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Thesis Topic

Taiwan's Path to Sustainability?
Discussion of CSR in the Case of Lite-On

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Advisor: Tang Ching-Ping

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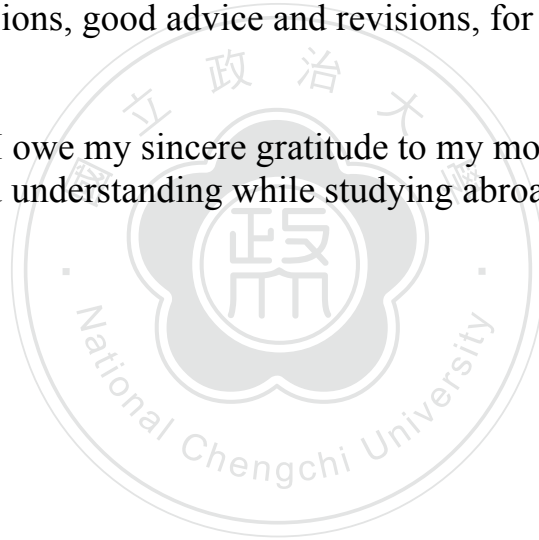
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Abstract

This thesis is focused on case study research of Corporate Social Responsibility (CSR) in the Taiwanese OEM/ODM corporation Lite-On. Lite-On provides a representative sample of Taiwan's key industry - the high-tech industry with OEM/ODM manufacturers supplying to global brands. The study has two objectives. The first objective is to introduce the CSR instruments currently used in electronics industry, with a special attention paid to their usage among Taiwanese companies. How successful is the implementation of CSR in the electronics supply chain? The second objective is to study the current status of CSR in Taiwan, while considering a wider context of business ethics and management practice in the Chinese communities. What factors shape the CSR in Taiwanese-invested corporations? After examining these objectives, the key research question of this study is to find out why Taiwanese companies facing harsh competition in the supply chain engage in implementation of corporate social responsibility programs. The thesis is divided into five chapters. First, theoretical concept of CSR and new role of multinational corporations in the global supply chain are introduced. The next chapter recounts the story of Lite-On corporation and its CSR practices, thereby offering a valuable micro-perspective on CSR in Taiwan. The study continues with analysis of legal and voluntary instruments that attempt to address the CSR issues. The final section portrays current status and understanding of CSR in Taiwan's business community and draws on CSR challenges.

Key words

Corporate Social Responsibility, Lite-On, OEM/ODM, global supply chain, Taiwan

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List of Abbreviations

ACFTU – All China Federation of Trade Unions

BSI – British Standards Institution

CCP – Chinese Communist Party

CDP - Carbon Disclosure Project

CLA - Council of Labor Affairs

CSER - Corporate Social and Environmental Responsibility

CSR – Corporate Social Responsibility

DNV – Det Norske Veritas

EICC - Electronic Industry Citizenship Coalition

EMAS – Eco-Management and Audit Scheme

E-TASC - Electronics – Tool for Accountable Supply Chains

FLA – Fair Labor Association

GeSI - Global e-Sustainability Initiative

GHG – Greenhouse Gas

GRI - Global Reporting Initiative

GRI G3 - Global Reporting Initiative Generation 3

GTSM - GreTai Securities Market

HR – Human Resources

ICT – Information and Communication Technology

IEM - Independent External Monitoring

IEV - Independent External Verifications

ILO – International Labor Organization

ISO – International Organization for Standardization

KMT - Kuomintang

KPI – Key Performance Indicator

LBG - London Benchmarking Group

LCD - Liquid Crystal Display

LED - Light Emitting Diode

MNC – Multinational Corporation

NGO – Non-governmental Organization

ODM – Original Design Manufacturer

OECD – Organization for Economic Cooperation and Development

OEM – Original Equipment Manufacturer

PR – Public Relations

RoHS - Restriction of Hazardous Substances

ROI – Return on Investment

SA – Social Accountability

SACOM – Students & Scholars Against Corporate Misbehaviour

SGS – Société Générale de Surveillance

TWSE - Taiwan Stock Exchange

UN – United Nations

VAP – Validated Audit Process



1. Introduction

1.1 Research Background

Social, cultural and technological changes over the last decades have caused a new, dominant characteristic in world economy: globalization. Simultaneously, the world has witnessed an unprecedented expansion of international political institutions, which increasingly prove unable to control the processes of globalization and their respective consequences. Globalization radically alters the shape of world economy, particularly by gradually removing governmental policies limiting transnational flows in the past. Neoliberal international trade, mergers and acquisitions, new international division of labor, foreign direct investment and joint ventures formed by various multinational corporations (MNCs) have gained significant importance.

The structure of multinational corporations can be characterized as follows: they are organized through sole headquarters, which decide about commercial operations and suppliers in other (often developing) countries. On the one hand, corporations contribute to economic development of such countries, create job opportunities and enable transfer of technologies. On the other hand, their operations also entail negative impacts, such as violation of labor and human rights, environmental degradation, interference into political affairs of sovereign states etc. Additionally, developing countries are characterized by their low standards and weak legislature, which amplify the negative impact of corporate operations. It must therefore be questioned whether the economic growth, generated by through such operations, is in any way legitimate and sustainable.

Even though multinational corporations are considered engines of economic growth for the world, universal prosperity is not achieved. Corporations, as principal agents of international relations, are responsible for the formation of an international environment, entailing respect of international regulations and laws. A great number of enterprises, including Taiwanese corporations, have shifted their operations to China. The world has thus become dependent on China as a location for production and manufacturing. In this way, the economic status of China is being reinforced, yet

the public is often not aware of the conditions, under which the production takes place.

The topic of Corporate Social Responsibility (CSR) is indeed a current issue. Since the outbreak of multiple economic crises, many people started to talk about the necessity to rebuild international institutions and reshape their policies. Accordingly, the president of the World Bank called the 21st century the century of “*responsible globalization: one that would encourage balanced global growth and financial stability, embrace global efforts to counter climate change, and advance opportunity for the poorest.*”¹ The challenge remains as to how leaders and individuals will translate this idea of transformation into action. It is obvious that the change will be impossible without strong cooperation and acknowledgment of responsibility.

Up to now, efforts to address the issues of Corporate Social Responsibility have stemmed from both the international community and the enterprises themselves. However, these efforts seem to be rather unsuccessful and fragmented. Media, non-governmental organizations and researchers still report increasing numbers of cases related to environmental and labor issues occurring in global production. In fact, it is very difficult to monitor the impact of business operations, especially in the developing world, and to determine who should bear the responsibility. The views on who should be held responsible differ gravely: some actors call for broadening of corporations’ legal liability to their subsidiaries and suppliers, others advocate voluntary commitments solely established and monitored by corporations themselves.

Past research and reports brought evidence that Taiwanese corporations tend to be labor-abusive,² both in Taiwan and their investment locations abroad. Taiwanese corporations make up the largest investor group in Mainland China (after Hong Kong), with the bulk of operations in the electronics industry. This is a labor-intensive industry with perplexed supply chains, thus entailing great risks to Corporate Social Responsibility. Furthermore, labor issues become more complicated to resolve due to China’s specific governing of the economy and the legislative environment - one prominent example being the non-existence of independent trade unions.

¹ The World Bank, 2009.

² For example Wang, 2005.

1.2 Research Objective

Media increasingly draw attention to environmental and labor conditions, under which production of goods takes place in the global factory - China. Yet, manufacturing businesses in China are to a great extent managed by Taiwanese corporations. Their management methods therefore play an important role in shaping CSR practices in their investment locations. The existing research on CSR down the supply chain of electronics manufacturing appears to overlook the management methods and other important characteristics instilled by Taiwan's business environment.

This thesis is focused on case study research of Corporate Social Responsibility in the Taiwanese OEM/ODM corporation Lite-On, which manufactures its products exclusively in Mainland China. The reasons for choosing the company Lite-On are threefold: *first*, it provides a representative sample of Taiwan's key industry, which is high-tech industry with OEM/ODM manufacturers supplying to global brands. *Second*, it matches the widely discussed issues of CSR in the production of electronics, especially the labor and environmental aspects and the perplexity of supply chains in this industry. *Third*, Lite-On has been developing its CSR program since 2008, and thus offers some usable data needed for the analysis.

A thorough research has been conducted about CSR of global brands in various industries, including Nike, Starbucks, Apple and others. However, only few researchers studied about CSR of their first-tier suppliers that are often not known to the public and consumers. This study attempts to fill this gap by evaluating CSR from the perspective of Taiwanese first-tier supplier unknown to the consumer. What is the motivation of first-tier suppliers to develop CSR? What costs and benefits does CSR bring to them? How do they perceive the relations with other stakeholders: global brands, employees, governments in Taiwan and China, competitors, consumers, communities?

Besides employing a micro-perspective of CSR demonstrated in the case study of Lite-On corporation, this study has two objectives. *The first objective* is to introduce the CSR instruments currently used in the electronics industry, with a special attention paid to their usage among Taiwanese companies. How successful is the

implementation of CSR in the electronics supply chain? *The second objective* is to study the current status of CSR in Taiwan, while considering a wider context of business ethics and management practice in the Chinese communities.³ What factors shape the CSR in Taiwanese-invested corporations? Only after taking a closer look at the global supply chains and local characteristics of the business environment, the relationship between business and society, legal framework and voluntary CSR instruments can a discussion about Taiwan's path to sustainability be opened.

1.3 Research Design

This study uses primary and secondary data from multiple sources. The primary data was collected between February and June 2012 through interviews and correspondence with experts on CSR and employees in Taiwan. A thorough search in the globally used CSR databases has been undertaken in order to gather information about activities of Taiwanese corporations. The primary data provides a valuable picture of labor and environmental conditions in these companies. The secondary data includes theoretical literature on CSR and business ethics, research papers, articles from journals and media. Furthermore, the secondary data consists of statements about CSR issued by relevant ministries, companies' annual reports and CSR reports, and evidence collected by journalists, non-governmental organizations and academics in Taiwanese-invested factories. The secondary data helps accommodate the needs of this study and thus provides an indispensable source of information.

The key research question of this study is to find out why Taiwanese corporations facing harsh competition in the supply chain engage in implementation of corporate social responsibility programs. What are their motivational factors? What benefits do they draw from CSR? What is the cost distribution of CSR activities?

³ The term "Chinese communities" in this thesis not only refers to Mainland China, but also to areas deeply influenced by Chinese culture, such as Hong Kong and Taiwan. If there will be reference to Taiwan or Hong Kong in order to express local differences, terms "Taiwanese" and "Hong Kong" will be employed respectively. "PRC" will be used to refer to Mainland China excluding Hong Kong. The idea is to tackle business behavior in relation to business ethics and CSR in the Chinese populated areas, although regional differences may exist. Moreover, Hong Kong and Taiwanese corporations are the biggest investors in Mainland China and the whole region is interrelated.

1.4 Organization of Chapters

After the first introductory chapter, the second chapter provides an overview of the new role played by multinational corporations in a globalized world. It also introduces the theoretical concept of Corporate Social Responsibility and stakeholder theory that are relevant to this subject. The third chapter portrays the picture of CSR in the global production of electronics and its selected risks, the labor issues in particular. The fourth chapter recounts the story of Lite-On corporation and its CSR practices, thereby offering a valuable micro-perspective on CSR in Taiwan. Responses to these labor issues and their effectiveness are analyzed in the fifth chapter. These consist of responses from various stakeholders, starting at the grass-root level (workers, trade unions), moving up to the industry coalition and cluster level (industry-wide initiatives such as the Electronic Industry Citizenship Coalition) and ending at the international community level (e.g. the United Nations Global Compact). The final chapter brings together the three pillars of CSR in Taiwan (environment, society and economy), local management practices and business ethics in the Chinese communities. In conclusion, it draws on motivation for CSR and current CSR challenges in Taiwanese companies.

2. Changes in the World Economy and the Need for CSR

2.1 Multinationals as New Powerful Actors of International Relations

The East India and West India companies, founded in the 17th century to carry out trade between metropolises and colonies, are considered forerunners of today's multinational corporations. The advent of industrial revolution and the development of maritime transport had shown that colonies could become markets for products originating in the metropolises, thus enlarging their role as providers of raw materials. Entities, which first obtained access to these new markets, were the early multinational companies. Yet, these companies were strongly tied to their home countries. Local governments were sponsoring them by various means. But soon, the aim of public interest had been transformed into economic growth, which could not have been pursued without the expansion of capitalist companies, including multinational companies.

The role played by state in world economy of the 20th century varied depending on external factors. Liberalism was a dominant ideology until the World War I; contrarily, policies of state interference into the economy prevailed until 1950. The position of the US as a victorious power after the World War II resulted into spread of Keynesianism and Fordism, which were characterized by state regulation. Multinational corporations managed to extricate from this Fordist system. They were driven by desire to avoid progressive taxation and to keep handsome profits they began to achieve.⁴ 1970's required strong governments due to series of crises. But once the crises were over, international competition re-intensified and requirements for more flexible and more entrepreneurial state policy re-appeared. State responded with deregulation, privatization and regulatory concessions to multinational entities, and thus voluntarily surrendered its economic power.⁵ Since the 1970's, responsibility of leaders has begun to shift to responsibility of companies.⁶

⁴ Lehmannova, 2003, p. 224.

⁵ Lehmannova, 2003, p. 226.

⁶ Blowfield & Murray, 2008, p. 57.

