Taking into account the treatment given to the individual cases, Sanmina SCI was the CM [contract manufacturing] company which showed the best level of response [out of all CM companies covered in Cereal's research report]. Considering the outcome of these cases, Sanmina was also the CM company that best kept to the commitments agreed between Canieti [the National Chamber of the Electronics, Telecommunications and Informatics Industry] and Cereal. The only area in which Sanmina SCI needs to improve is in the implementation of more efficient policies to prevent the occurrence of new cases.'*<sup>28</sup>

## **New issues**

### **Application of General Business Principle Directive 9.2 on overtime**

In 2007, Philips Medical Systems wanted to introduce a contractual obligation for customer service engineers in the UK to undertake a specified quantity of overtime at weekends for planned maintenance and to be available for standby cover according to a rotational system.<sup>29</sup> According to Philips, *'This change was a result of the changing market environment in the UK and Ireland, where more customers were asking for extended hours of work and support. (...) Extended support was already in place (via standby) for the MES in Belfast and also a PFI in New Cross. This cover was currently covered on a voluntary basis, which, with the changes in the market, the Company could no longer sustain (i.e. having contractual commitments covered by voluntary arrangements). Siemens already had this capacity and a number of other competitors were also going through a similar change (Toshiba, GE).'*<sup>30</sup>

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<sup>25</sup> Cereal, New technology Workers: Report on Working Conditions in the Mexican Electronics Industry, 2006, p. 38; e-mail correspondence between SOMO and Cereal, Feb 2007.

<sup>26</sup> E-mail correspondence between SOMO and Cereal, Feb 2008.

<sup>27</sup> Cereal, Electronics multinationals and labour rights in Mexico, Oct 2007, p. 38, 43-45, 55-56; e-mail correspondence between SOMO and Cereal.

<sup>28</sup> Cereal, Electronics multinationals and labour rights in Mexico, Oct 2007, <<http://www.business-humanrights.org/Documents/Cereal-Report-English-Oct-2007.pdf>> (accessed Feb 2008), p. 79.

<sup>29</sup> Philips Medical Systems, Letter to affected employees, 24 May 2007.

<sup>30</sup> Philips, comments on draft report, 17 Mar 2008.

Philips sent a letter to affected employees on 26 February 2007 explaining the need for overtime at weekends and announcing that the company had commenced formal consultation 'with elected representatives'.<sup>31</sup> Two weeks later, Philips filed an advance notification for up to 224 forced dismissals from September to December 2007 to meet legal requirements applying to more than 100 redundancies at one establishment.<sup>32</sup> The formal group consultation consisted of meetings with an extraordinary forum. Philips explains: *'[The forum] consisted of elected engineers and other newly elected representatives that were affected by this process. This process was followed, in line with UK employment law, and after external employment legal advice was sought. The Company consulted with the elected representatives and also individually formally from February 2007 through to September 2007. This was further to it being discussed informally since September 2006. Throughout the consultation process, a number of changes were made to the payments, amount of weekend working and level of standby cover, to ensure that there was an appropriate balance between Company requirements and employee needs.'*<sup>33</sup> However, the company insisted on termination of employment in case an employee would not to sign the new contract. Philips clarified that the forum was not a negotiating forum and the company was not required to negotiate a collective agreement.<sup>34</sup>

After this, at the end of April, a Philips employee made a complaint through the Ethics Line, alleging that Philips' General Business Principle (GBP) Directive 9.2 had been breached. This paragraph of the GBP Directive, which forms an integral part of Philips' General Business Principles, includes the following commitment:

*'Overtime work shall be voluntary, unless agreed in a collective labor agreement or union contract, or, in emergency or exceptional circumstances, to meet short-term business demand.'*<sup>35</sup>

According to the Amicus section of Unite the Union, the UK's largest trade union, Amicus asked for recognition by Philips Medical Systems as collective bargaining partner during the above-mentioned consultation period. This would have allowed Philips to introduce overtime requirements in a manner fully consistent with the GBP Directive. Amicus notes that in the UK system, a company has the option to voluntarily agree to engage in negotiations, but Philips would have refused this.<sup>36</sup>

In reaction, Philips states: *'There was no collective agreement in place with a recognized Trade Union, therefore the Company could not negotiate with a Trade Union to bring about this change. Furthermore at the start of this consultation process, union member[ship] was approximately less than 10% of the affected employees.'* According to the trade union, the figure is incorrect, because it covers only those members paying union subscriptions through deduction from salary, but most members would be on a direct debit and could therefore not be identified by the company.<sup>37</sup>

Philips further explains: *'The Company did have discussions with an appropriate Trade Union throughout this process. The Company had made it clear from the outset that if there was enough support for union recognition that the Company would consider this, however they were unwilling to*

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<sup>31</sup> Philips Medical Systems, Letter to affected employees, 24 May 2007.

<sup>32</sup> Philips Medical Systems, Advance notification of redundancies, 12 Mar 2007.

