KPN

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Introduction

This company profile has been written by SOMO (Centre for Research on Multinational Corporations) and provides an overview of unresolved corporate social responsibility issues that occurred or were addressed in 2010. In the context of the upcoming annual general meeting (AGM) of shareholders for KPN, this overview aims to provide additional information to shareholders and other stakeholders of KPN regarding unresolved CSR issues. In highlighting such issues, the overview can be used to identify areas of the company’s corporate responsibility policies and practices that need improvement and to formulate a more informed assessment of the company’s corporate responsibility performance.

The range of sustainability and corporate responsibility issues included in this overview is broadly based on issues and principles that are present in global normative standards for responsible business behaviour, such as the OECD Guidelines for Multinational Enterprises. Rather than an exhaustive analysis of KPN’s corporate responsibility policies, operational aspects of corporate responsibility management, implementation systems, reporting and transparency, or total performance on any issue, the overview focuses on a selected number of corporate-responsibility-related topics that we believe merit further attention or reflection. KPN’s positive sustainability achievements in 2010 are not addressed in detail here.

The research methodology for this overview primarily involved desk research methods, relying on information from SOMO’s global network of civil society organisations, the company’s own website and publications, media reports, and company information databases. All sources are cited in footnotes in the text. As per SOMO’s standard research methodology, KPN was informed about the research in advance and was given two weeks to review a draft report and provide comments and corrections of any factual errors in the draft version prior to publication.

This company profile is part of a joint project of SOMO and the VBDO (Vereniging van Beleggers voor Duurzame Ontwikkeling - Dutch Association of Investors for Sustainable Development).

About SOMO

SOMO is an independent, non-profit research and network organisation working on social, ecological and economic issues related to sustainable development. Since 1973, the organisation investigates multinational corporations and the consequences of their activities for people and the environment around the world. SOMO supports social organisations by providing training, coordinating networks and generating and disseminating knowledge on multinational corporations in a context of international production, trade, financing and regulation.
Unresolved CSR issues in 2010

This report looks into KPN CSR policies and practices in 2010, with an accent on supply chain management, transparency and stakeholder engagement. The report does not pretend to present an exhaustive overview of labour and/or environmental issues, but a selection of topics that are deemed interesting to raise with KPN in this manner and at this point in time. The report concludes with a number of recommendations.

KPN has commented upon the draft of this report. A figure regarding the sales of mobile phones was rectified. In one case unclear wording was improved. KPN objected against the wording of one of the recommendations.

‘We only want to sell products and services that are brought about from start to finish with complete respect for mankind and the environment. Customers can rely on that, firstly because KPN is a top brand and secondly because we are transparent. KPN aims to be the best ICT service provider. The customer must then be able to have blind faith that our products and services have been produced in honorable manner.’ From KPN’s guiding principles regarding sustainable procurement.¹

Supply chain policies and practices

Summary

The global market for mobile phones and smart phones is growing at a rapid and steady pace and the end is nowhere in sight. Mobile network operators, occupying the space between mobile phone companies and consumers, and acting as retailers, have a responsibility for the social and environmental conditions in the supply chain of mobile phones. Generally speaking, the labour, employment and environmental conditions in the global electronics supply chain leave much to be desired, however. Again in 2010, reports about substandard labour and employment conditions abounding in the sector have been published by civil society organisations and the media as well as by the electronics industry. KPN has been developing corporate social responsibility policies and practices, including policies and practices regarding sustainable procurement. In 2008, KPN made a significant step forward, boosting its sustainable supply chain management. Still, KPN is a late arrival in the field of CSR, and has yet to prove itself. While acknowledging the progress made by KPN in this domain since 2008, this report points out a number of flaws and challenges. For example, KPN still has a lot to do in terms of supply chain management, transparency and stakeholder engagement, to name but a few.

