



## Case Studies in Work, Employment and Human Resource Management

Edited by Tony Dundon, Professor of Human Resource Management and Employment Relations, Kemmy Business School, University of Limerick, Ireland and Visiting Professor, Work and Equalities Institute (WEI), University of Manchester, UK and Adrian Wilkinson, Professor of Employment Relations and Human Resource Management and Director, Centre for Work, Organisation and Wellbeing, Griffith University, Australia and Visiting Professor, University of Sheffield, UK

This comprehensive book offers a fascinating set of over 40 evidence-based case studies derived from international research on work, employment and human resource management (HRM).

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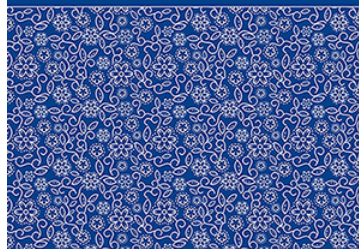
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# CONTENTS

About the editors and contributors

viii

- 1 **Work, employment and human resource management: Case study applications** 1  
*Tony Dundon and Adrian Wilkinson*

## SECTION I PEOPLE RESOURCING

- 2 **Fishing for diversity in legal talent pools: Recruiting early talent at Pinsent Masons** 7  
*Dora Scholarios and Scott A. Hurrell*
- 3 **Rethinking the selection process in Saltire Brokers** 14  
*Scott A. Hurrell, Giuliana Mazzoni and Dora Scholarios*
- 4 **Defending wellbeing at work: A case study on autism** 20  
*Alan Roe and Alexandra Athelstan-Price*
- 5 **Flexibility in recession and recovery** 25  
*Stewart Johnstone and Stephen Procter*

## SECTION II HR STRATEGY, REWARDS AND PERFORMANCE

- 6 **Determinants of human resource management strategy in a franchise** 32  
*Ashlea Kellner*
- 7 **Contribution based pay in local government** 39  
*Mathew Johnson*
- 8 **A high performance work system in a multi-stakeholder context** 45  
*Eva Knies, Peter Leisink and Paul Boselie*
- 9 **Performance management: Rewarding for performance at Sprooker Inc.** 52  
*Ryan B. Gould and Wayne O'Donohue*
- 10 **Gender pay gaps at Southside University Hospital Trust** 59  
*Carol Woodhams, Sheila Wild and Carol Atkinson*
- 11 **The campaign for a 'real Living Wage'** 67  
*Peter Prowse, Tony Dobbins and Ray Fells*

## SECTION III WORKPLACE RELATIONS AND VOICE

- 12 **Employee voice and transnational regulation: Double-breasting at BritCo** 76  
*Niall Cullinane, Tony Dundon, Jimmy Donaghey, Eugene Hickland and Tony Dobbins*
- 13 **Is Ryanair the Southwest Airlines of Europe?** 80  
*Geraint Harvey and Peter Turnbull*
- 14 **Uber and the problem of regulatory arbitrage** 90  
*Michael Walker*

- |           |   |     |
|-----------|---|-----|
| <b>15</b> | <b>Public sector employee engagement initiatives and employee voice results</b> | 95  |
|           | <i>Russell Robinson</i>   |     |
| <b>16</b> | <b>Resistance, mischief and misbehavior @ The Jad-Gin Co. (JGC)</b>             | 100 |
|           | <i>Caroline Murphy, Lorraine Ryan and Tony Dundon</i>                           |     |
| <b>17</b> | <b>The divided workforce: Zero hours work at Sports Direct</b>                  | 105 |
|           | <i>Michelle O'Sullivan</i>  |     |