<sup>33</sup> Philips, comments on draft report, 17 Mar 2008.

<sup>34</sup> Philips Medical Systems, Minutes of customer service extraordinary consultation meeting 3 on 25 Apr 2007.

<sup>35</sup> Philips, GBP Directives, Jan 2007, <<http://www.philips.com/about/investor/businessprinciples/generalbusinessprinciples/gbpdirectives/index.page>> (accessed Feb 2008).

<sup>36</sup> E-mail correspondence between SOMO and Unite the Union, Feb 2008.

<sup>37</sup> E-mail correspondence between SOMO and Unite the Union, 18 Mar 2008.

*declare levels of membership or proof of the desire for recognition with the Company's employees. Furthermore, the Company was already along way down the correct employment law process in the absence of a trade union to change our approach.*<sup>38</sup> Amicus provided the following response: *'We did not refuse to provide evidence of membership, as we told the company that they would be shown the evidence during the recognition process.'*<sup>39</sup>

In order to obtain recognition as collective bargaining partner, Amicus then had to follow a statutory process, which requires it to demonstrate more than 50% membership in the relevant bargaining unit or obtain support from a majority of the workforce in a formal ballot. Although union membership increased substantially as a consequences of the introduction of overtime requirements, Amicus has not yet succeeded in its claim for recognition.<sup>40</sup> According to Philips, Amicus did put in a formally request in September 2007, but this did not follow the correct statutory process and was rejected by the Central Arbitration Committee.<sup>41</sup> According to the trade union, though, the application was not rejected but voluntarily withdrawn.<sup>42</sup> Philips notes: *'Since then they have not put in another request or contacted the Company to discuss recognition.'*<sup>43</sup>

A period of individual consultation started on 4 June 2007.<sup>44</sup> Later in June, the person handling the complaint to the Ethics Line judged that technically the GBP had been breached, because overtime was not introduced voluntarily or through a collective labour agreement. In addition, she considered the overtime requirement of five weekend days per year was not particularly onerous and that there was a compelling business need for the requirement. The complainant had suggested that the changes should have been negotiated with Amicus instead of consulting a representation of engineers without formal bargaining power. This argument was dismissed, though, because there was no collective agreement in place and Philips would therefore not be able to introduce the changes in a collective manner. It was concluded that the process of introducing overtime in individual contracts had been reasonable given the circumstances. Philips adds: *'There was also a recommendation made that the wording of the GBP was reviewed, as it was very generic, yet in this case the correct employment process had been followed.'*<sup>45</sup>

In September 2007, employees that had not signed the new contract were invited to a formal hearing. If they would still not agree, their contract could be terminated and re-employment would then be offered on the new terms.<sup>46</sup> Also in September, after having reviewed the process and the contents of the Ethics Line complaint, the Chairman of the GBP Review Committee concluded that the initial complaint had been dealt with properly. Furthermore, he reiterated that although technically there may be a breach of paragraph 9.2 of the GBP Directives, *'neither the intent nor the spirit of the General Business Principles has been contravened. (...) therefore (...) there has not been a violation of the General Business Principles in this matter.'*<sup>47</sup>

Although many engineers were opposed to the changes, they all signed the new contract and no employees were dismissed in the end.<sup>48</sup>

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<sup>38</sup> Philips, comments on draft report, 17 Mar 2008.

<sup>39</sup> E-mail correspondence between SOMO and Unite the Union, 18 Mar 2008.

<sup>40</sup> E-mail correspondence between SOMO and Unite the Union, Feb 2008.

<sup>41</sup> Philips, comments on draft report, 17 Mar 2008.

<sup>42</sup> E-mail correspondence between SOMO and Unite the Union, 18 Mar 2008.

<sup>43</sup> Philips, comments on draft report, 17 Mar 2008.

<sup>44</sup> Philips Medical Systems, Letter to affected employees, 24 May 2007.

<sup>45</sup> Philips, comments on draft report, 17 Mar 2008.

<sup>46</sup> Philips Medical Systems, Letter inviting an employee to a formal meeting, Sep 2007.

<sup>47</sup> E. Coutinho, Chairman Review Committee General Business Principles, Philips, Letter to Philips employee regarding 'Your GBP complaint', 11 Sep 2007; e-mail correspondence between SOMO and Unite the Union, Feb 2008.

<sup>48</sup> E-mail correspondence between SOMO and Unite the Union, Feb 2008.



As Philips and the trade union provided a different account of the process, some of the information above is conflicting. While taking this into account, at least two things are remarkable about the process.