Context

The global market for consumer electronics is ever increasing. According to renowned IT market analyst Gartner Inc., worldwide mobile phone sales to end users totalled 417 million units in the third quarter of 2010, a 35% increase from the third quarter of 2009. Smartphone sales grew 96% from the third quarter last year, and smartphones accounted for 19.3% of overall mobile phone sales in the third quarter of 2010. The top three worldwide mobile device manufacturers, Nokia, Samsung and LG, remained the same – albeit with reduced market share – but the third quarter saw Apple rise into the top five manufacturers, surpassing RIM for fourth place.2 A growing portion of consumer electronic products such as mobile phones is manufactured in developing countries or countries in transition. Every second mobile phone is made in China.3

There is ample evidence that labour and environmental non-compliances are commonplace in the global electronics industry, including gross violations of human rights and labour rights, especially for production in low wage countries. Over the past years SOMO, as well as other research organisations, trade unions and environmental groups, including organisations united in the makeITfair campaign and/or the GoodElectronics network, have issued information and numerous reports that point out persistent and severe environmental and social problems in the electronics sector, including in the mobile phones and smartphones supply chains.4

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In 2010, some truly shocking labour cases came to light, including the spate of attempted suicides at Chinese facilities of the Taiwanese electronics giant Foxconn. Apple iPhone 3G and 4G are produced in these facilities. Academics, trade unions, and labour groups from Hong, Kong, China, Taiwan and all over the world published critical reports about the working conditions at Foxconn in China, pointing at the semi-military management style, high work load, low wages, structural overtime, lack of privacy and normal social life, etc., as pre-conditions for distress. Workers at Foxconn have nowhere to go with their concerns and complaints, as workers’ representation is nonexistent and grievance mechanisms are rudimentary at best.\(^5\)

Samsung also made the headlines for failing to be a responsible employer. The brand company is criticised by workers, labour groups and occupational health and safety experts alike for the carcinogenic exposure at production sites in Korea. Over the past year, several Samsung workers reportedly died from acute leukaemia and other forms of blood cancer. In April 2010, the reported number of blood cancer victims in the Gi-heung and On-Yang plants in South Korea stood at least at 26, according to the International Campaign for Health and Labour Rights of Samsung Electronics Workers.\(^6\)

Another case illustrating the problematic working and employment conditions in the electronics industry concerns Foxconn India, located at the Nokia Special Economic Zone in Tamil Nadu, South India. In August 2010, conflict arose between workers’ representatives and the Foxconn management over workers’ concerns over wages and union recognition. Foxconn India refused to enter into negotiations with the concerned labour unions but instead choose to follow a confrontational course. The case can be seen as a clear example of disrespect for the freedom of association and the right to collective bargaining. The International Metalworkers federation (IMF) followed the developments closely and wrote to both Foxconn India and Nokia demanding they intervene and ensure workers’ rights are respected at the Foxconn plant located in the Nokia Special Economic Zone in Chennai, India.\(^7\)

The electronics industry is quite aware of the social and environmental issues in the sector, and has started to take steps to address them. Codes of conduct and compliance mechanisms are being developed by individual companies as well as at sector level. Some electronics companies issue annual sustainability reports, in which serious non-compliances with international labour and environmental standards are acknowledged. So far, these insights have not led to any significant improvements within the sector.

As of 31 December 2010, KPN served 42 million customers in many different markets: 33.9 million were in wireless services, 4.4 million in wireline voice, 2.5 million in broadband Internet and 1.2 million in TV. The KPN market share in the Netherlands for fixed telephony is about 50%, for mobile telephony comparable, and for broadband around 41%.\(^8\) KPN has subsidiaries in Belgium and Germany – BASE and E-Plus.\(^9\) With 15 million customers, E-Plus is the third largest mobile network

\(^7\) IMF website. Solidarity, ‘Union leaders and workers remain in jail in Foxconn dispute in India, 18 October 2010, \url{http://www.imffmetal.org/index.cfm?c=24381&i=2} (February 2011).
\(^9\) KPN website, Corporate, Corporate information, Company profile, ‘Brands’ (no date), \url{http://www.kpn.com/corporate/aboutkpn/Company-profile/Brands.htm} (February 2011).
operator in Germany. BASE, a 100% subsidiary of KPN, is the fastest growing mobile operator in Belgium with a market share of more than 23%. In short, KPN is an important player in the Dutch and European markets for mobile networks.