#### SECTION IV HUMAN RESOURCE DEVELOPMENT, DIVERSITY, SKILLS AND TRAINING

- |           |   |     |
|-----------|---|-----|
| <b>18</b> | <b>Learning from doing and telling at work</b>  | 112 |
|           | <i>James Brooks, Irena Grugulis and Hugh Cook</i>   |     |
| <b>19</b> | <b>For some or all? Debating the value of inclusive and exclusive approaches to talent management</b> | 118 |
|           | <i>Sharna Wiblen</i>  |     |
| <b>20</b> | <b>What is competence? Theory, policy and practice</b>  | 123 |
|           | <i>Jonathan Winterton and Travis Turnbow</i>  |     |
| <b>21</b> | <b>Gender at Victoria Police: A long way travelled</b>  | 129 |
|           | <i>Georgina Caillard and Julie Wolfram Cox</i>  |     |
| <b>22</b> | <b>Workplace bullying at Neptune Plc</b>  | 137 |
|           | <i>Ria Deakin and Helge Hoel</i>  |     |
| <b>23</b> | <b>New forms of worker organising: Sex work in Argentina</b>  | 142 |
|           | <i>Kate Hardy</i>   |     |

#### SECTION V CULTURE AND JOB QUALITY

- |           |   |     |
|-----------|---|-----|
| <b>24</b> | <b>System error, restart? Allegations of sex discrimination at Microsoft Corp.</b>  | 148 |
|           | <i>Anthony Rafferty</i>   |     |
| <b>25</b> | <b>Changing organisational hierarchies: KnowledgeLtd</b>  | 156 |
|           | <i>Rory Donnelly</i>  |     |
| <b>26</b> | <b>Worker wellbeing at Jacaranda House</b>  | 161 |
|           | <i>Susan Ressa, Adrian Wilkinson and Paula K. Mowbray</i>   |     |
| <b>27</b> | <b>What makes a good job for low-waged workers?</b>   | 166 |
|           | <i>Chris Warhurst and Sally Wright</i>  |     |
| <b>28</b> | <b>Organizing project-based work in the games industry: Two contrasting cases</b>   | 172 |
|           | <i>Wike Been and Noëlle Payton</i>  |     |
| <b>29</b> | <b>Human resource management and relationship marketing: How two organizations leveraged tattoos to build their brand</b> | 178 |
|           | <i>Andrew R. Timming</i>  |     |

#### SECTION VI LEADERSHIP AND CHANGE

- |           |                               |     |
|-----------|-------------------------------|-----|
| <b>30</b> | <b>Meaningless leadership</b> | 184 |
|           | <i>Leo McCann</i>             |     |

<b>31</b>	<b>Amazon: HRM and change in the house of neo-liberalism</b>	<b>191</b>
	<i>Brian Harney and Tony Dundon</i>	
<b>32</b>	<b>Leadership and change at Ford Motor Company</b>	<b>201</b>
	<i>Dan H. Langerud and Peter J. Jordan</i>	
<b>33</b>	<b>Implementing performance management in a public sector organisation in a developing country</b>	<b>207</b>
	<i>Thuraya Farhana Haji Said</i>	

## SECTION VII INTERNATIONAL HRM

<b>34</b>	<b>HR function at MNC subsidiary level: Mediating challenges and tensions</b>	<b>216</b>
	<i>Jonathan Lavelle, Patrick Gunnigle and Sinead Monaghan</i>	
<b>35</b>	<b>Implementing HRM within multinational corporations: Localisation or global standardisation?</b>	<b>222</b>
	<i>Anastasia Kynighou</i>	
<b>36</b>	<b>Global talent and mobility in a decentralised multinational enterprise</b>	<b>230</b>
	<i>Anthony McDonnell, Stefan Jooss and Hugh Scullion</i>	
<b>37</b>	<b>Strategy and people management in China – Haier as an example</b>	<b>239</b>
	<i>Fang Lee Cooke</i>	
<b>38</b>	<b>Emiratization: Benefits and challenges of strategic and radical change in the United Arab Emirates</b>	<b>245</b>
	<i>Rachid Zeffane and Linzi Kemp</i>	
<b>39</b>	<b>Survival and outsourcing in the South African clothing and textiles industry: The changing fortunes of ClothTran</b>	<b>254</b>
	<i>Christine Bischoff and Geoffrey Wood</i>	
<b>40</b>	<b>Cultural and logistical preparation of expatriates</b>	<b>261</b>
	<i>William Despotovic</i>	