Today's state of the world economy may be called a system of flexible Post-Fordism or "flexible capitalism".⁷ It lies in the new organization of work, labor market, production and consumption.⁸ Emergence of Post-Fordism was primarily caused by technical changes and increasing competition, which resulted in shifting of industrial production in selected developing countries and their gradual industrialization. Multinational companies, which initiated this shift, have not only become main actors of international trade, but also actors with exceptional power and influence on policies of sovereign states. Spatial reorganization, networking of relations and new business strategies further enabled this shift of power. Corporations managed to greatly benefit from scientific research, convert scientific results into profits and thus became driving force behind economic progress.

In economic theory, John H. Dunning has developed the "OLI model" (O - ownership, L - location, I – internalization) that describes division of corporate organisation between the developed and developing countries. Corporations from developed countries usually possess patent or brand name and thus have ownership advantage and seek foreign direct investment (FDI) abroad. Developing countries offer cheap labor, growing market, tax incentives, raw materials and other factors attached to the location, but at the same time are motivated to engage in FDI in order to maximize the location advantage. The production is finally internalized under the scope of foreign direct investment if the corporation realizes that its own production is more beneficial than licensing or joint venture.

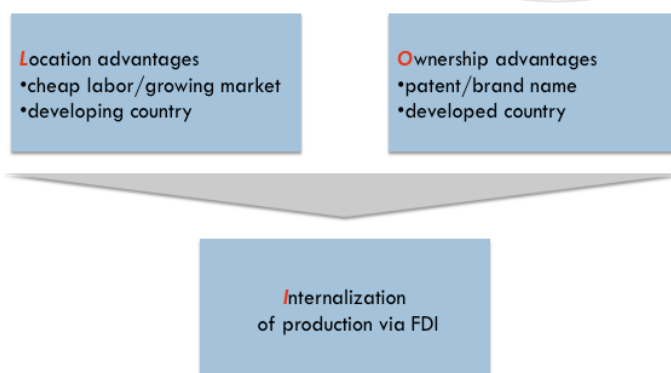


Figure 1: The OLI model by Dunning.

Source: Based on Cantwell & Narula, 2003.

⁷ Dunning, 1997, p. 33.

⁸ Lehmannova, 2003, p. 225.

The current shape of world economy, increasing mergers and acquisitions, relentless competition, scientific and technological progress, pressure to reduce costs and more demanding consumers have led the corporations to transfer their operations into developing countries. Capital of these corporations can be better raised in the developing countries with cheap factors of production. On the one hand, foreign direct investments by multinational corporations bring wealth, technology and new business opportunities for local entrepreneurs. Additionally, this transfer enables corporations to generate higher revenues. On the other hand, developing countries, including China, face serious problems, such as poverty, illiteracy, unemployment, inadequate legislation, corruption etc. Multinational corporations, entering these areas with new job offers and promises of better living standards, have an unprecedented bargaining power. Corporate turnovers sometimes exceed gross domestic product of developing countries, which further strengthens the position of MNCs in international relations.

Today, there are about 82 000 of multinational corporations in the world with more than 810 000 subsidiaries.⁹ Corporations usually have headquarters in the home country, where they are also subject to local legislation. Simultaneously, their subsidiaries and companies in the supply chain operate in developing countries. However, these are subject to legislation of developing countries, where decent working conditions and sufficient environmental protection are often not guaranteed. Law enforcement in these countries remains difficult too. Therefore, direct and indirect effects of multinational corporations' operations in developing countries may lead to exploitation and other negative phenomena. The impact caused by activities of multinational corporations, their subsidiaries and other components in the supply chain, may not always be positive to the communities in which they operate.

Flexibility has become the key to success today. Companies perceive flexibility as a very positive asset: flexible agents are able to respond effectively to information and impulses, use them to their advantage and empower individualism. The ability to be flexible enables companies to gain competitive advantage in the market. Corporate strategies resulting from the all-society demand for flexibility are characterized by flexible forms of ownership and internal organization.

⁹ World Investment Report, 2009, p. 17. Note: Number may vary depending on the definition of a multinational company.

In order to facilitate geographical transitions, corporations choose the strategy of subcontracted suppliers. Subcontractors assemble and complete goods in developing countries with low standards, particularly in China. Lehmannova et al. refers to these subcontractors as to *network organizations*¹⁰ with following characteristics: “*In a network organization, trade unions are usually banned and collective bargaining between employee and employer does not exist. Flexible system of work organization increasingly uses cheap labor of women, and thus exploitation, especially among migrant workers and in developing countries, is growing.*”¹¹

Although strategies reflecting flexibility generate huge profits for companies and individuals, it is questionable whether such system can be sustainable, notably if all elements of the system behave individualistically. In this context, Lehmannova et al. talk about decline of civil society, which is manifested by a *weakening sense for solidarity*. Civil society should be restored by conscious activities of people, which shall result in voluntary help and self-help actions that should revitalise the sense for solidarity.¹² Many citizens and companies use their funds for charitable purposes. Undoubtedly, such behavior is praiseworthy, however, it mitigates the unfavourable consequences of globalization in the short run only. If sustainable growth is to be achieved in the long run, a revision of current individualistic system and greater responsibility of its actors are indispensable.

The financial and economic crisis of 2008 has proven to be the case in point. Breakdowns of major financial institutions and declines in stock prices have shown that the Wall Street-dominated system worked against sustainable and socially equitable development. Consequently, new innovative models are being sought. One of them could be the model of Corporate Social Responsibility.

¹⁰ Lehmannova, 2003, p. 228.

¹¹ Ibid.

¹² Lehmannova, 2003, p. 248.

2.2 Classical Model of Corporate Social Responsibility

The classical model of CSR has its roots in neoclassical economic theory and by all means had the biggest impact on entrepreneurship in the 20th century. In the classical model, the sole responsibility of corporation is to maximize profit while abiding to the law. This concept is based on the role played by businesses in market economy and free society. The most famous pioneer of the classical model of CSR was Milton Friedman. In his book *Capitalism and Freedom* published in 1962, he argues that the sole responsibility of enterprise in a free economy is to use its resources and engage in activities that lead to increase in corporate profits. The social responsibility of managers is then to earn as much as possible for the business owners.¹³

To a large extent, Friedman's approach is based on private property right. Company is understood as an object of private property whose owner has the right to dispose of the property at his own discretion. The point is that manager is the company owner's employee and directly reports to him (them). Manager's responsibility thus should be in accordance with owners' requirements and desires, which are usually associated with profit maximization and minimum ethical business practices. If the owner of company decides that the company's primary goal will be to benefit employees and community, then any decision fulfilling such goal would be correct. However, if the owner seeks maximization of company's value in the market, such decision would be irresponsible. Managers would use resources to pursue their own goals. Some CSR experts call this conception of corporate citizenship, where shareholders are the greatest beneficiaries, as *minimalist*.¹⁴

Yet, in the market economy, there are many situations under which the effort to maximize profits does not benefit society and consumers. Economists call them market failures: most often they refer to environmental pollution and waste of resources. Costs associated with these problems are not paid by seller or buyer. Therefore, agreed price for a good is not balanced and does not reflect the real costs and benefits. As a result, there is no optimal distribution of costs and benefits, which would have been achieved only by regulation of the market and internalization of these externalities.

¹³ Friedman, 2002, p. 133.

¹⁴ Locke, 2002, p. 3.

Another example of market failure is public goods. These include clean air, underground water, fish in the oceans, safe streets, etc. It is difficult to create realistic pricing mechanisms that would evaluate these assets. However, without knowing the specific price, the market cannot ensure a fair allocation of these goods. Thus, it is unclear whether market mechanisms are able to ensure the optimal satisfaction of public interest regarding the public goods. If these goods are to be preserved, it is desirable to design an additional mechanism: *utilitarian approach*.¹⁵ This approach revises the classical model of social responsibility and the role of managers through consequence ethics: the profit maximization may result in increase of public welfare, but managers must consider a number of others - non-financial - consequences of their decisions.

The classical approach argues that the state should effectively deal with market failures. Once these market failures are properly addressed by the state, the corporate responsibility is limited to compliance with law and satisfaction of consumers' demand. However, this is possible only provided that business does not affect the formation of legislation and that the government only creates laws and regulations that are to benefit everyone. In practice, however, the legislation is formed under the pressure of lobbyists and this assumption is not fulfilled. The corporation Lite-On and Taiwan's government are the case in point:

"We [Lite-On] engaged with Taiwan government to legislate relating GHG¹⁶ emission regulation to enforce the GHG reduction over all the industrial sector. We participated in the seminar sponsored by government for checking the legislative progress of GHG reduction act. Besides, we also push Environmental Protection Association to act the taxation of carbon. And, government has initiated organizing an office to coach industry joining the Carbon trading."¹⁷

Similarly, the second assumption that the business passively satisfies consumer demand may be disputed too. Today, companies use many marketing instruments in order to stimulate demand or entirely create artificial demand.

¹⁵ DesJardins, 2006, p. 55-63.

¹⁶ Greenhouse Gas; the issue of greenhouse gas emissions in Taiwan will be elaborated in the chapter 6.

¹⁷ Carbon Disclosure Project, 2009.

According to Friedman, compliance with law is the only restriction on corporate activities when achieving the profit maximization. However, the experience has shown that compliance with law is not sufficient if the company's behavior is to be considered as *ethical*. First, many ethical failures (e.g. the accounting scandal of Enron) led to the formation of new legislation (e.g. Sarbanes-Oxley Act in the US) or its reforms.¹⁸ Some corporations abide by voluntarily commitments beyond law, which are subsequently enacted, thus leading to legislative reforms and improvement of business environment.

Second, Friedman assumes that whatever is not explicitly illegal, is socially responsible. Yet, legal standards are often ambiguous and lawyers interpret law in different ways. Moreover, in China, law cannot be interpreted by other than Chinese entities. When necessary, foreign companies have to ask Chinese specialized legal agencies to represent them. Sometimes, ethical problems arise when lawyers expand the defensibility of the managerial decision in question during the judicial process. Some corporations even calculate costs and benefits resulting from unethical or illegal behavior depending on the probability of legal action and win or failure in the judicial process.

As described above, violations of assumptions of classical model, existence of market failures, ambiguity of law and negative consequences of purely market behavior prove that free market may not be adequate tool to maximize profit. Moreover, this goal may not always be considered as ethical. Thus, it has become a common practice for managers to engage in philanthropic activities in order to return what business takes from the society. This approach extends the traditional view of CSR presented by Friedman, yet it still focuses on maximization of shareholders' wealth and optimization of efficiency.

The World Bank defines Corporate Social Responsibility as "*the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life, in ways that are both good for business and good for [international] development.*"¹⁹ Although many other definitions are used in Europe, the one

¹⁸ DesJardins, 2006, p. 63.

¹⁹ Blowfield & Murray, 2008, p. 13.

provided by the World Bank seems to be prevalent in Asian academic and business community.²⁰ In practice, the CSR concept usually consists of three pillars (economic, social and environmental) with respected stakeholders and activities. Companies' CSR reports often follow this *triple-bottom line* framework too.



Figure 2: Three pillars of CSR and related activities.

Source: Adapted and translated from Putnová & Seknička, 2007.

However, the practical usage of CSR framework differs from the theoretical model described above. In the most commonly used framework for CSR reporting – the Global Reporting Initiative (GRI)²¹ - the three pillars are not balanced. Instead, companies report about indicators grouped in six areas:

- Environmental (30 indicators)
- Labor practice and decent work (14 indicators)
- Human rights (11 indicators)
- Economic (9 indicators)
- Product responsibility (9 indicators)

²⁰ For example, CSR Asia defines Corporate Social Responsibility as “a company’s commitment to operating in an economically, socially and environmentally sustainable manner whilst balancing the interests of diverse stakeholders. We believe that stakeholder engagement is central to CSR.” CSR Asia website.

²¹ Described in the subchapter 5.4.5.

- Society performance (8 indicators).

In the GRI design, environmental criteria dominate over other groups of indicators. This results in companies paying more attention to environmental policies. Moreover, engaging in green operations has a demonstrable impact on company's cost reduction. Consequently, green issues become prioritized when it comes to company's budget decisions relating to CSR.

2.3 Stakeholder Theory

The stakeholder theory was added into the debate about the nature of responsibilities in the 1980's.²² It elaborates on the concept of Corporate Social Responsibility and seeks to incorporate ethical aspects into internal business processes. Stakeholder theory is based on the fact that each managerial decision has an impact on society. Corporation is seen as an entity whose activity is influenced by several stakeholders. Stakeholders include those with interest in company's activities and those touched by its business activities in some way. Stakeholder theory rejects the basic assumption of classical theory, that shareholders' interests take precedence over the interests of others. Corporations should therefore be accountable to its stakeholder groups, and stakeholders have the right to ask for this responsibility.

The historical evolution of legislation well portrays how various stakeholders started entering corporate activities. In the 19th century, the primary responsibility was to bring profits to owners. Only few existing trade unions claimed partial undertaking of responsibility for working conditions. In the 20th century, not only corporations extended their liabilities to other aspects (safety in the workplace, prohibition of child labor, setting of minimum wage, maximum work hours), but these aspects were also anchored in the law or international documents such as the ILO Declaration on Fundamental Principles and Rights at Work. It can be concluded that today, it is virtually impossible for companies to ignore stakeholders' interests.

²² Blowfield & Murray, 2008, p. 57.