In its report ‘Fair phones. It’s your call’, published in October 2009, makeITfair argues that since mobile network operators occupy the space between mobile phone companies and consumers, acting as retailers, they must accept responsibility for the social and environmental conditions in the supply chain of mobile phones. Insight into the sales figures of mobile phones by mobile network operators is crucial to assess the relative influence of each of the operators in the mobile phone supply chain. Such information, however, is lacking as most mobile network operators do not disclose detailed sales figures. Consequently, it is not easy to properly assess the procurement volumes of mobile phones.

In its 2010 annual report, KPN mentions having facilitated the launch of an array of new smartphones, including, from the fourth quarter of 2010, the Apple iPhone. Commenting upon the draft of this report, KPN mentions that yearly 2-3 million phones are sold on the Dutch market. Beyond this, KPN does not provide detailed data about the branded mobile phones that are sold by KPN.

The Company Role

KPN Code of Ethics

In 2000, KPN introduced the first version of its Code of Ethics. The code was rewritten in 2004 because of changes in the business and the organisation. The Code of Ethics is based on KPN’s self-proclaimed core values: simplicity, personal, and trust. In its Code KPN states that ‘all stakeholders (customers, shareholders, employees, business associates, competitors, environmental organisations, international partners and society in general) can call KPN to account’. Complementary to the Code of Ethics, KPN has several separate codes that give concrete rules of conduct for specific areas. The separate codes further implement statutory regulations, for example in the area of competition and insider trading. In addition to the rules in the separate codes, KPN has introduced three general guidelines: the whistleblower policy, the fraud policy and the protocol on integrity investigations.

KPN states that it actively encourages its employees to report non-compliance or suspected non-compliance with the Code of Ethics or one of the subsidiary codes. Employees can report non-compliance to the Internal Security department helpdesk and can get information there about the

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12 M. van Huijstee et al., Fair phones. It’s your call. How European mobile network operators can improve responsibility for their supply chain, p. 24.
14 S. Drillenburg Leijveld, CSR –Manager, KPN, e-mail 7 March 2011.
principles underlying the codes. If a code violation is reported, KPN’s Security department will conduct a strictly confidential investigation.\textsuperscript{17}

When explaining how the KPN Code of Ethics is relevant for its business partners, including suppliers, KPN states that suppliers may expect KPN to foster stable relations, with mutual profit as a starting point and partnership as guiding thought. KPN will choose its business partners considering what is offered, and at which cost for what price.\textsuperscript{18}

Explaining the relevance of the Code of Ethics for society at large, KPN zooms in on aspects such as the user-friendliness of its products. KPN elaborates on the concept of ‘social commitment’ (‘\textit{maatschappelijke betrokkenheid}’). The way KPN presents it, society can count on KPN in the case of an emergency or social unrest. KPN wants to contribute to social issues with an emphasis on youth education, and care for the elderly.\textsuperscript{19}

\textbf{KPN CSR Policy}

Introducing its sustainable procurement policies and practices, KPN states that the company ‘\textit{only wants to sell products and services that are brought about from start to finish with complete respect for mankind and the environment}. Customers can rely on that, firstly because KPN is a top brand and secondly because we are transparent. KPN aims to be the best ICT service provider. The customer must then be able to have blind faith that our products and services have been produced in honourable manner.’\textsuperscript{20}

This statement shows a severe lack of understanding at KPN of the true nature of persistent labour and environmental issues in the global electronics supply chain. To claim that KPN customers can rely on KPN selling products that were brought about from start to finish with complete respect for mankind and the environment is ignorant and presumptuous.

Since 2008, the CSR policy of KPN has been based on three themes that KPN presents as ideally suited to KPN and in which KPN deems it can make a difference:

- \textit{People connected}: improving social contact. This is about motivating KPN employees to engage in volunteers work.
- \textit{The New World of Work}: solving commuter-related mobility problems. This is about reducing peak-hour traffic kilometres, introducing flexible workstations, replacing meetings by videoconferencing in order to increase flex and remote working.
- \textit{Responsible energy use}: this is mainly about saving and greening energy.