## SECTION VIII GLOBAL LABOUR RIGHTS

<b>41</b>	<b>Labor practices in Apple's supply chains in China</b>	<b>266</b>
	<i>Jenny Chan</i>	
<b>42</b>	<b>Framing workers' rights internationally: The case of Volkswagen and transnational collective agreements</b>	<b>272</b>
	<i>Stephen Mustchin, Miguel Martínez Lucio, Michael Whittall, Fernando Rocha and Volker Telljohann</i>	
<b>43</b>	<b>Labour rights and global standards: What the Ali Enterprises fire tells us about social accountability and labour conditions in an international supply chain</b>	<b>277</b>
	<i>Jean Jenkins</i>	

<i>Index</i>	<b>285</b>
--------------	------------

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In addition to the case studies in the main text, an accompanying 'tutor manual' is provided to those lecturers who want to use any of the cases for in-class teaching, student projects, formative and summative student assessment exercises, and/or for the cases to be used for formal examinations. Guidance on the best use for each case, together with suggested solutions to the questions asked and issues the case raises are contained in the accompanying 'tutor manual' and can be found here: <https://e-elgar.com/textbook-resources/case-studies-in-work-and-employment-and-human-resource-management>

## Labor practices in Apple's supply chains in China

Jenny Chan

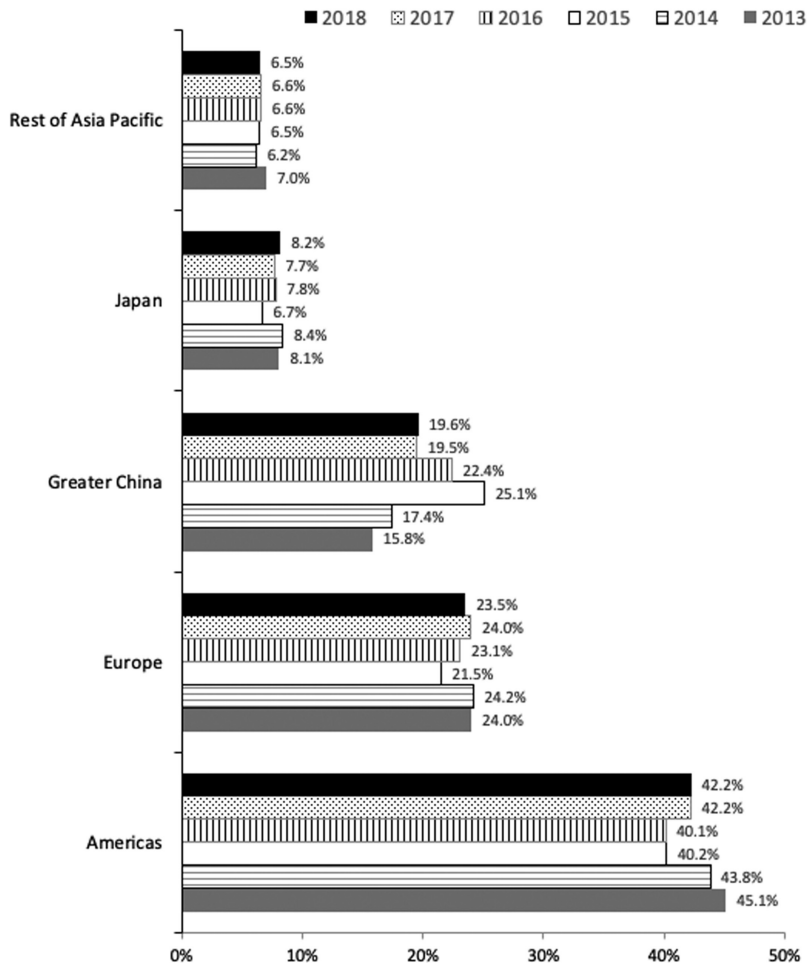
### BACKGROUND AND CONTEXT

By early August 2018, Apple had transformed itself from a tiny producer of computers in a garage in 1976 to the world's most valuable publicly traded company, with a market capitalization that surpassed US\$1 trillion. To put the US\$1 trillion valuation in perspective, Apple's worth is more than the economies of Saudi Arabia, Switzerland and Taiwan. During fiscal 2018 (ended 29 September), Apple's fastest growth came in the Americas, followed by Europe, with annual gains surpassing 42 percent in the Americas and 23.5 percent in Europe, while Greater China generated nearly 20 percent of revenues (see Figure 41.1). Apple's net sales (US\$265.6 billion) increased 16 percent or US\$36.4 billion during 2018 compared to 2017, primarily driven by growth in services (digital content and customer services) and higher sales of iPhone.