2.4 Emergence of New Stakeholders

Since 1930s, when first corporate responsibility texts were published, the CSR debate has witnessed a considerable boom. The US New Deal, European concept of welfare state, nationalization, emergence of state enterprises after the World War II and eventual shift from individual leaders' responsibility to corporate responsibility all shaped this development. The debate culminated in the 1970's and 1980's, when the classical concept of CSR presented by Milton Friedman was juxtaposed with the stakeholder theory. Since 1980's, CSR has become a widespread management practice in the developed world. Major corporations began to implement environmental management systems and corporate social performance in the 1990's. Mid-1990's then marked emergence of stakeholder partnerships. After 2000, the corporate world has witnessed an abrupt rise of new, more complex CSR topics: business, poverty and sustainability.²³ This evolution of CSR has not only altered the traditional preference for shareholders, but has also brought about a large number of new stakeholders that corporations need to take into account.

Undoubtedly, the model of corporate citizenship has shifted from minimalistic to encompassing, where managers are responsible to a number of stakeholder groups. Media, non-governmental organizations and consumers have emerged as relatively new, but powerful stakeholders. Public has become more attentive to labor and environmental issues, including the issues associated with production of cheap, popular goods in developing countries. Until recently, the attention was focused on garment and footwear industry. But with massive expansion of personal computers and electronic devices, more evidence about violations of labor rights in the high-tech sector is brought up.

Based on investigation by a Swiss journalist,²⁴ the average price for which a notebook was sold in Switzerland in 2008 was 2 200 Swiss Francs (about 2 400 USD), while its value at the moment of leaving factory in China was 175 Swiss Francs (about 190 USD) only. On the one hand, multinationals must invest in the research and development, logistics, packaging and other costs. On the other hand, a significant

²³Based on Blowfield & Murray, 2008, p. 57.

²⁴ TSR, 2008.

proportion of corporate margin still goes to top managers' premiums and dividends to shareholders. The difference between retail price and production price being almost thirteen fold, many consumers wonder about the actual cost distribution and demand more transparency and justice in supply chains.



3. Production of Electronics and Selected CSR Risks

3.1 Magnitude of the Production

China is often being referred to as a “global factory” due to economies of scale, which multinationals are capable to achieve there. The massiveness of the production that takes place in China is evident for the high-tech industry, which is a sector dominated by Taiwanese corporations. The change in importance of global production in China between 1980 and 2007 is demonstrated in the chart below:

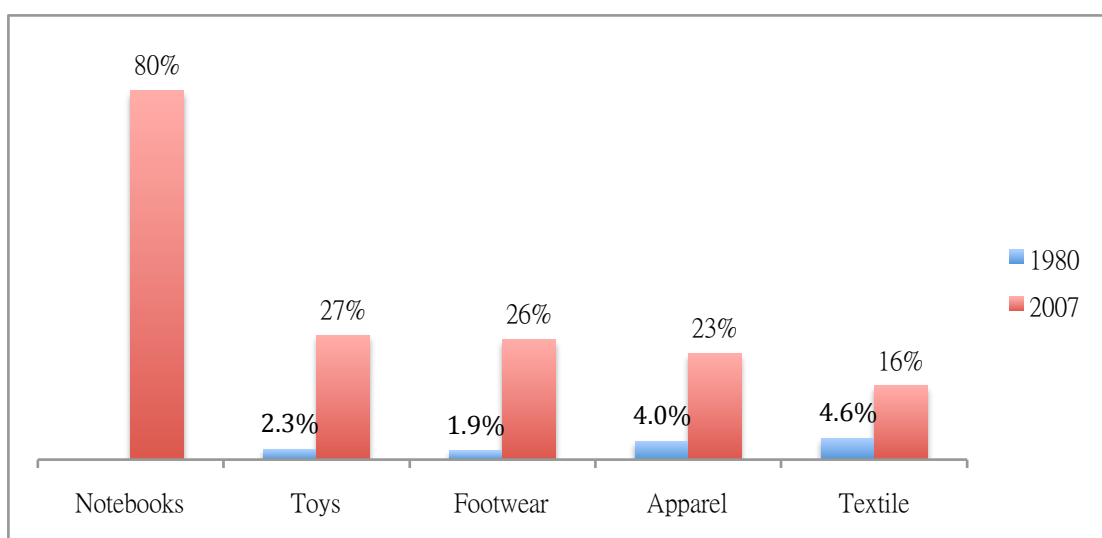


Figure 3: Percentage of global output of selected categories of goods produced in China in 1980 and 2007.

Source: Data based on Lardy, 2007.

Taiwanese entrepreneurs entered Mainland China earlier than most Western entrepreneurs, motivated by low labor and land costs, cheap and abundant resources and size of the market. Particularly in the production of electronic goods, where much labor is needed, the motivation to relocate Taiwanese factories was clear-cut. In fact, many Taiwanese manufactures established their operations in China in 1989, the year in which foreign governments and international institutions suspended their FDI commitments and loans to China due to the Tiananmen Square incident. Even though foreign direct investment regimes between Taiwan and China were not fully liberalized at that time, ethnic connections enabled entrepreneurs to by-pass official

restrictions and gain competitive advantage. Statistics on the magnitude of Taiwanese investments (including unofficial investments) in Mainland China vary, but they are estimated to amount up to 400 billion of USD cumulatively since the late 1980's.²⁵ At the same time, there are about 1.5 million Taiwanese people permanently working in China.

Nowadays, multinational corporations may have up to thousands of first-tier suppliers in China. For example, Sony claims to have about 4 000 first-tier suppliers in China whose CSR policies are being monitored by the corporation.²⁶ Yet, contrarily to corporate reports, media bring more evidence that environmental and labor standards are not respected in the production of electronics. Due to perplexity of supply chains and raw material suppliers in this industry, monitoring of the situation remains a challenging task.

3.2 Perplexed Supply Chains

The production of electronics is the key industry in the region of Mainland China and Taiwan. At the same time, it poses many risks to the Corporate Social Responsibility due to existence of perplexed supply chains across national borders and due to a great number of various components and raw materials entering into the production and assembly operations. With reference to Lite-On, the perplexity of supply chains may be illustrated by the following simplified scheme:

²⁵ McKinsey&Company, 2012.

²⁶ SOMO, 2009, p. 5.

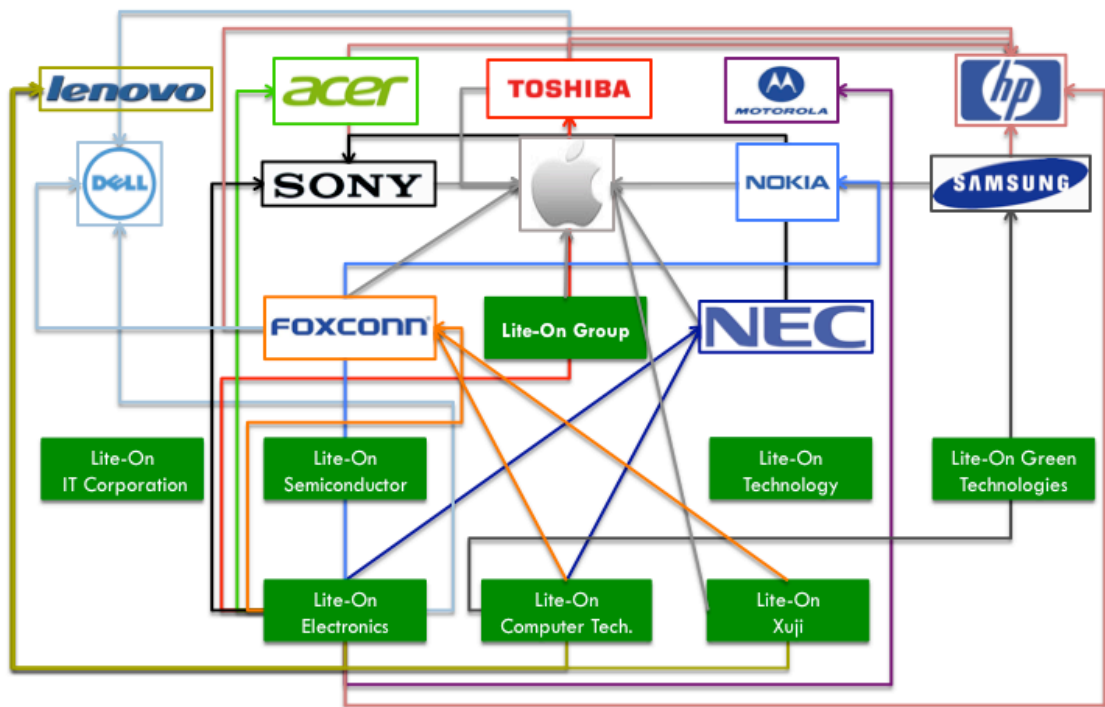


Figure 4: Perplexity of supply chains in the production of electronics (selected first-tier suppliers and buyers).

Mixed sources: Apple, 2012; Dell, 2011; HP, 2011; Lite-On, 2012; Sony, 2012; Toshiba 2012; SACOM & Pain pour le Prochain, 2008.

Apple (US), HP (US), Dell (US), Toshiba (Japan), Acer (Taiwan), IBM (US), Lenovo (China), Motorola (US), Sony (Japan), Nokia (Finland), Samsung (South Korea), Hitachi (Japan), Microsoft (US), LG (South Korea), Logitech (Switzerland), Siemens (Germany), Foxconn (Taiwan) and NEC (Japan) are Lite-On's customers. Since 2011, three multinational companies (Dell, HP and Apple) have made their list of first-tier suppliers public: Lite-On Group is on the list of all the three corporations. The list of Lite-On's suppliers is not yet publicly available, but according to the Lite-On's 2009 CSR report, roughly 90% of its vendors are local manufacturers in Mainland China.²⁷

Fast pace of development of electronics and perplexed supply chains in the IT industry involve many challenges to Corporate Social Responsibility. Over the past decade, stakeholders started to call for *ethical supply chain*, trying to bring more justice into global production processes and improve the working conditions. Yet, the real setting of supply chain seems to work against this: engineers are given less time

²⁷ Lite-On CSR Report, 2009, p. 98.

to develop electronic products. For example, the time period for design of mobile phones was shortened from 15 months in 2006 to 9 months in 2011.²⁸ In reality, many labor issues down the supply chain occur as a consequence of *shorter development periods, just-in-time methods of production, demand volatility and frequent last moment changes to products* that global brands ask from their suppliers.

3.3 Most Common Labor Issues

*“Having a code of conduct and being part of an industry initiative on workers’ rights has become standard practice for multinationals. But there are big differences in the toughness of codes, how rigorously compliance is monitored and how remedial action is taken.”*²⁹

Clearly, Lite-On is not the only corporation where violations of labor law and corporate code of conducts occurred. Non-governmental organizations and media bring more evidence about sweatshop conditions in the production of electronics that takes place in developing countries. For example, in 2010 there was a total of 424 labor strikes at companies in Vietnam, out of which 128 occurred in Taiwan-invested companies.³⁰ Besides NGOs, academic researchers also bring evidence about labor law and code of conduct violations in Taiwanese and Korean corporations from their fieldwork abroad.³¹ The problem seems to be industry-wide and involving changes and challenges of the IT industry in the region. The difference is how and if the companies down the supply chain approach the problems.

In Taiwan itself, illegal practices, issues of overwork and occupational illnesses are not uncommon. Media pay increasing attention to the problem, harming the image of Taiwan’s high-tech industry both domestically and internationally. Between January and June 2011 only, the Council of Labor Affairs of Taiwan sanctioned about 300 high-tech companies for ignoring workers’ fundamental labor rights.³² Yet, Chinese workers still prefer working for Taiwanese companies if they are given the choice

²⁸ Taipei Times, May 8, 2011.

²⁹ The Economist, March 31, 2012.

³⁰ American Chamber of Commerce in Vietnam, 2011.

³¹ Wang, 2005.

³² CommonWealth Magazine, August 10, 2011.

between Chinese and Taiwanese employer. The Western companies rank among the most desirable employers.³³

The most frequent labor issues occurring in facilities in China may be summarized as following:

- Workers do not receive their working contracts;
- Workers work excessive working hours without overtime pay;
- Workers are paid lower than minimum statutory wages;
- Workers are forced to work and work overtime;
- Health and safety risks are frequent due to insufficient or non-existing protection;
- Child labor occurs;
- Free trade unions do not exist;
- Authoritarian factory regulations and harsh management are common.

Factories, as direct employers of labor force, bear the responsibility for compliance with labor law and ILO international labor standards, by which China has abided. According to the International Confederation of Free Trade Unions,³⁴ monitoring of labor conditions and compliance with labor law in China by state institutions is very weak. Tens of millions of seasonal workers often work without labor contracts, do not receive minimum wages, their superiors falsify workers' payrolls and do not pay workers accordingly or deduct certain amounts directly from their wages. Sometimes, the calculations of hourly wage are intentionally complicated, so it is difficult to recalculate and verify them. Often, workers are not instructed in the content of working contracts neither in employer's duty to pay at least minimum wage. Another issues include lack of transparency, inaccuracy of government statistics, difficult law enforcement and corruption practices.

Companies in Taiwan have been subject to criticism for similar sweatshop conditions as reported in Mainland China: child labor, excessive and forced overtime working, deduction of overtime wages, cutting labor benefits, poor health and safety conditions, monitoring of employees' movement, employers' sabotaging of trade unions, violation of Labor Union Law, underreporting of employees' wages to the

³³ Dragon Business Network, March 1, 2011.