\textsuperscript{19} Idem.
What transpires is that KPN does not distinguish clearly between corporate social and environmental responsibility (maatschappelijke verantwoordelijkheid) and corporate social commitment (maatschappelijke betrokkenheid). Attention for responsible supply chain management is weakened by the emphasis on other issues.

All KPN suppliers are presumed to comply with the General Conditions of Purchase. Included in the General Conditions of Purchase is the KPN Supplier Code of Conduct.

KPN Supplier Code of Conduct

On its website, KPN mentions that it has signed the United Nations Global Compact (UNGC). KPN ‘acknowledges the initiative’s ten principles and makes a commitment to respect human rights, maintain appropriate working standards and take an active role in environmental protection and fighting corruption’. KPN further mentions its intention to publish an annual Global Compact progress report as part of its CSR Report. This report contains information about the measures that have been taken to implement the UNGC principles. Moreover, KPN states that it intends to ‘apply the internationally recognized minimum social standards according to the International Labor Organisation (ILO) and OECD in all of its business relations with suppliers, business partners and third parties.’

In its Supplier Code of Conduct KPN zooms in on, among other things, legislation, human rights, and labour. In the clause on legislation, KPN uses a standard formulation. ‘Supplier will comply with all relevant international legislation as well as the relevant national legislation of the countries in which they operate.’

In the clause on human rights, it reads as follows: ‘Supplier will support and respect the protection of internationally proclaimed human rights and will operate in the spirit of the Charter of the United Nations. Supplier will recognize and respect the fundamental human rights, social justice, human dignity, and the diversity of local cultures.’

The clause on labour reads: ‘Supplier will support and respect the internationally proclaimed labour rights and will operate in the spirit of the core Conventions of the International Labour Organization (ILO).’

Subsequently, the Code stipulates that a ‘supplier will recognize and respect employee’s right to collective bargaining and freedom of association. A supplier will not indulge in acts of discrimination, child labour, or forced labour. A supplier will compensate workers in accordance with all applicable wage laws, limit the working hours to the maximum as set by applicable laws, as well as ensure a safe working environment.’

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**KPN’s choice of words at different points is ambiguous and unclear. ‘Operating in the spirit of’ is clearly not the same as ‘respecting’, so what is meant? Using ambiguous language weakens the meaning and the effectiveness of the Supplier Code of Conduct.**

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**High Risk and Medium Risk Suppliers**

Once a year, KPN makes a risk analysis to establish which of its suppliers might be operating at odds with social norms, including human rights and the elimination of child labour. A supplier is considered at risk if production takes place in a ‘best cost’ (or ‘low income’) country, such as countries in Asia, Africa, Eastern Europe and South America. The list of suppliers at risk is updated by the Sustainable Procurement steering committee (chaired by the Corporate Procurement Officer).

Since 2010, KPN is asking these suppliers to cooperate with them on a self-audit. In December 2009, an initial group of 57 suppliers were identified by KPN as suppliers at risk. They received the Supplier Code of Conduct in January 2010 with the intention that they take part in these audits.

In its 2010 annual report, KPN released further information. In 2010, KPN identified 62 high risk suppliers. Of these 62, 58 (94%) demonstrably live up to the KPN Supplier Code of Conduct. KPN will engage in a dialogue with the remaining four suppliers. High risk suppliers are requested to do an online self-assessment, using e-tasc (see below). One third of the high risk suppliers of KPN have done the self-audit. Some suppliers scored so poorly, reports KPN, that further screening is necessary. If need be, KPN will reconsider its relations with these suppliers. In 2011, KPN promises to proceed with this policy. Criteria for high risk suppliers will be made stricter. Consequently, more suppliers will be requested to sign the KPN Supplier Code of Conduct and to do an e-tasc self-assessment.