Looking back, during the 1990s Apple had exported all of its manufacturing jobs overseas, its only remaining production site being a Mac assembly factory in Ireland. This outsourcing means that Apple's success is inseparable from the contributions of its suppliers and their workers to produce high quality products at high speed. But at all times, Apple, given its ownership of the commanding heights of both hardware and software and its ability to influence consumer choices, has remained in the driver's seat setting the terms and conditions for suppliers. Joshua Cohen, a faculty member of Apple University and University of California, Berkeley, explained that in 2015, Apple had as many as 2000 large and small suppliers in China alone, including first-tier and sub-tier suppliers. If, by this measure, China has risen to become an important site in electronics production "in the age of globalization," Sean Starrs highlights the fact that it is "more important to investigate who ultimately profits from the production and sale of goods and services" than to note "where their production or sale is geographically located."<sup>1</sup>

### BUYER-DRIVEN VALUE CHAINS

In 2010, Apple's corporate prowess was demonstrated by its ability to capture an extraordinary 58.5 percent of the sales price of the iPhone, an unparalleled achievement in world manufacturing (see Figure 41.2). Particularly notable is that labor costs in China accounted for the smallest share, a mere 1.8 percent or nearly US\$10 of the US\$549 retail price of the iPhone 4 at that time. American, Japanese and South Korean firms that produce the most sophisticated electronic components

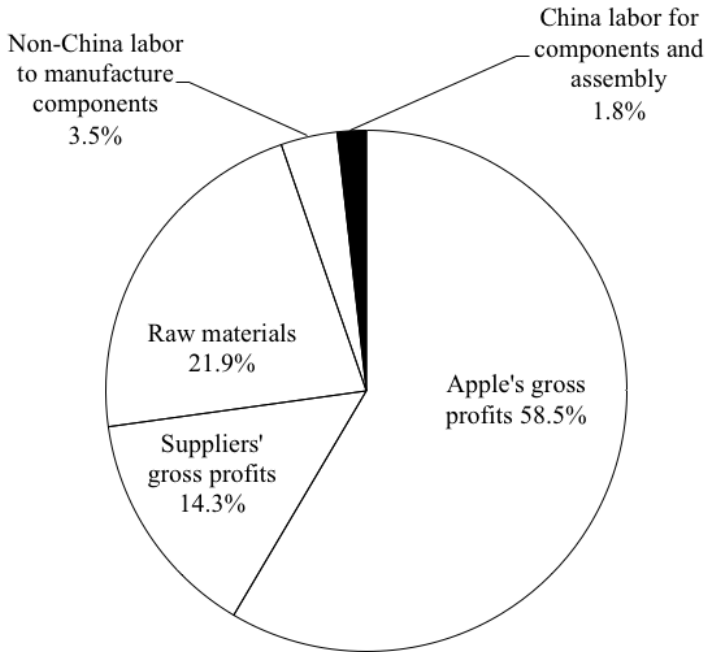


Note: The Americas includes both North and South America. Europe includes Europe, the Middle East and Africa. The rest of Asia Pacific includes Australia and Asian countries other than Japan and Greater China (comprised of mainland China, Hong Kong and Taiwan).