³⁴ International Labor Organization, 2007.

Labor Insurance Bureau etc. According to the statistics, two workers die from overwork every 15 days. Yet, workers' salaries in 2012 remain at the same level as in 1999 and 42.83% of total workforce earned less than 30 000 NTD per month in 2012.³⁵ Furthermore, even big Taiwanese companies prefer hiring of temporary workers and contract work systems that allow them to push the labor costs down, but bring insecurity and non-stability for workers.



³⁵ Taipei Times, May 1, 2012.

4. Corporate Social Responsibility: Case of Lite-On

4.1 Lite-On Company Profile

Lite-On³⁶ is a large manufacturer of consumer electronics including LED (Light Emitting Diode) products, semiconductors, computer chassis, LCD (Liquid Crystal Display) monitors, motherboards, DVD, CD devices, modems, computer power supplies, phone camera modules, keyboards and other electronic components. It is the world's largest notebook adapter manufacturer with 60% of global market share;³⁷ other components represent large global market shares too. For the most part, Lite-On is an OEM (Original Equipment Manufacturer), which manufactures its products for purchasing companies that retail them under their brand names.

Lite-On was founded in 1975 by former Taiwanese employees of Texas Instruments, an American company developing semiconductor and computer technology. Lite-On was also Taiwan's first manufacturer of LED products. The corporate headquarters is located in the Neihu Science Park in Taipei, Taiwan. Since 1983, Lite-On has been listed on the Taiwan Stock Exchange. About 50% of the company's shares are now held by foreign investors.

In 1989, Lite-On established its first production facility overseas (in Thailand). In 1997, the corporation expanded its manufacturing plants to 38 locations worldwide, including China. Lite-On may be described as a conglomerate of 9 consolidated companies grouped under the parent organization called Lite-On Group. These individual companies are global players and exist as independent divisions (mainly Taiwanese) with their own subsidiaries, manufacturing plants, customer service centers etc. Overall, the group runs 48 factories (mainly in China), 29 branch offices, 4 R&D centers and employs about 40 000 employees.³⁸ In China, Lite-On is among the top 10 Taiwanese companies in terms of facilities, revenues and employees. In

³⁶ There are different spellings of the company's name in English (光寶科技 in Chinese). *Lite-On* seems to be used most often and is also used in company CSR reports. Thus, the company's name will be spelled as *Lite-On* in this thesis.

³⁷ Lite-On website.

³⁸ Ibid.

2009, Lite-On established East China Regional Headquarters in Changzhou, Jiangsu province in Mainland China.

4.2 Lite-On Corporate Social and Environmental Responsibility

Before assessing Lite-On's CSER,³⁹ one has to bear in mind that the company's CSR is still in its initial phase. Among all the Lite-On subsidiaries, it is currently *only Lite-On Technology* that has developed a solid CSR strategy. The company's idea is to first test this pioneer Lite-On Technology CSR program and later implement it in other subsidiaries. Thus, all the information covered in Lite-On CSR reports relates to Lite-On Group's subsidiary *Lite-On Technology*.

The company's website describes Lite-On's CSR in the following way:

*“Lite-On Technology Corporation is committed to becoming a better global citizen. To achieve this goal, we have implemented a comprehensive Corporate Social and Environmental Responsibility (CSER) program. The program is designed to enhance corporate governance, environmental protection, community programs, and the health and safety of employees. (...) CSER mission is to give back to society what we receive. (...) At Lite-On we have implemented a CSR program with an emphasis on the environment.”*⁴⁰

Lite-On Technology has a total of 18 manufacturing sites, which are mostly located in Mainland China, except for one factory which is located in Thailand. Moreover, the number of manufacturing sites in China is growing, especially in Changzhou, where Lite-On is expanding its operations. The subsidiary's major operation centers, including sales centers, manufacturing sites, customer service offices and other premises are illustrated in the map below:

³⁹ Note: Lite-On employs the term Corporate Social and Environmental Responsibility (CSER) to refer to activities usually categorized under the term of Corporate Social Responsibility (CSR). The two terms CSER and CSR will be used interchangeably in this thesis.

⁴⁰ Ibid.



Figure 5: Location of Lite-On Technology's major operations centers.

Source: Lite-On CSR report, 2009, p. 17.

Lite-On started publishing Corporate Social Responsibility reports in 2006. The CSR reports for 2008, 2009 and 2010 are available on the company's website, both in Chinese and English. Comprehensive CSR reports based on the third-generation reporting guidelines of the Global Reporting Initiative (GRI G3) have been published since 2009. The 2009 report was verified by an independent third party, an inspection company SGS Taiwan, and met the highest A+ standards of GRI G3.

As for the year of 2010, Lite-On intentionally changed the format of CSR report in order to be more reader-friendly for stakeholders: the report may be downloaded from the website either entirely, or stakeholders may download a specific piece of information they are looking for without the need for downloading the entire report. This new format brings an advantage for the company, because it helps identify stakeholders browsing CSR section on Lite-On's website: before downloading the information about Lite-On's CSR, stakeholders are asked to specify their role (investor, customer, academia, labor union, NGO, supplier, media etc.).

4.2.1 Lite-On Group's Codes of Conduct

Lite-On has established two codes of conduct: the *Ethical Code of Conduct for Employees* and the *Lite-On Group CSER Code of Conduct*. The former was developed

earlier than the latter, but the company decided to keep both of them. The CSER Code of Conduct is based on international certification for social responsibility SA 8000 and EICC (Electronic Industry Citizenship Coalition) Code of Conduct. It covers areas of:

- *business ethics* (e.g. compliance with national and international laws, fair competition, safety of Lite-On products, respect of local traditions and values in the countries in which Lite-On operates, disclosure of information etc.);
- *labor* (e.g. working hours, wages and benefits, human treatment, non-discrimination, freedom of association etc.);
- *health and safety* (e.g. occupational safety, incident and illness, industrial hygiene, emergency preparedness etc.);
- *environment* (e.g. establishment of environmental management system, reduction of environmental impact in the supply chain, application of the design-for-the-environment principles etc.);
- *management system* (e.g. management accountability, risk assessment and management, training, audits, etc.);
- *corporate governance* (e.g. financial transparency, public reporting, inviting independent directors to the audit committee etc.);
- *community involvement* (e.g. contribution to social and economic development in the communities, encouraging people to participate in community and civic affairs).⁴¹

The Lite-On Group CSER Code of Conduct is supposed to cover all Lite-On Group subsidiaries and refers to company's employees at all levels. In case of violation of the code of conduct, the company claims to conduct an investigation by the management and the legal department.

4.2.2 Managing CSR in Lite-On Technology

In 2008, Lite-On Technology established the CSER Committee to manage its CSR program. CSER Committee is a virtual organization that consists of board members, top managers and the Cultural Foundation. Lite-On Technology corporation employs three full-time employees to deal with CSR matters. Furthermore, company's CSER

⁴¹ Lite-On Group CSER Code of Conduct.

is handled by five working groups: *people & community, green design, environmental & supplier CSER compliance, public relations, green operation*. About 20 major coordinators are estimated to be responsible for CSER goals and overall about 200 employees are engaged in the CSR activities.⁴² The organizational structure of the CSER Committee is demonstrated in the scheme below:

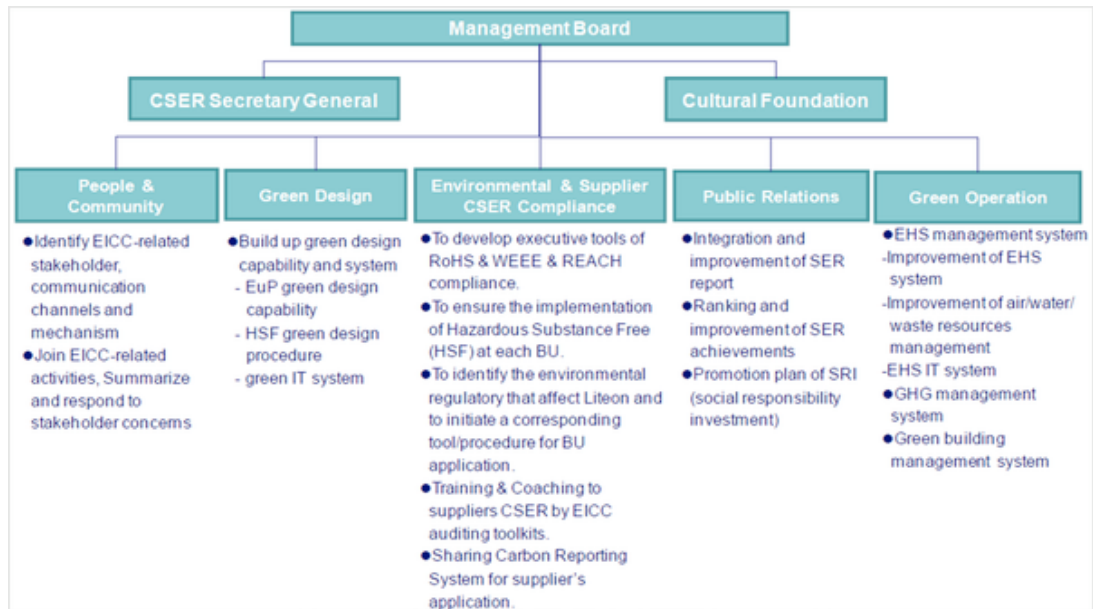


Figure 6: Lite-On Technology's CSER Committee and its responsibilities.

Source: Lite-On website.

The CSER in Lite-On Technology is put into practice via top-down approach: the top management sets annual competitive goals that are assessed in quarterly meetings. Lite-On has set a total of 14 KPIs, which are linked to particular on-site managers and thus fall under their individual responsibilities. The KPIs include both the environmental (e.g. greenhouse gas emissions, electricity consumption) and social indicators (compliance with the Electronics Industry Code of Conduct, overtime work, community involvement). The implementation may be shown on the example of Greenhouse Gas emission KPI:

“CSER Committee is to take the accountability for climate change in our Lite-on Group. At least, quarterly review meeting will be taking place there. It will

⁴² Personal interview.

review/approve the proposal GHG reduction plan and watch out the execution status on a regular basis.”⁴³

Lite-On uses the London Benchmarking Group (LBG) model to assess costs and benefits of CSR: each KPI has its ROI (return on investment), which is assessed yearly. The total CSR costs over a three-year period (between 2009-2012) in Lite-On Technology exceeded NTD 50 million.⁴⁴

4.2.3 Lite-On’s Key Stakeholders

The first chapter introduced the stakeholder theory and emphasized the companies’ necessity to care about various stakeholders. Lite-On CSER Committee collects, ranks, weighs and analyzes the most relevant issues regarding each group of stakeholders. In its CSER approach, Lite-On Technology has identified seven major stakeholders:

- Employees
- Customers
- Community
- Investors (shareholders)
- Suppliers
- Non-profit organizations
- Media.

Although not identified among Lite-On Technology’s key stakeholders, its *competitors* have a tremendous impact on the company’s CSER as it will be explained later.

⁴³ Carbon Disclosure Project, 2009.

⁴⁴ Personal interview. Lite-On Technology achieved a consolidated revenue of NTD 97.23 billion in 2009.

Employees and Lite-On Technology's CSER

Lite-On claims to uphold all labor laws and regulations and to comply with the Electronic Industry Code of Conduct designed by the EICC.⁴⁵ Auditors from SGS (an inspection and certification company, which also verified Lite-On CSR report for 2009) conducted EICC training classes in Lite-On factories in Dongguan, China in 2009.⁴⁶ Besides SGS, Lite-On invites experts from academia (e.g. South China Normal University in Guangzhou) and NGOs to give trainings. Lite-On has also developed training programs for operational and management levels on its manufacturing sites and a green supply chain training program for its suppliers. The trainings include various topics, from technology, engineering, to CSR. Due to the absence of computer access in the factories, operational workers are trained in educational classes. For managers, the training takes form of either a class or e-learning, which has been put into practice since 2007.

Employee benefits are meant to be the same for Taiwan and China. However, sometimes it is not easy to achieve same results on both sides of the Taiwan strait: e.g. in 2010, Lite-On launched a paid volunteer system in order to increase loyalty among employees. Lite-On's staff is encouraged to take part in volunteering activities and paid financial bonuses if they do so. But due to frequent overtime shifts, employees in China prefer relaxing to volunteering.

Customers and Lite-On Technology's CSER

Lite-On's customers are multinational corporations and leading brands in communication, computer and consumer electronics industries, such as *Apple, HP, Dell, Acer, Toshiba, Foxconn, Gateway, Hitachi, IBM, Lenovo, LG, Logitech, Microsoft, Motorola, NEC, Nokia, Samsung, Siemens* and *Sony*.⁴⁷ Regarding its relationship with customers and CSER, Lite-On states on its website that "*Lite-On's customers are increasingly requiring strong global citizenship of their suppliers. Customer satisfaction is one of Lite-On's core values.*"⁴⁸

⁴⁵ EICC's Code of Conduct usually serves as a model code of conduct in the IT industry. EICC will be introduced thoroughly in the chapter 5.

⁴⁶ SGS in China, 2009.

⁴⁷ SACOM & Pain pour le Prochain, 2008, p. 10.

⁴⁸ Lite-On website.