First, Philips Medical Systems would have had the option of voluntarily engaging in collective negotiations with Amicus. This would have allowed Philips to introduce overtime requirements in a manner fully consistent with the GBP Directive. According to Philips, however, it is incorrect that this was an appropriate option: *[T]he Company would have had to agree a formal recognition agreement, even via a voluntary process, with Amicus, and then formally negotiate with them on the change that the Company was about to make. As already stated there was very low union membership and therefore this did not seem the appropriate process to follow, and could have easily been challenged by the employees in the affected group, hence the correct legal employment process for the UK was followed in the absence of a formal recognition agreement. Furthermore, Philips Medical Systems could have changed the proposed change to a flexible working week, which would have meant that working at a weekend would not have been paid as overtime, and therefore paragraph 9.2 would not have even been questioned. However it was clear that by agreeing 4 weekend days as overtime, with a minimum of 8 weeks notice, that this was more beneficial to the engineers in terms of payment levels and also work life balance.*<sup>49</sup>

Second, in the handling of the Ethics Line complaint, Philips took into account the presence of a compelling commercial need. This raises the important question whether Philips' General Business Principles are a global minimum standard for business ethics or whether levels of compliance can be subject to commercial considerations. Philips states that this is also incorrect, though: *[T]he key question that was investigated was, was the process followed for the change in contracts correct and did it contravene section 9.2 of the GBP. The commercial need just underpinned the reason why the change is required. As with all business organizations, a Company has to change and adapt based on the market conditions to ensure that you are competitive and stay in business.*<sup>50</sup>

## **Recruitment practices at Philips plant in Ciudad Juárez, Mexico**

Philips employs approximately 4,000 workers at a plasma and LCD TV manufacturing plant in Ciudad Juárez, Mexico. New employees are recruited and selected directly by Philips, not through a recruitment agency. A female worker, who started working in the factory in 2006, reported that Philips required a pregnancy test. A male worker, who was recruited in April 2007, had a blood and urine test and was asked to remove his shirt to check for tattoos.<sup>51</sup> Note that in Mexico sometimes women are not hired if tests show that they are pregnant, which is a prohibited discriminatory practice. In mid-July 2007, the Mexican organisation Cereal informed the EICC group, of which Philips is a member, about these practices, in a draft report on working conditions in the Mexican electronics industry.<sup>52</sup> In August 2007, Philips sent a reply to Cereal, including the following explanation:

*'Philips does not tolerate any discriminatory practices. Blood Testing is not a practice. As for Urine Test, there is the practice of random testing to all employees, given that our company is BASC [Business Anti-Smuggling Coalition] (Anti-Drugs, Anti-Terrorism) certified, requiring these random*

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<sup>49</sup> Philips, comments on draft report, 17 Mar 2008.

<sup>50</sup> Philips, comments on draft report, 17 Mar 2008.

<sup>51</sup> Cereal, Electronics multinationals and labour rights in Mexico, Oct 2007, <<http://www.business-humanrights.org/Documents/Cereal-Report-English-Oct-2007.pdf>> (accessed Feb 2008), p. 25.

<sup>52</sup> E-mail correspondence between SOMO and Cereal, Feb 2008.

*urine tests. There is no request to New Hires during medical exploration, to remove their clothing; it is however requested to turn up their trousers for preventive medical reasons (presence of varicose veins). During the New Hires Process, the medical exploration includes questions related to pregnancy for preventive medical purposes.*<sup>53</sup>

After Philips had provided this reply, however, in October 2007 new workers confirmed that the examinations described above, including urine and blood tests, were continued. Cereal informed Philips about these findings in October 2007.<sup>54</sup> In reply, Philips sent the following answer on 1 November 2007:

*'Thank you for sending the transcriptions. As set out earlier, Philips has a strict code of conduct as laid down in the General Business Principles. The company requires adherence to this code of all employees, and do[es] not tolerate any behaviour, not in line with these principles. Rest assured that any irregularities discovered as a result of the current as well as in any future investigation, has been and will be corrected in line with our policies and procedures.'*<sup>55</sup>

To ensure that new issues could be raised locally and solved locally, the Company wrote to Cereal, providing it with a direct link in Mexico.<sup>56</sup> *'For future issues that come to your attention, you are welcome to address these directly to (...) our HR director in Mexico.'*<sup>57</sup> No new issues have been raised with the company's Human Resources director in Mexico so far.<sup>58</sup> Cereal indicates that it will probably carry out new research on recruitment practices in 2008.<sup>59</sup>

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<sup>53</sup> Philips, Response to Cereal, Aug 2007, quoted in Cereal, Electronics multinationals and labour rights in Mexico, Oct 2007, p. 25.

<sup>54</sup> E-mail correspondence between SOMO and Cereal, Feb 2008.

<sup>55</sup> Philips, comments on draft report, 17 Mar 2008.

<sup>56</sup> Philips, comments on draft report, 17 Mar 2008.

<sup>57</sup> E-mail correspondence between Philips and Cereal, Nov 2007, quoted in e-mail correspondence between SOMO and Cereal, 18 Mar 2008.

<sup>58</sup> Philips, comments on draft report, 17 Mar 2008.

<sup>59</sup> E-mail correspondence between SOMO and Cereal, 18 Mar 2008.