Source: Apple's annual financial reports (2015: 24, 2018: 23). Accessed at: <https://investor.apple.com/investor-relations/sec-filings/default.aspx>.

**Figure 41.1** Apple's annual revenues by region, FY2013–FY2018

captured slightly over 14 percent of the value of the iPhone. The cost of raw materials was just over one-fifth of the total value (21.9 percent). In short, while the Taiwanese-owned Foxconn Technology Group has carved out a niche as the final assembler of the iPhone, the lion's share of the profits flow to Apple, followed by Japanese, Korean and American manufacturers who produce the key



*Note:* The percentage is calculated on the iPhone 4's retail price at US\$549 in 2010. No amount for "distribution and retail" is shown because Apple is paid directly by a cellular company, such as AT&T or Verizon, which handles the final stage of the sale.

*Source:* Adapted from Kenneth L. Kraemer, Greg Linden and Jason Dedrick, 2011, "Capturing Value in Global Networks: Apple's iPad and iPhone", p. 5. Accessed at: [http://econ.sciences-po.fr/sites/default/files/file/Value\\_iPad\\_iPhone.pdf](http://econ.sciences-po.fr/sites/default/files/file/Value_iPad_iPhone.pdf).

### Figure 41.2 Distribution of value for the iPhone 4, 2010

components. In this international division of labor, little value is captured by Foxconn, and still less by workers in electronics processing and assembly.

Apple buys the most valuable components such as the touch screen display, memory chips and microprocessors from Intel, Sony, Samsung, and other American, Japanese and Korean firms, bringing the parts together for assembly and shipment from China. Jason Dedrick and Kenneth Kraemer observed that global technology brands generally prefer to "use fewer contractors and engage in long-term relationships with them" but they "still shift contracts for specific products amongst suppliers based on cost, quality, or unique capabilities."<sup>2</sup> In 2010, when Foxconn was confronted by a spate of worker suicides in its factories in China, the company was the sole maker of iPhones. Subsequently, Apple – following the common practice of pitting suppliers against each other to maximize profit – shifted some of its production to Pegatron, another Taiwan-owned supplier, where labor costs are allegedly even lower.<sup>3</sup>

By 2016 when the iPhone 7 was launched, Apple had maintained and even increased its grip on iPhone profits, despite intense competition from Samsung, Huawei and Xiaomi. Apple captured

an estimated US\$283 of the US\$649 retail price of the 32GB model (nearly 44 percent of the total). By contrast, Chinese workers were estimated to earn just US\$8.46 or 1.3 percent of the US\$649 retail price.<sup>4</sup>

## CHINESE LABOR PRACTICES IN APPLE'S PRODUCTION NETWORK

Apple's business model, characterized by its relentless pressure for just-in-time production of new models and fulfillment of holiday season rush orders, makes it directly responsible for the pressures experienced by workers in Foxconn's factories and its other contractors. Every second counts towards profit. Take a motherboard from the line, scan the logo, put it in an anti-static bag, stick on a label, and place it on the line. Each of these tasks takes two seconds. Every ten seconds an assembly-line worker finishes five tasks.<sup>5</sup> Electronics parts and components flow by, and workers' youth is worn down by the rhythm of the machines. New workers are often reprimanded for working too slowly on the line, regardless of their efforts to keep up with the "standard" work pace. The assembly lines run on a 24-hour, non-stop basis.<sup>6</sup>

In the context of China, the national labor law stipulates a 40-hour regular working week, which can be extended by a maximum of three hours a day or 36 hours a month, and only when workers consent. This translates to a maximum working week of 49 hours. While Apple requires its suppliers to meet the working hour standards stipulated by applicable laws, in reality it fails to monitor the working conditions. Workers at Foxconn reported that overtime work was compulsory. To meet the deadline, they were subjected to 13-to-1, and under extreme conditions, 30-to-1 work-to-rest schedules, that is, just one day off a month.