To a great extent, it is Lite-On Technology's global customers who shape its CSER policy by demanding a solid and reliable data set about Lite-On's environmental, social and financial performance. In 2011, Lite-On put great efforts into the development of framework for CSER data collection. In 2012, the company finally launched a virtual system of environmental accounting with 87 items. The company began to understand that the collection of raw data on its sites is very important and may eventually bring costs savings. Lite-On Technology has the ambition to further improve the CSER system by converting the raw data into 300 performance indexes. At the moment (June 2012), about one third of this system is already built.⁴⁹

Community and Lite-On Technology's CSER

Lite-On's community engagement is primarily demonstrated by activities of its *Cultural Foundation*. The activities are extensively covered in Lite-On's CSR reports. For example, the foundation supports underprivileged children, sponsors cultural and art events, holds industrial design competitions, tree planting and organizes education camps for Taiwan's indigenous youths. In 2000, the Cultural Foundation established Xinyi Community College. The company also awards young Chinese designers in the yearly Lite-On Awards and thus encourages applicants to submit green industrial design innovations.

Investors and Lite-On Technology's CSER

Lite-On Technology's corporate governance framework is composed of shareholders' meeting, board of directors, audit committee, compensation committee, internal audit and business teams. The board of directors consists of seven directors representing *four institutional investors* (Lite-on Capital Inc., Dorcas Investment Co., Da-Song Investment Co., Yuan Pao Investment Co.) and *three independent directors*. Lite-On Technology emphasizes being the only company in Taiwan to possess the compensation committee and having a highly authorized compensation system, in which only the three independent directors possess the right of resolution for the top management compensations. According to the company, investors provide a valuable feedback to the company's CSER via various communication channels.

⁴⁹ Personal interview.

Suppliers and Lite-On Technology's CSER

Lite-On main production facilities are located in Mainland China, as well as majority of the company's suppliers of components. Some of the Lite-On's suppliers in China, for example 3CEMS in Dongguan (which contributes up to 80% of revenues from Lite-On WLAN products),⁵⁰ have been working with Lite-On for several years, thus indicating a stable relationship in the company's supply chain. In its supply chain, Lite-On focuses primarily on improving environmental, health and safety aspects of its business operations. The corporation has developed a basic guideline based on the EICC Code of Conduct and asks suppliers' management to sign the documents and incorporate their own pledges guaranteeing the social responsibilities.

The emphasis is put on *green supply chain* and *green procurement*. The criteria for selecting subcontractors and suppliers follow principles of environmental management:

- Whether the supplier has an environmental management system;
- Whether environmental management requirements have been provided to material suppliers;
- Whether suppliers can meet Lite-On's concentration limits hazardous substances in materials.⁵¹

In relation to its CSER down the supply chain, Lite-On has developed a *supply quality management program*. Under this program, Lite-On identifies its critical suppliers as those with an approximate 30% share of revenues. These critical suppliers are targeted for audits by Lite-On and trainings about CSER. In 2011, Lite-On Technology carried out a total of 86 audits on its suppliers' facilities in China and organized 6 educational courses for them.⁵²

Non-profit organizations and Lite-On Technology's CSER

Lite-On Technology partners with associations mainly related to the industry in which the company operates (Taiwan Corporate Sustainability Forum, Taiwan Electrical and

⁵⁰ 3CEMS website.

⁵¹ Lite-On CSR Report, 2010. Note: Due to the new format of Lite-On 2010 CSR Report, it is not possible to indicate page numbers.

⁵² Personal interview.

Electronic Manufacturer's Association, Taiwan Optoelectronic Semiconductor Industry Association, Taiwan Thermal Management Association, The International Commission on Illumination, Climate Savers Computer Initiative, Digital Living Network Alliance, EICC, UPnP Forum, Wi-Fi Alliance, Photonics Industry and Technology Development Association, Renssealer Polytechnic Institute, Sinocon Industrial Standards Foundation, Taipei Computer Association and Taipei Neihu Technology Park Development Association).⁵³

Competitors and Lite-On Technology's CSER⁵⁴

Competitors play an important role in shaping Lite-On Technology's CSER. First, Lite-On Technology watches and benchmarks its competitors' goals. For example, for the reduction of electricity consumption, Lite-On Technology competitors' goal is a reduction of 1-2% over the period of three years (2011-2014). Lite-On Technology thus set the company's goal to reduce the consumption by 6% by 2014, taking the year 2011 as a basis. Second, the company also receives a valuable feedback on its CSR from its competitors.

4.2.4 Lite-On Technology's Certifications and Awards

All Lite-On Technology manufacturing sites are certified with environmental management mechanism ISO 14001 and the greenhouse gas inventory norm ISO 14064. The company pays attention to green product design, energy saving and green logistics, but due to high costs of the certifications and expanding number of plants, the company's plan is to acquire only those ISO certificates that are necessary. All business units are certified with quality management standard ISO 9001. Lite-On Technology plans to certify all its facilities by AA 1000 stakeholder engagement standard in 2012.⁵⁵

Lite-On Technology joined the EICC in 2008 and is one of the founding members of *Taiwan Corporate Sustainability Forum*. The company has also received numerous awards for its CSR efforts, for example awards by the *Global Views Magazine* consecutively from 2005 to 2012 and by the *CommonWealth Magazine* from 2007 to

⁵³ Lite-On CSR Report, 2009, p. 19.

⁵⁴ Personal interview.

⁵⁵ Personal interview.

2011, *National Civic Service Award* in 2009 and it became member of *Dow Jones Sustainability Index* in 2011/2012.⁵⁶

4.3 Labor Force in Lite-On⁵⁷

In 2010, Lite-On Group had a total of 42 468 employees: 40 674 working in China and overseas (mainly in Asia) and 1 794 working in Taiwan. Employee ratio accounts for 90.5% of employees working in China, 4.9% in Thailand, 4.2% in Taiwan and 0.4% in other places. Lite-On primarily employs local labor force in its overseas plants: in Thailand, 100% of employees are Thai; in China, 93% of employees are Chinese and in Taiwan, 99% of employees are Taiwanese.⁵⁸ In summary, most Lite-On employees are young Chinese workers aged less than 30 (86% in China) with a secondary or primary education (95.6% in China). Male workers represent 52% and female workers 48% in China.

4.4 Labor Issues in Lite-On Factories in Mainland China

In the period between 2006 and 2008, non-governmental organizations started researching about labor conditions in the city of Dongguan, Guangdong province in Mainland China, where Lite-On factories are located. Namely, the NGO interviewed workers in three Lite-On factories: Lite-On Electronics, Lite-On Computer Technology and Lite-On Xuji Electronics. The researchers have found several violations of China's labor law and Lite-On's CSR commitments in the three factories.⁵⁹ Besides Lite-On facilities, the NGO researched in four facilities, which belonged to other, mostly Taiwanese corporations: Yonghong Electronics, Primax Manufacturing, Tyco Electronics and Volex Cable Assembly.⁶⁰ Similar violations were detected in these facilities.

First, workers in Lite-On factories were forced to overtime work of up to 100-120 hours every month, while Chinese labor law (Article 41) sets maximum of 36 hours of

⁵⁶ Lite-On website.

⁵⁷ Based on Lite-On CSR Report, 2010.

⁵⁸ Note: figures are available for assistant manager level and above only.

⁵⁹ SACOM & Pain pour le Prochain, 2008.

⁶⁰ SACOM & Pain pour le Prochain, 2008.

overtime work per month.⁶¹ Workers were not given one day of rest per week and completed shifts of 10 hours and longer. Furthermore, there were frequent unpaid waiting times because of the shortage of raw materials causing suspensions in the operation of production lines. Another violation of Chinese labor law (Article 44) occurred in week-end overtime wage payments, when workers were paid the same overtime pay as on week-days instead of the double of regular wage as stipulated by the law.

Second, several occupational health issues were discovered, such as inadequate ventilation, non-provision of masks when working with dangerous fumes and chemicals, absence of health and safety trainings for staff and programs that would evaluate and control hazards of physically demanding work. The toilet breaks were restricted to 5 minutes.

Third, workers were not aware of existence of trade union committee, Lite-On's Code of Conduct, EICC Code of Conduct or corporate codes of the Lite-On's customers, such as Acer, Dell, Toshiba, HP, IBM etc.

Workers for factories in China were also recruited preferably according to their sight condition, which contradicts company's statements about non-discrimination and fair practices. In the past, Lite-On used to be able to choose from an abundant pool of (often migrant) labor force willing to work in harsh conditions. But since 2009, Lite-On has started to suffer from significant labor shortages in its factories (accumulated employee turnover of 135.9% in 2009)⁶² as China began its shift from low-cost factories, especially in the industrial zone of Dongguan, where Lite-On factories are located. Many migrant workers were not willing to leave their homes for the coastal provinces anymore, because they were now able to find similar job opportunities in their hometowns. One of the Lite-On's factory managers commented on the situation:

*"We used to prefer women because they are easier to manage. (...) Before, we wanted three females for every male. But because of the labor shortage, it's hard to get that ratio now."*⁶³

⁶¹Ministry of Commerce of the People's Republic of China, 2007.

⁶² Lite-On CSR Report, 2009, p. 65.

⁶³ NDTV, September 16, 2010.

In fact, his words reflect a common management style in factories owned by Taiwanese investors, stressing manageability of workers and their obedience to supervisors at the first place. Similarly to the above statement, other researchers who carried out fieldwork in Taiwanese-owned corporations abroad came to conclusion that the most demonstrable evidence about labor abuses actually comes from Taiwanese management style:

“The evidence comes most directly from Taiwanese managers’ own descriptions of their management practices (...).”⁶⁴

4.5 Lite-On’s Response to Labor Issues

The labor issues in Lite-On factories in Mainland China were reported after repeated fieldwork by non-governmental organizations in 2006, 2007 and 2008. During the NGO’s last research, not only the unpaid overtime work was detected repeatedly, but it was discovered that workers were not allowed to resign during peak production time, even though they would have done so by proper legal means.⁶⁵ The research findings were then sent to Lite-On and its buyers, including Dell, HP, Apple, Fujitsu Siemens and Acer with demand for their response and implementation of corrective measures.

In 2008 and 2009, the NGO and media intensified their pressure on Dell, Lite-On’s key buyer. Thus, Dell was forced to take action regarding its long-term partner and supplier. Generally, global corporations seldom withdraw from the contracts with their suppliers for CSR reasons. Instead, they try to find solution to the problem via cooperation: Dell asked Lite-On to submit detailed data about environmental and social performance (including overtime shifts) on a monthly basis. Yet, this was a problem for the company at the time, since no system that would collect such data existed. Developing and putting such system into practice was the biggest challenge for Lite-On Technology until 2011. The overtime work is now one of the KPIs and local facility managers are responsible for its evaluation.

Ironically, Lite-On has been regularly and consecutively receiving awards for its CSR practices in Taiwan since 2005, despite the violations of labor law that were detected

⁶⁴ Wang, 2005, p. 45.

⁶⁵ SACOM & Pain pour le Prochain, 2008.

in corporation's factories in China. Yet, Lite-On was the only Taiwanese corporation among the researched factories that developed a comprehensive CSR program addressing the detected problems.



5. Responses to Existing Labor Issues

This chapter provides an overview of existing instruments and mechanisms that may be applied by workers or their representatives in the case of violation of labor laws, just as the case in Lite-On factories in China has shown.

5.1 Workers' Protests

In China, unsatisfactory working conditions and inaction of trade unions regarding labor issues nowadays more often result into protests, although strikes are forbidden by the Chinese Labor Law. Strikers expose themselves to a wide range of risks of punishments from job dismissals to imprisonment.⁶⁶ Despite of legal limitations, workers in China have become more proactive and better organized because of improved social networking tools and use of mobile phones. They have also become more successful in meeting their goals. However, effective collective bargaining system is far from being established in China and workers' labor movement remains fragmented and unstable.

Chinese government seems to focus on suppression of the problem rather than on its solution. Social conflicts originating in poor labor management are trapped in a vicious circle: passivity of trade unions affiliated to the Communist Party and impossibility to establish free trade unions forces employees to protest against injustice publicly. The government responds to labor strikes by repressing them and by punishing the organizers. For some time, the order is restored by means of pressure. However, such government's response often leads to another wave of protests and the situation is reproduced.⁶⁷

⁶⁶ Human Rights in China, 2001.

⁶⁷ China Labor Bulletin, 2009.

5.2 China's Government Mechanisms: Labor Inspections, Labor

Legislation and Legal Proceedings

5.2.1 Labor Inspections

Labor inspections in China are still believed to be unable to perform their basic functions. Additionally, they are limited to urban areas only. As it is the case in other developing countries, labor inspections are underfinanced, understaffed, undertrained and underequipped. Information is not collected, managed and shared in a reliable and transparent way. Inspectors often fail to spread knowledge about labor rights. However, in the need to response to widespread labor issues, the Chinese government has taken some steps and introduced the pilot project called Grid based management in 60 cities in 2009,⁶⁸ which is expected to set a firmer ground for prevention and reporting of labor disputes.

5.2.2 Labor Legislation

Labour legislation in China was reformed only recently: in 2007, the law on employment contracts was revised and effective May 2008, the new law on conciliation and arbitration in labor disputes came into force. Chinese Labour Code appeals to decent working conditions and contains similar provisions that apply in developed countries. Theoretically, it means that the PRC government has no interest in seeing the exploitation of workers. Moreover, the image of China in the world is being harmed due to the existence of this problem. However, central government or provincial governments do not yet possess mechanisms to ensure adequate supervision of compliance with law and independent assessment of impact of corporate activities.