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Despite these reports, full insight in KPN’s supplier base is lacking. KPN does not disclose a list of suppliers. It is not clear how many suppliers KPN has in total. As clear-cut definitions are not provided, it is unclear what KPN defines as suppliers, sub-contractors, high risk suppliers or medium risk suppliers. Lastly, aggregate results of the audits are not disclosed and cannot be verified.

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**Control and Audit**

KPN is a member of the Global e-Sustainability Initiative (GeSI). GeSI’s stated mission is to bring together ICT companies – including telecommunications service providers and manufacturers as well as industry associations – and non-governmental organisations that are ‘committed to achieving sustainability objectives through innovative technology.’ GeSI has developed an audit system, e-tasc.

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At the request of KPN, a supplier is required to become a member of e-tasc and to fill in the Corporate Questionnaire. Every supplier that KPN considers to be a supplier at risk receives such a request. The e-tasc questionnaire gives a detailed picture of a supplier’s risks, if any. If a supplier (at risk) is unwilling to sign the Code of Conduct, KPN states that it will liaise closely with the supplier about the steps to be taken. If meeting with the supplier about the reasons for not taking part in the audit does not yield the desired result, business with the supplier may be scaled down.  

At the moment, KPN is requiring suppliers at risk to participate in e-tasc, but apparently participation in e-tasc will be made mandatory for all its suppliers. It is KPN’s stated objective to have 80% of its ‘medium risk’ suppliers sign the Supplier Code of Conduct in 2011, in addition to 95% of the ‘high risk’ suppliers.

In terms of audits, KPN provides the following figures and targets: in 2009, two external audits and site-visits for outsourcing in Asia took place. In 2010, KPN planned to undertake 12 ‘external audits with suppliers in low wage countries via e-tasc.’ It is not yet clear if this has taken place. Reportedly, 37% (23) of the high risk suppliers actually participated in e-tasc. For 2011, KPN aims at making 95% of its high risk suppliers participate in the self-audit system as well as 50% of its medium risk suppliers. KPN also plans to carry out five on-site audits with high risk suppliers.

KPN’s stated preferences for suppliers go deeper than the KPN Code of Conduct. KPN states that it expect its suppliers to ask their subcontractors to comply with the Code of Conduct as well.

In the eyes of trade unions, labour groups and other civil society organisations concerned with social and environmental issues and labour rights in the global electronics industry, the self-assessment tool developed by GeSi is a flawed instrument which does not allow for effectively monitoring and addressing labour and environmental issues on the work floor. E-tasc is based upon the Code of Conduct developed by the Electronics Industry Citizenship Coalition (EICC). As an industry-only initiative, EICC has been criticised by trade unions and civil society organisations for lack of credible stakeholder engagement and for operating in ‘splendid isolation’. Moreover, the EICC code is considered weak, because it does not follow ILO wording, which affects the EICC and GeSi audit tools. Moreover, the assessment practices of EICC and GeSi do not make effective use of expertise and analysis that local civil society organisations, including labour groups, can provide. It is not clear what KPN understands by an ‘external audit’ and how these are carried out.

**Relevant normative/legal standards**

The ILO labour conventions 87 and 98 concern freedom of association, the right to organise and collective bargaining. When companies commit to these conventions, it is important that they refer to the exact wording of these conventions. Here are some examples:

- Convention 87: Freedom of Association and Protection of the Right to Organise

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28 KPN, Duurzaamheidsverslag 2010, p. 10.
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- Article 2: Workers and employers, without distinction whatsoever, shall have the right to establish and, subject only to the rules of the organisation concerned, to join organisations of their own choosing without previous authorisation.
- Article 3: Workers’ and employers’ organisations shall have the right to draw up their constitutions and rules, to elect their representatives in full freedom, to organise their administration and activities and to formulate their programmes.

Convention 98: Right to Organise and Collective Bargaining
- Article 1. Workers shall enjoy adequate protection against acts of anti-union discrimination in respect of their employment.