Just before Christmas in 2014, BBC's Panorama broadcast a one-hour feature entitled "Apple's broken promises".<sup>7</sup> The Panorama team, in multisite field investigations, found an exhausted Chinese workforce making Apple's iPhone 6s in Pegatron's Shanghai plant, as well as children toiling in tin mines in Indonesia to supply materials for the phones, facing the threats of landslides, injury and death. Excessive raw material extraction and illegal industrial practices have caused irreversible destruction to our planet and its people. With the corporate drive to produce every new iPhone and cannibalize all previous models, the green revolution proclaimed by Apple and its suppliers has been overwhelmed by corporate and consumer demand for new products.

Worse, teenage student interns, in China and in many programs throughout the world, have become a source of super-exploited labor. Foxconn student interns were subjected to the same working conditions as regular workers, including alternating day and night shifts, 10 to 12-hour workdays, six to seven days a week during peak seasons, and with extensive overtime. This was despite the fact that the Chinese educational law clearly stated that "interns shall not work more than eight hours a day", and that "interns shall not work overtime beyond the eight-hour workday". Not only must interns' shifts be limited to eight hours, all their training is required to take place during the day to ensure students' safety and physical and mental health, in accordance with the Law on the Protection of Minors.<sup>8</sup> Foxconn systematically violated the letter and the spirit of the law governing interns.



Good internship programs are practice-oriented and participatory, contribute to students' growth and development, and are related to their field of study. But interning students are like robots on the production lines. They repeat the same procedure for hundreds and thousands of times every day. And they are required to complete the "internships" to be able to graduate.

Under Chinese law, student interns are *not* classified as employees – even though they perform identical work to other production workers – and employers do not enroll them in government-administered social security (including old age pensions, medical benefits, maternity benefits, work-related injury benefits, and unemployment benefits). Just a quick look at the mathematics reveals that, for a total of 150 000 student interns working in various Foxconn factories during one month in the summer season, the savings from not providing them with social security alone is roughly  $150\,000 \text{ persons} \times 100 \text{ Yuan} = 15 \text{ million Yuan}$ . While this is a simplified exercise, it conveys a good sense of employer savings, and this is for only one month's insurance expenditure, while many interns work for a year. By dispensing with all these benefits, Foxconn saves money.

Foxconn is not the only black sheep. In a new school semester in the fall of 2018, nearly 200 student interns, with some as young as 16, were required to do excessive overtime through the night to build Apple Watches Series 4 at Quanta's factory in Chongqing, southwest China. They were placed in jobs unrelated to their studies.<sup>9</sup> "In electronics", Chad Raphael and Ted Smith comment, "lightning-fast product cycles and seasonal surges in consumer demand push suppliers to impose intense work hours and forced overtime, and to add droves of temporary workers to assemble the next new device to meet product launch deadlines determined by the brand owners".<sup>10</sup> Under this circumstance, students recruited from vocational schools are cheap labor on-demand. By law Chinese employers are permitted to pay student interns only 80 percent of the income offered to full employees on the job, regardless of whether the students' productivity is less than that of ordinary employees.