5.2.3 Labor Disputes

Labor disputes are rising in China, both individual and collective (from 19 098 in 1994 to approximately 317 000 in 2006) and an increasing number of disputes are

⁶⁸ International Labor Organization, 2011.

settled in favor of workers.⁶⁹ When labor violations occur, just like it was the case in Lite-On factories in China, Chinese workers may use three methods to settle the dispute. They are usually effectuated in the following order:

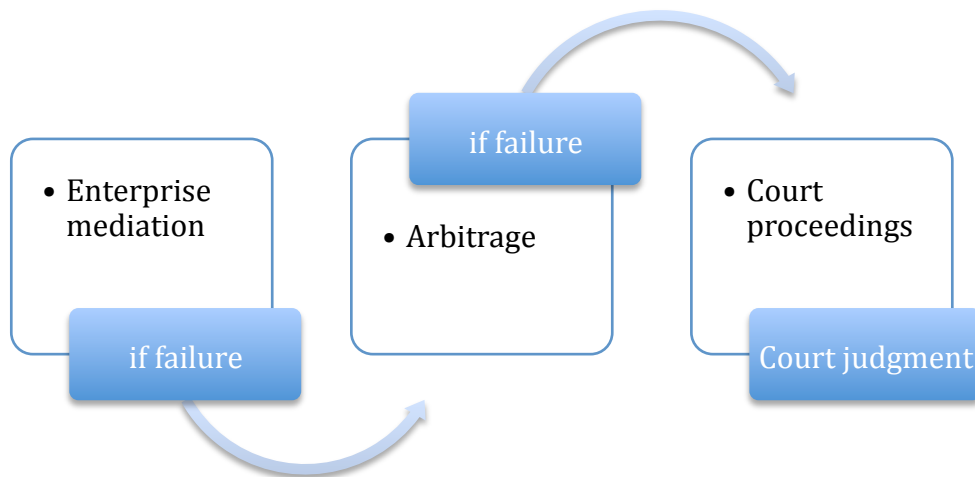


Figure 7: Methods of labor dispute resolution in China.

Source: Author's scheme based on data from The Foundation for Law, Justice and Society, 2008.

If a suspicion for labor law infringement exists, the parties first attempt a resolution via enterprise mediation. As Blackman points out, people in China are forced to settle disputes by mediation rather than to insist on legal entitlements.⁷⁰ If enterprise mediation fails, parties proceed to arbitration. If arbitration fails or any party is not satisfied with the verdict of arbitration committee, the issue is subject to further proceedings at the court. According to the law on conciliation and arbitration in labor disputes, a tripartite mediation committee consisting of representatives of employees, employer and trade unions should be established. However, the tripartite committees in China often lack credibility, because union officials serve in management positions in enterprises. The lack of adequate worker representation is a key problem in labor dispute resolutions, deepened by the fact that the All China Federation of Trade Unions, the only legal trade union in China, acts as a complice to employers and government rather than as a workers' advocate. In many enterprises, tripartite committees do not exist at all. As a consequence, many disputes proceed directly to the next stage: arbitration. Arbitrations are conducted by arbitration committees

⁶⁹ The Foundation for Law, Justice and Society, 2008.

⁷⁰ Blackman, C., 1997, p. 39.

established by cities, townships and the like. Arbitrations are some kind of compulsory pre-stage before court proceedings. Yet, they are often misused in order to delay these proceedings. In 2005, there were 306 027 of labor disputes resolved via arbitrations and the pie chart below illustrates how the disputes were resolved:

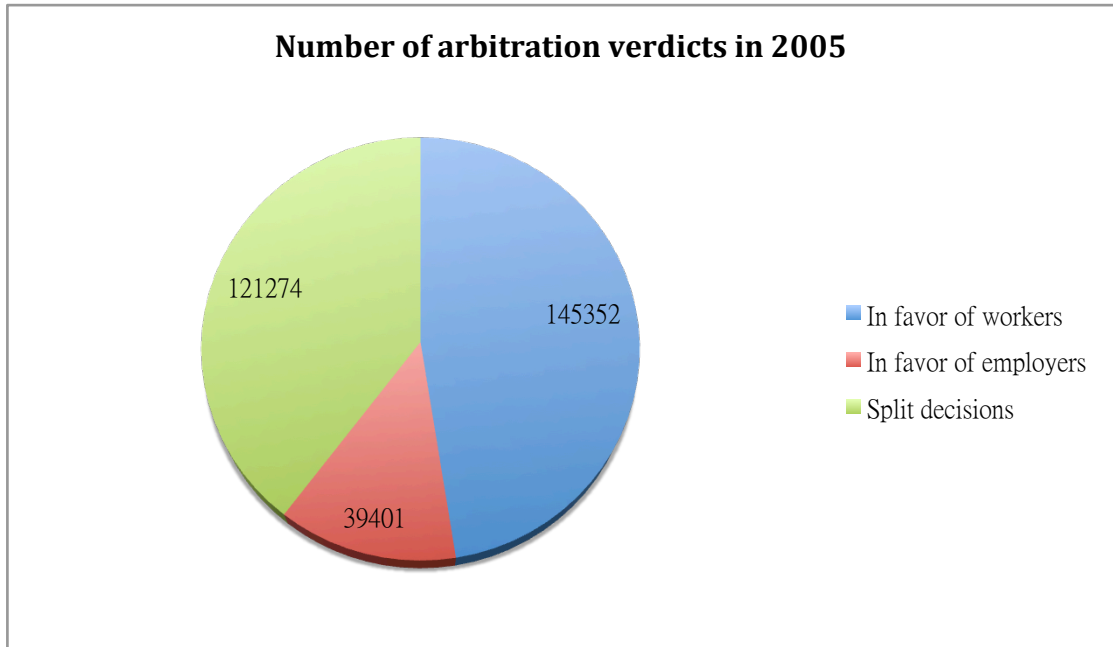


Figure 8: Number of arbitration cases and verdicts by arbitration committees.

Source: Data from The Foundation for Law, Justice and Society, 2008.

Although it may seem that the situation improves in favor of employees, considerable flaws in the law enforcement still exist. Resolution of socio-economic disputes is much less effective than, for example resolution of trade disputes, because the institutions are weak. For instance, most judges in China do not possess a degree in law: only about half of them have graduated from universities, but not necessarily from law faculties. Furthermore, 80% of courts in China are the lowest first instance courts located in rural areas where they are primarily in charge of property disputes. Consequently, courts in cities are overloaded, proceedings are tardy and the judiciary system is highly inefficient.⁷¹ Lawyers are regarded as employees of the state apparatus and thus expected to serve the Communist Party and its policies, which

⁷¹ The Foundation for Law, Justice and Society, 2009.

hampers the chance for a fair hearing under the law, as it is a common practice in the West.⁷²

The actions of employees mostly concern unpaid wages, illegitimate termination of employment and failure to pay insurance and compensation for work injuries. However, the enforcement of unpaid wages or insurance remains very problematic, because many businesses operate at very low margins or are insolvent. Furthermore, workers often lack financial resources to pay the costs associated with the court proceedings, such as travel costs, wage compensations for witnesses and foregone wages. In many cases, the costs are higher than potential benefits and bringing the case to the court thus does not pay off.

5.3 The Role of International Labor Organization

The previous chapter suggested that Chinese government recently introduced some steps towards improvement of labor inspections and reporting of working conditions. Many projects, including the Grid based management pilot project, were developed in cooperation with the International Labor Organization (ILO). The International Labour Organization, founded in 1919 as part of the League of Nations, was the first international body that officially recognized potential injustice of political and economic order and brought government, business and trade unions together. Since then, international labor law has played important role in social reforms and rise of the welfare state in the West. Liberal democracy has emerged as a dominant political system, based on individual equality and liberty, which are typical for the Western society.

In China, ILO's mission is to run numerous job training and workers' safety programs, to raise awareness about international labor rights and to offer technical assistance to social security policies. However, concrete results of these efforts are modest, because China has not ratified several ILO conventions with the key influence on working conditions, in particular the conventions regarding collective bargaining and workers' right to join independent trade unions. Specifically, it has not ratified *Convention (No. 87) concerning freedom of association and protection on the right to organize*, *Convention (No. 98) concerning the application of the principles of*

⁷² Blackman, C., 1997, p. 40.

the right to organise and to bargain collectively and *Convention* (No. 105) *concerning the abolition of forced labour*.⁷³ Thus, basic problems remain despite the growing number of trainings among workers. Moreover, the ILO in China cooperates with the government-controlled All-China Federation of Trade Unions (ACFTU). By this cooperation, the tripartite principle between government, employers and employees is officially guaranteed. But due to the affiliation of ACFTU to the Chinese Communist Party, negotiations cannot generate desirable change in working conditions.

Since the International Labor Organization is a specialized agency of the United Nations, it regards Taiwan as “*a province of the People’s Republic of China*” and Hong Kong as an “*inseparable part of the People’s Republic of China*”.⁷⁴ However, although Taiwan is not a member nation of the ILO, it has adopted most of ILO labor standards.⁷⁵ Thus, Taiwanese enterprises are expected to implement them as part of their CSR so as to take care of their employees while making profits.

5.4 Corporate Social Responsibility as a Response to Labor Issues

Because governmental and international organizations, such as ILO, failed to provide sufficient instruments to improve workers’ conditions, businesses took initiative and approached the problem via their Corporate Social Responsibility programs. Over the last few years, multinational corporations (increasingly those involved in the IT industry) also started to be questioned by civil society, mostly in developed countries, to take over the responsibility for the practices of their suppliers. Numerous initiatives addressing protection of workers’ rights and environmental degradation in the developing world have emerged. Those most relevant to the IT industry will be introduced in this subsection.

⁷³ ILOLEX, 2006.

⁷⁴ ILO, 2012.

⁷⁵ CSR in Taiwan, 2011d.

5.4.1 Electronic Industry Citizenship Coalition

The EICC is a non-profit organization that unites 68 corporations operating in information and communication technology (ICT). The organization was established in 2004 after media and NGOs started reporting about harsh working conditions in developing countries and ICT corporations were pressured to respond. The goal of EICC is to promote a single ethical code of conduct in the global ICT supply chain that would improve working conditions and environment.

The EICC Code of Conduct is derived from ILO standards, ISO and EMAS certifications, OECD Guidelines for Multinational Enterprises, UN Convention against Corruption, UN Global Compact, UN Universal Declaration of Human Rights, Ethical Trade Initiative and other fair initiatives. It provides guidelines in five key CSR areas: *labor, health and safety, environment, management system* and *ethics*. The content of the EICC code of conduct is agreed by eight directors of IT corporations who manage the entire coalition and decide whether a company is eligible to become EICC member. In 2012, the EICC board of directors had eight members from IBM, Applied Materials, Jabil, Dell, STMicroelectronics, Celestica, HP and Intel. Due to rapid changes in the industry, the code used to be reviewed by the board of directors on a yearly basis, but in 2011 the period was prolonged to every three years.

As for enforcing mechanisms, EICC provides four tools that represent four consecutive phases of supplier engagement:

- Technology platform about members' CSR (EICC-ON)
- Initial risk assessment
- Self-assessment questionnaire
- Validated audit process (VAP; since 2010 only).

Until 2009, the EICC only relied on information provided by companies in the form of self-assessment questionnaires. In 2010, EICC put the validated audit process into practice and conducted a total of 97 audits, mostly in Asia: 52 in China, 19 in Taiwan, 12 in Mexico, 5 in Malaysia, 3 in Philippines, 3 in South Korea, 2 in Singapore and 1 in Thailand. Interestingly, almost a double of major non-conformances with the EICC Code of Conduct were reported by auditors in 2010, in comparison with self-

assessment questionnaires collected in 2009. Most major non-conformances were found in Mexico (17), China, Malaysia and Philippines (11 in each country) and Taiwan (9).⁷⁶

Lite-On entered the EICC in 2009 and remained a member in 2010, primarily because most of Lite-On's buyers were members of the coalition too.⁷⁷ Consultations within the EICC platform enabled Lite-On gain knowledge about CSR:

*“At the beginning of our membership [in EICC], Lite-On's performance was very poor. (...) We needed to know how to implement CSR.”*⁷⁸

Lite-On perceived the membership in this coalition as a strategic goal to prepare implementation of company's CSER by learning from its buyers. In 2011, Lite-On felt that this goal had been achieved and decided to leave the coalition, because the company did not see any further benefits from the membership. Lite-On now claims to have implemented the EICC management system on each manufacturing site and to have adopted the EICC methodology across its operations. In fact, Lite-On's customers continue to provide valuable consultations, recommendations and suggestions to their supplier *disregarding* Lite-On's membership in the coalition.⁷⁹

The EICC membership list of companies fluctuates every year: there were 59 members in 2010, 42 in 2011 and 68 in 2012.⁸⁰ This fact indicates a rather unstable evolution of the initiative. For example, Taiwanese Acer was listed as member in 2011, but left the coalition in 2012. One of the reasons for leaving the coalition may be financial reason, since EICC charges an annual membership fee of 45 000 USD for companies with revenues exceeding 9 billion USD and 35 000 USD for corporations with revenues lower than 9 billion USD (which would imply to Lite-On with revenues of 4.1 billion US in 2010).⁸¹ An additional one-time application fee of 50 000 USD applies to new members. Indeed, high membership fee was one of the reasons why Lite-On withdrew from the coalition. In conclusion, for some companies, particularly those with no seats on the EICC board of directors and ODM/OEM manufacturers

⁷⁶ EICC Annual Report, 2010.