Trade unions and labour groups have published at large about supply chain responsibility. In October 2008, the MVO Platform (the Dutch CSR Platform) published its view on supply chain responsibility. Their point of departure is responsibility for the entire supply chain. The extent to which a company is responsible within a chain is determined, among other things, by the influence of the company and the seriousness of possible abuses. The MVO Platform considers greater supply chain transparency (i.e. openness of companies) to be of great importance in taking existing and voluntary supply chain responsibility to a higher level. Supply chain transparency and traceability are highly relevant. In order to flesh out supply chain responsibility it is necessary that companies are more open about the origin of their products and about how they deal with social problems occurring in their supply chains (their supply chain management).31

On 22 November 2010, Special Representative Ruggie proposed the draft ‘Guiding Principles for the Implementation of the United Nations ‘Protect, Respect and Remedy’ Framework’. These Guiding Principles provide practical advice to governments, companies and other stakeholders on how to better protect individuals and communities from adverse human rights impacts of business activities.

MVO Platform has commented upon this draft. Pointing out in particular ‘the need for pro-active, real-time (during the relation) and if necessary remedial actions of buyer companies, to prevent or correct abuses through the services or products they purchase. Reliance on contract clauses is insufficient especially if companies do not monitor implementation of the contract clauses. It should be part of due diligence to monitor implementation, especially when risks can be reasonably foreseen’. Enterprises should ‘use their leverage to mitigate abuses or seek to increase leverage to do so. Sector or industry associations can be advised to play a stimulating and/or coordinating role in creating common leverage on joint relevant issues. Considerable efforts are required and leverage has to be organised before an enterprise can take a decision to end the relationship’.32

MakeITfair, a European project that aims to improve working conditions and prevent environmental damage within the electronics industry, has specifically addressed mobile network operators. MakeITfair calls upon mobile network operators to take responsibility for labour abuses and environmental problems that occur during production of the products they procure and sell. MakeITfair has set three priorities for companies like KPN:
- Mobile network operators should be committed to creating a supply chain in which phones are produced under decent working and to good environmental standards.

Mobile network operators should develop new strategies that focus on marketing the services they provide instead of focusing on selling new mobile phones.

Mobile network operators should work towards a joint campaign to raise awareness about the existence of recycling opportunities for mobile phones among consumers.33

Recommendations

Upgraded CSR policies and practices
- KPN should upgrade its CSR and practices policies including instruments and tools related to supply chain responsibility. As a first step, CSR policy documents and the Supplier Code of Conduct should be rephrased to avoid ambiguous wording.
- KPN is urged to institutionalise and upgrade its stakeholder engagement, by joining a credible multi stakeholder initiative, and/or by structurally engaging on an equal basis with stakeholders, including trade unions, internationally as well as locally in production countries.34
- KPN is requested to clarify what the ‘external audits’ that are carried out entail.
- Furthermore, KPN is urged to improve its monitoring and auditing mechanisms. This can be done by allowing for independent third-party verification and a meaningful role for local stakeholders, instead of relying on self assessment tools that have been developed by businesses only (such as e-tasc).

Increased transparency
- KPN is urged to practice full supply chain transparency and disclose relevant details concerning its supplier base, including 2nd and 3rd tier suppliers, as well as data regarding the procured volumes of branded mobile phones and smartphones.
- Along the same lines, KPN is urged to disclose sales data of branded mobile phones and smartphones (such as Samsung, Nokia, Apple, etc.) on a regular basis.
- KPN is requested to provide clarity over its definition of: suppliers, sub-contractors, high risk and medium risk suppliers, etc.
- KPN is urged to disclose aggregate e-tasc and audit results to relevant stakeholders on a regular basis.
- KPN is challenged to set more ambitious goals in the process of monitoring and auditing its suppliers and to speed up its supplier management programme.

34 Commenting upon the draft of this report, KPN mentions to have organised stakeholder meetings with VBDO, in which SOMO has participated. SOMO does acknowledge this and appreciates the efforts KPN has made. Still, SOMO insists that inviting civil society organizations to one-off stakeholder meetings organised by the company does not equal corporate participation in credible multistakeholder initiatives and/or structural stakeholder dialogue where civil organizations and corporate are involved on an equal basis.