## SUMMARY

The global sweep of outsourced production and sales of iPhones and smart wearables are defining features of capital and consumption in our digital world. From the labor perspective, the discrepancy between fair labor policies as enunciated by Apple in its supplier code of conduct and the reality on the supplier factory floor remains huge. Suppliers compete against each other for orders to maximize their own profits. The results include neglect of workers' need for rest time and their right to refuse overtime, and repression of workers' demand for higher income and better benefits. Benjamin Selwyn concludes that "chain governance represents a lead firm value-capturing strategy, which intensifies worker exploitation" in China and other economies.<sup>11</sup>

In this sense, the worker suicide tragedy, and subsequent strikes and protests, are best understood as collateral damage that are the product of the combined activities of international capital and the Chinese state in global capitalism. Student interns, along with many low-wage unskilled workers, face great pressures in the face of flexibilization of production of services and goods around the globe. It is a cruel irony that internship is not performed for the benefit of the intern. Some employers went as far as renaming "internships" as "social practice programs" and "service learning" to evade basic responsibility, while advancing their interests.

Different Chinese units such as the government trade union, the police, and the courts have responded to worker resistance in diverse ways, contingent in part on the actions of local and international labor organizations. To realize decent work in the global economy context, long-term monitoring of labor conditions, with workers' active participation in the decision-making process, is necessary.

## QUESTIONS

- 1 How should Apple collaborate with its major suppliers (e.g., Foxconn, Pegatron and Quanta) to ensure adherence to high labor standards in China and other countries?
- 2 Is flexible employment and precarious labor prevalent in electronics manufacturing? Why?
- 3 Can the Chinese government hold Apple (and other tech multinationals) accountable to workers' rights in the manufacturing process?
- 4 How do Chinese workers, including student interns, seek to improve their working conditions at the supplier level?

## END NOTES

- 1 Sean Starrs, 2015, "China's Rise is Designed in America, Assembled in China", *China's World*, 2(2), 11–23.
- 2 Jason Dedrick and Kenneth L. Kraemer, 2011, "Market Making in the Personal Computer Industry", *The Market Makers: How Retailers are Reshaping the Global Economy*, edited by Gary G. Hamilton, Misha Petrovic and Benjamin Senauer, Oxford: Oxford University Press, p. 303.
- 3 Jenny Chan, Ngai Pun and Mark Selden, 2013, "The Politics of Global Production: Apple, Foxconn, and China's New Working Class", *New Technology, Work and Employment*, 28(2), 100–115.
- 4 Jason Dedrick, Greg Linden and Kenneth L. Kraemer, 2018, "We Estimate China Makes only \$8.46 from an iPhone – and That's Why Trump's Trade War is Futile", *The Conversation*, 7 July.
- 5 The usual time for completing the Standard Operating Procedure (SOP) in assembly is 25–30 seconds. Put it in context: 30 seconds is not long, and workers are working very hard on repetitive tasks.
- 6 There are exceptions. The assembly lines do not run during breaks or between shifts. Also, the time they run varies seasonally. Over a ten-month period at one of Apple's supplier facilities, for example, the median is 20 hours a day and the mean is 19. (Email communications with Professor Joshua Cohen on 28 November 2019.)
- 7 Panorama's "Apple's Broken Promises" on BBC One and iPlayer, 18 December 2014, accessed at <http://www.bbc.co.uk/iplayer/episode/b04vs348/panorama-apples-broken-promises>.
- 8 Jenny Chan, 2017, "Intern Labor in China", *Rural China: An International Journal of History and Social Science*, 14(1), p. 88.
- 9 Students and Scholars Against Corporate Misbehavior (SACOM), 2018, "Apple Watch Series 4: Still Failed to Protect Teenage Student Workers", October. Accessed at <http://sacom.hk/wp-content/uploads/2018/10/Apple-Watch-Series-4-Still-Failed-to-Protect-Teenage-Student-Workers.pdf>.
- 10 Chad Raphael and Ted Smith, 2016, "The Future of Activism for Electronics Workers", *The Routledge Companion to Labor and Media*, edited by Richard Maxwell, New York: Routledge, p. 330.
- 11 Benjamin Selwyn, 2019, "Poverty Chains and Global Capitalism", *Competition & Change* 23(1), p. 71.