⁷⁷ Lite-On's buyers that were not members of EICC in 2012 include Taiwanese Acer, US Gateway, Japanese NEC, Finnish Nokia and German Siemens.

⁷⁸ Personal interview.

⁷⁹ Personal interview.

⁸⁰ EICC, 2010; EICC, 2012.

⁸¹ Taipei Times, January 7, 2011.

closely cooperating with global brands, EICC membership tends to bring more costs than benefits.

Although the EICC is recognized as the most advanced CSR platform in the ICT sector, the coalition has been subject to several criticisms. *First*, the board of directors is solely composed of corporation executives and ignores other stakeholders, although the code of conduct applies to factory employees and surrounding communities at the first place. *Second*, the wording of the code of conduct is perceived as too vague, leaving room for companies' own interpretation of CSR, especially when it comes to acknowledgement and implementation of the code of conduct down the supply chain. *Third*, EICC has not yet developed reliable and transparent mechanisms to control companies' CSR performance. Much of the CSR information comes from companies' self-evaluation and thus tends to be biased. Audits are carried out either by third party auditors approved by EICC or by auditors contracted by companies, and the auditing procedures are not synchronized. *Fourth*, the companies may conduct audits *at one or more* of its facilities. Furthermore, they are also free to choose such facility/facilities. Consequently, this kind of auditing process does not provide complete and objective picture of company's CSR operations. *Fifth*, the prolongation of the review period for the code of conduct to three years may result in many issues being overlooked and stakeholders' voices being ignored. *Sixth*, no information about EICC financials is available to public, which undermines the credibility of the whole coalition.

5.4.2 Global e-Sustainability Initiative

The EICC cooperates with another CSR platform in the ICT sector called Global e-Sustainability Initiative. (Two EICC working groups collaborate with GeSI: one on mineral extractions and one on learning and capability). GeSI was established in 2001 as a voluntary industry initiative supported by the UN Environmental Programme and the International Communications Union. GeSI has identified ten key areas, in which the ICT should develop its sustainable management: climate change, waste and material use, access to ICT, freedom of expression, privacy and security, employee relationships, customer relationships, supply chain, product use issues and economic

development.⁸² GeSI then developed a methodology, under which companies can assess their material issues towards stakeholders and ICT businesses.

In 2007, EICC and GeSI jointly developed so called E-TASC (Electronics – Tool for Accountable Supply Chains), which was designed to help companies manage their CSR. E-TASC is a self-assessment questionnaire that screens the overall situation of company's CSR, identifies problematic areas, suggests improvements and selects best practices. The information from E-TASC is then shared among buyers and suppliers while keeping confidential information within the business-to-business interaction. So far, about 300 companies have subscribed to E-TASC worldwide. At the top of E-TASC tool, GeSI and EICC promote awareness of social and environmental issues in the ICT supply chain by organizing training courses, providing e-learning and developing validated audit programs.

Whilst GeSI states to bring together telecommunication service providers, manufacturers, industry associations and non-governmental organizations, the full membership is granted to ICT corporations only (Lite-On has never been member of GeSI). NGOs or academia may join the initiative only as associate members (in 2009, GeSI had only two associate members: World Wild Fund and Carbon Disclosure Project; but in 2012 neither of them were listed as associate members anymore). Similarly to EICC, the board of directors consists of eight executives from corporations (four manufacturers and four service providers) and one additional director representing all associate members. There is no involvement of trade unions and non-corporate stakeholders are under-represented, if not represented at all. Similarly to EICC, no financial disclosure about GeSI is available.

5.4.3 International Organization for Standardization

The International Organization for Standardization was founded in 1947 in Geneva and has developed over worldwide recognized 19 000 standards. ISO standards pertain in various fields from agriculture to information technology. Majority of them relates to a particular product or process. Two most common standards, ISO 9001 and ISO 14001, are so called “generic management system standards” and may apply to any organization or enterprise regardless its size, sector, activity and product.

⁸² GeSI website, 2011.

Generally, ISO standards are considered as the only standards calling for systemic change. The ISO certification has spread globally, since major buyers in the world require their suppliers to be certified with ISO. ISO has also proved to make benchmarking between organizations easier. Organizations that want to fulfil ISO certifications have to be inspected by third party certification bodies. ISO certification once obtained has to be renewed regularly, usually every three years. In 2010, China was the country with the highest number of acquired certifications (297 037 for ISO 9001 and 69 784 for ISO 14001).⁸³

Lite-On business units are certified with ISO 9001 and ISO 14001. ISO 9001 refers to quality management: it examines what the organization does for customers' satisfaction and for continual enhancement of the quality of products and services. ISO 14001 refers to environmental management and helps companies minimize negative environmental impact of their operations and comply with diverse environmentally oriented regulations and requirements. In fact, ISO 14001 is not an environmental management system as such, but rather offers a framework, in which companies or organizations should develop their own management systems.

It is generally believed that ISO brings significant economic and other benefits. *First*, it increases the overall operational efficiency, including minimizing the risk of regulatory fines and reducing operating costs. *Second*, corporations operating in multiple territories do not need to be certified separately in each country, but they can use one universal standard instead. *Third*, possessing the ISO certification nowadays means to have a competitive advantage on the market and to have a better negotiating position with the customers.

However, some critics of ISO argue that companies acquire the certifications primarily to meet their customers' requirements and not as a tool improving their quality and environmental management. Environmental statistics of Taiwan and China indeed support this argument. Others argue that the ISO certification is not suitable for all organizations and thus should not be used as a benchmarking tool. Moreover, for Taiwanese companies that are mainly OEMs and ODMs, ISO has become a necessity rather than a competitive advantage in global markets.

⁸³ International Organization for Standardization, 2010.

Since Corporate Social Responsibility has become a mainstream management approach, the ISO has been working on the universally recognized standard for CSR – ISO 26000. Yet, the creation of such standard turned out to be very long and problematic: ISO expected to put the ISO 26000 in practice already in 2008, but the launch was postponed to 2010 due to conflicting CSR approaches. Moreover, the ISO 26000 appeared less binding than originally anticipated. In fact, the international community has not yet agreed on a universal definition of CSR, which still blocks the shift of ISO 26000 from guidelines to a proper management system standard. Up to now, ISO 26000 is not a certification as such, but serves as a guidance document, to which organizations may refer voluntarily. Consequently, ISO 26000 cannot be used for audits, certificates or any other compliance purpose. Its practical value thus remains very limited.

5.4.4 SA 8000 Standard for Decent Work

Another internationally recognized CSR management standard for labor issues exists under the abbreviation of SA 8000 (Social Accountability 8000). It was launched by a multi-stakeholder organization based in the United States called Social Accountability International as the first auditable certification standard for decent workplaces in all sectors. Its key elements consist of child labor, forced and compulsory labor, freedom of association and right to collective bargaining, discrimination, disciplinary practices, working hours, remuneration and management systems. In fact, SA 8000 incorporates many of the ILO principles into the procedures that are to be verified by auditors. A comparison between SA 8000 and CSR 26000 is summarized in the following table:

SA 8000	ISO 26000
Certification standard	Guidance standard
Management systems	Descriptive
Labor issues, human rights	Human rights, labor rights, environment, fair operational practices, consumer issues, community involvement
Multi-stakeholder oversight and input at board and governance levels	Multi-stakeholder, but with national committees
<p>SA 8000 is a standard that is certifiable, whereas ISO 26000 provides guidance to companies.</p> <p>SA 8000 includes managements systems, whereas ISO 26000 is descriptive.</p> <p>ISO 26000 covers a broader range of issues while SA 8000 focuses on an in-depth review of working conditions.</p>	

Figure 9: Comparison of SA 8000 and ISO 26000.

Source: Social Accountability International, 2010.

In 2011, Lite-On Group certified one of its facilities with SA 8000: Lite-On Young Fast in Huizhou, Guangdong province in China⁸⁴ (Lite-On and Young Fast Optoelectronics, both Taiwanese corporations, formed a touch panel joint venture in 2010).⁸⁵ This facility is not part of Lite-On Technology. As of 2011, there were only 18 facilities certified with SA 8000 in Taiwan, which contrasts with the number for China, where the total reached 440, the third highest figure after Italy and India.⁸⁶ According to statistics, SA 8000 seems to be mainly used in developing countries, such as India (639), China (440), Pakistan (166), Brazil (88) and Vietnam (59), with exceptions of some countries of the European Union, such as Italy (913) and Romania (262). Countries with traditional emphasis on work-life balance and promoters of CSR, such as United Kingdom and Germany, only have 11 and 4 facilities certified respectively. The above figures may be explained by the distribution of manufacturing facilities in the world, which are mostly located in developing countries at which the SA 8000 is targeted. Moreover, the standard is mainly adopted in apparel, textile, electronics and plastics industries, which are again concentrated in the countries with comparative advantage in the labor factor of production. In conclusion, discrepancies in the number of companies that have adopted SA 8000 and

⁸⁴ Social Accountability Accreditation Services, 2011b.

⁸⁵ Taipei Times, June 16, 2010.

⁸⁶ Social Accountability Accreditation Services, 2011a.

the limitation to labor issues suggest that SA 8000 has not yet become a common practice nor a global benchmarking tool.

5.4.5 Global Reporting Initiative

Besides auditing processes, an increasing number of corporations prefer publishing their own CSR reports, which allow them to approach CSR as a more sophisticated and strategic tool. Some stakeholders may also find them easier to read and understand. But the question remains: How to develop a CSR framework that may be used as a benchmark across all sectors and organizations?

Such framework was developed by more than 3 000 experts from business and civil society under the name of Global Reporting Initiative (GRI). In fact, GRI appears to be one of few organizations that stressed the importance of stakeholder diversity, which contributed to the formulation of GRI guidelines. Perhaps, this is the reason why GRI has become the most trusted framework used by 3 922 organizations globally.⁸⁷ Originally, the GRI framework was developed for companies only, but later the usage spread among other institutions too, e.g. European Investment Bank or MTR Corporation, a provider of public transportation in Hong Kong. Draft version of sustainability reporting guidelines GRI was released in 1999 and the real version appeared in 2000 as the first generation of GRI guidelines. The second generation (G2) was developed after the World Summit for Sustainable Development in Johannesburg in 2002. The third generation (G3) was launched in 2006. The fourth generation (G4) is under preparation with an expected launch in 2013. The usage of GRI guidelines is growing every year. 95% of 250 world's largest companies regularly publish sustainability reports, and 80% out of them use the GRI guidelines.⁸⁸

GRI framework covers economic, social and environmental performance while using a comprehensive set of indicators. In other words, it provides a triple bottom line framework for sustainability reporting with the objective of making the sustainable reporting as common as financial reporting across industries and service sectors. The set of CSR indicators according to GRI G3 guidelines consists of economic (9),

⁸⁷ GRI Sustainability Disclosure Database, 2011.

⁸⁸ Global Reporting Initiative, 2010/2011, p.7.

environmental (30), labor practice and decent work (14), human rights (11), society performance (8) and product responsibility (9) indicators. Clearly, GRI's priority is *environmental reporting* since the highest number of indicators is attributed to environmental area. Lite-On follows this GRI framework in its CSR reporting too.

According to the GRI's statistics, 59% of Chinese companies (including Hong Kong SAR) and 37% of Taiwanese companies reported on their CSR activities in 2011.⁸⁹ Specifically, 47 Chinese companies (including Hong Kong) and 11 Taiwanese companies followed the GRI methodology when reporting, and had their reports checked by an independent auditor. Such a small figure implies that GRI methodology is still in its initial phase in Taiwan. Perhaps, some companies in Taiwan are not willing to disclose information and are afraid of a potential harm that greater transparency might bring with.

Once the company decides to use GRI framework for its CSR reporting, it should notify the GRI organization. Only after this notification may stakeholders find the company in question in the GRI database. Some Taiwanese corporations (Lite-On, TPO, Inventec Appliances, BenQ, Chunghwa Telecom) registered their reports with GRI in the years of 2008 and 2009, but did not do so in 2010 or stopped using the GRI framework.

Below is the list of Taiwanese companies, which published their sustainability reports based on GRI framework in 2010 and reported this information to GRI. The data were collected from the GRI database accessed as of June 2012:

⁸⁹ Global Reporting Initiative, 2010/2011, p.7.

Company	Application level	Status
Advanced Semiconductor Engineering	A+	Third party-checked
China Steel Corporation	A+	Third party-checked
Chimei Innolux Corporation	A+	Third party-checked
Taiwan Semiconductor Manufacturing Company	A+	Third party-checked
Chunghwa Picture Tubes	A+	Third party-checked
CTCI	A+	Third party-checked
Asus	A+	Third party-checked
Qisda	A+	Third party-checked
United Microelectronics	A+	Third party-checked
AU Optronics	A+	Third party-checked
China Trust Financial Holding	B+	Third party-checked
In Win Development	B	GRI-checked
Taiwan Power Company	A	Self-declared
Taipower	A	Self-declared
Feng Tay Group	B	Self-declared
Hannstar	B	Self-declared
Acer	B	Self-declared
IYYAMA Corporation	C	Self-declared

Figure 10: List of Taiwanese companies that reported about their CSR based on GRI standards in 2010.

Source: GRI Sustainability Disclosure Database, 2011.

The application level indicates how much information the company is willing to disclose and the number of indicators reported on (A the most, C the least). The sign “+” means that the report was assured externally. Organizations, which use the GRI framework, should have their sustainable reports registered with GRI in order to be included in the GRI database. However, it should be noted that as long as the organization notifies GRI about the usage of GRI framework in its report, the report automatically enters the GRI database *regardless the quality of the report*. Thus, a

closer examination of reports is needed in order to understand the organization's real performance.

Although GRI is regarded as the most credible CSR framework, all the CSR reports are self-declared. In order to add credibility to companies' self-declarations, organizations sometimes choose to have their reports checked by the GRI itself or by an external verification body. In Taiwan, only the first 11 companies in the table above had their reports verified by third-party assessment providers (BSI, SGS and DNV in Taiwan), which are certified to verify this kind of sustainability reports. Yet, some stakeholders wonder about the credibility of A+ rating granted to some companies. For example, AU Optronics is known for repetitive serious violations of environmental laws in Taiwan,⁹⁰ but it reaches A+ consecutively. This paradox may be explained by two facts: first, auditors sometimes work with false information provided by the company. In the worst scenario, employees are trained how to respond to auditors in order to cover illegal or unethical practices. Second, the auditing schemes are young and change significantly every year. Thus, auditors may find themselves inexperienced with audits and facing new challenges every time they inspect a facility. Additionally, auditors are few in number (only three providers as mentioned above) and thus their shared experience limited, too.

Interestingly, the Ministry of Economic Affairs in Taiwan published in its Report on CSR implementation in Taiwan⁹¹ data, which differs from the GRI database. According to the Ministry, there were 9 companies that applied to the level A+ in 2010 in Taiwan: CTCL, AU Optronics, Chimei Innolux, Taiwan Semiconductor Manufacturing Company (TSMC), United Microelectronics, Chunghwa Telecom, CHC Resources Group, Bayer Taiwan and Cathay Pacific Airways. In fact, only 5 of these companies are registered in the GRI database (CTCL, AU Optronics, Innolux, TSMC and United Microelectronics). Moreover, Bayer Taiwan belongs to the German Bayer Group and Cathay Pacific Airways is a Hong Kong company.

⁹⁰ For example Taipei Times, March 17, 2012.

⁹¹ CSR in Taiwan, 2011e.

5.4.6 Fair Labor Association

Although an increasing number of corporations publish comprehensive sustainable reports, the only means to find out about the real picture of CSR is via independent inspections. Media progressively report results of these inspections, which are often unsatisfactory. In terms of labor issues, the most notorious case is perhaps the series of suicides of workers in Foxconn factories in Mainland China, which occurred in 2010.

Taiwanese corporation Foxconn (sometimes called Hon Hai Precision Industry) employs about 1.2 million of workforce in Mainland China,⁹² which makes the company the largest employer in Chinese private sector. Company's size, extension of its operations, and the fact that it is one of the principal suppliers of Apple, naturally draw a great media attention. Foxconn factories are now regarded as a benchmark of labor conditions in the electronics industry. In March 2012, a research carried out by the Fair Labor Association in Foxconn factories in Mainland China identified a minimum of 50 violations of China's labor law and code of conducts, mainly in health and safety, worker integration and communication, wages and working hours. Apple, as a participating company to the Fair Labor Association since January 2012, should ensure that 100% of its supply chain meets the FLA standards. Similarly to a long-term partnership between Dell and Lite-On, Apple did not stop its cooperation with Foxconn despite the labor and environmental issues in its factories. Instead, they work together to find a solution to the problem.

The FLA is a multi-stakeholder non-profit organization based in the US that works towards protection of workers' rights since 1999. Its board of directors is composed of company representatives, university representatives and NGO representatives. Similarly to other CSR non-profit organizations, it has its own FLA Workplace Code of Conduct, to which members should abide after they join FLA. But so far, only 35 firms (none of them Taiwanese or Chinese) are listed as FLA participating companies and thus commit to the highest level of social compliance in their supply chains. 17 companies (Chenfeng and Qingdao Belle Maille from China, Esquel Group, Yee Tung Group and Mainland Headwear Holding from Hong Kong, Pou Chen

⁹² BBC News, March 29, 2012.

Corporation from Taiwan) have joined FLA as participating suppliers, which abide to lower CSR commitment. The FLA affiliated companies mostly operate in apparel and footwear industry, but with Apple joining in 2012, the scope of industries broadens to IT industry.

Besides monitoring the code of conduct and sharing the best practice, the FLA conducts inspections and audits in factories in order to evaluate companies' compliance with national and international legal norms and code standards. After inspections, FLA continues to cooperate with factories by asking them to work out corrective action plans. Corrective action plans are then subject to follow-up checks by FLA in order to ensure that situation has improved.

Another FLA's objective is to promote transparency in supply chains, which is reflected in all findings made public on FLA website. FLA also runs a third party complaint channel, under which any individual or any group may report on serious or persistent violations of workers' rights in a company committed to FLA's standards. However, the complaint channel may be used *only* in situations when all other dispute resolution mechanisms have failed and so far has been used in 30 cases only.

In terms of labor compliance, the accreditation by FLA is probably recognized as the most advanced one. It is because the participating companies and their suppliers have to demonstrate substantial compliance with the FLA Workplace Code of Conduct. The entire procedure of implementation, monitoring and evaluation takes two to three years. Every year, FLA itself conducts about 150 unannounced factory visits in the world. Most of them are conducted in China (53 out of a total of 149 random visits in 2010), because China accounts for the highest number of factories supplying the FLA affiliates (1 792 factories in 2010) as well as for the largest workforce (1 815 000 workers in 2010).⁹³

In fact, with more inspections and audits conducted in factories, more non-compliance issues are being revealed every year: 95% of the audits in 2010 violated at least one element of the code of conduct or legal norm. All the 53 audits carried out in China in 2010 detected violation of the right to freedom of association. Sadly, in China over 95% of noncompliance was found regarding health and safety, over 90% regarding

⁹³ FLA, 2010, p. 10.

wages, benefits and overtime and nearly 90% regarding hours of work. 70% noncompliance was reported in harassment or abuse, 40% in forced labor, and about 30% in child labor and discrimination.⁹⁴ Moreover, health and safety issues, freedom of association, discrimination, wages, benefits and overtime and work hours were found to be mostly *substantive* non-compliances, not just procedural ones.

Besides the random inspections that FLA labels as “IEM” (Independent External Monitoring), the organization also conducts “IEV” (Independent External Verifications) to examine the stage of the corrective action plans adopted by the companies and their suppliers. This is very important, because FLA is so far the only organization, which surveys the complete process from identification, data collection and examination of procedures, discovering the problems, co-developing remedies and corrective action plans to re-evaluations and follow-up checks.

Unlike the unannounced IEMs, IEVs are expected follow-up visits targeted at factories with critical and persistent labor issues. Consequently, IEVs are smaller in number (38 in 2010). The IEV inspections usually take place after two or three years so the companies have time to implement changes according to their corrective action plan. Although IEVs have been put in action for several years already and are more frequent every year, the overall situation does not seem to improve. Contrarily, IEVs conducted in 2009 and 2010 came to the same conclusion: not only numerous labor issues were not remedied, but *new* noncompliance emerged during the repetitive inspections, especially regarding health and safety and work hours. Furthermore, a higher number of harassment and abuses was discovered during the IEVs in comparison with general audits. It is not rare for auditors to work with false or unreliable data showing shorter working hours and higher wages. Sometimes, factory managers bribe auditors. Workers are trained how to answer to auditors’ questions. In fact, some (migrant) workers want to work as long shifts as possible in order to get higher pay and then leave.⁹⁵

After close examination of findings from FLA and other watchdog organizations, the following observation by The Economist may be used as a concluding remark:

⁹⁴ FLA, 2010, p. 20.

⁹⁵ The Economist, March 31, 2012.

“There is a growing evidence that appointing an outside body to audit and set standards, as Apple has done, is not going as well as it should.”⁹⁶

Nonetheless, some experts conclude that the overall situation is improving and the problems of forced labor and child labor were largely eliminated. The worst abuses probably still perceive in mining industry and agriculture, further down the supply chain. Currently, the biggest challenges for the first-tier suppliers of global brands are *excessive hours and inadequate pay*.⁹⁷

5.4.7 Auditing Procedures in Lite-On Technology Factories⁹⁸

Naturally, auditing procedures constitute a very important element of Lite-On Technology CSR program. Audits in Lite-On Technology factories may be classified in three categories:

- First-party audits
- Second-party audits
- Third-party audits.

First-party audits are internal audits carried out by internal auditors once or twice per year on each site. Moreover, *cross-site* audits are conducted to double-check the CSR performance in the facilities.

Second-party audits are mostly audits carried out by global brands. Up to now, the practice in Lite-On Technology factories has been as follows: *global brands prefer to carry out audits by themselves*, not as a part of shared audits with other brands in order to decrease auditing costs, as sometimes quoted by industry platforms. Interestingly, after a global brand sees an improvement in the factory’s performance, it will *decrease* the number of audits carried out there. This trend of less frequent audits has been already observed in some of Lite-On Technology facilities. Yet, the problems may re-arise, since *“many suppliers serving global brands drift in and out of compliance.”⁹⁹*

⁹⁶ The Economist, March 31, 2012.

⁹⁷ Ibid.

⁹⁸ Based on the personal interview.

⁹⁹ The Economist, March 31, 2012.

Third-party audits (or VIP audits) are conducted by independent and inspection agencies. Since they are the most expensive, Lite-On Technology conducts them only upon a request from their VIP customer.

As for auditing of Lite-On Technology's suppliers, the company carried out a total of 86 audits in 2011 (the company targets its *critical suppliers* as described in the fourth chapter). Based on the auditing results from 2011, about one third of suppliers need improvement and two thirds passed audits with a satisfying grade. In case of non-compliant suppliers, Lite-On Technology would not terminate contract for a CSER reason. Instead, non-compliant suppliers were asked to design and implement corrective action plans to improve their CSER performance.

For many of Lite-On Technology suppliers, the 2011 audits were the first external audits on their sites. Furthermore, 2011 was the year of low profits for the entire industry. Consequently, Lite-On demonstrated some kind of solidarity with its suppliers regarding CSR issues. During interviews, margins achieved by Lite-On Technology and its suppliers in the year of 2011 were described as *low*, thus not leaving much room for deeper assessment and implementation of strict CSR policies down the supply chain.

5.4.8 United Nations Global Compact

The rising social and economic injustice in globalized world gave impulse to the United Nations to address the old problem of consumer goods being manufactured under poor conditions in developing countries. In 1999, the UN developed a voluntary ten-principle initiative – the Global Compact - for businesses worldwide. The UN Global Compact is in line with the Millenium Development Goals and consists of ten principles concerning human rights, labor standards, environment and anti-corruption:

Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

Labour

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.¹⁰⁰

Since the Global Compact was launched as a consensus achieved by the United Nations, a global political forum, it was expected to become a mainstream business principle, to which corporations would abide, although the initiative has always been voluntary. So far, the Global Compact lists about 6 000 active business participants (mostly small and medium enterprises), with 180 from China (none from Taiwan).¹⁰¹ Two Taiwanese companies, Chinatrust Financial Holdings and Chunghwa Telecom, referred to the UN Global Compact in their sustainability reports, but neither of them was listed as a participant.

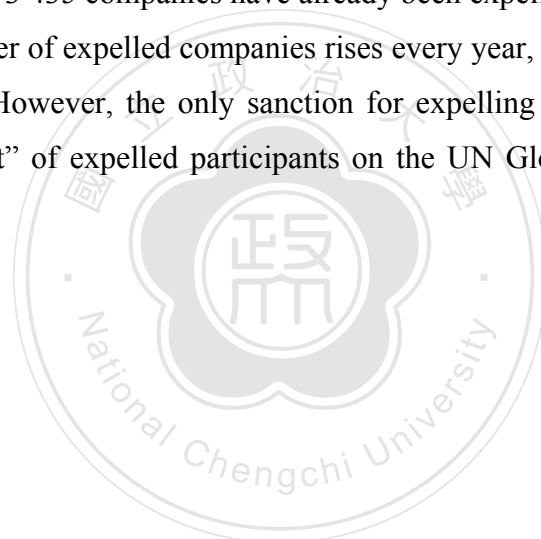
After twelve years of existence, however, real achievements of this largest corporate citizenship initiative seem to be disappointing. Companies, which joined the initiative, represent a fraction of total of business entities worldwide. Moreover, most business

¹⁰⁰ United Nations Global Compact website.

¹⁰¹ UN Global Compact Annual Review, 2010.

participants still self-assess their CSR practices to be in the beginner or intermediate phase. Tracking performance in all areas is quite weak. Due to its vague formulations and no enforcement provisions, some companies even use their affiliation to Global Compact as a PR instrument, or as an argument opposing emergence of binding international regulation that would truly held corporations accountable.

The UN Global Compact also hoped that companies would disclose more transparent information and that they would report about their implementation progress to the United Nations regularly. Instead, the mainstream practice of CSR reporting remains as before: companies publish selected information in their annual or CSR reports and numerous UN Global Compact affiliated companies do not communicate their progress to the UN at all. Because of the repeated failure to submit the mandatory disclosure, staggering 3 435 companies have already been expelled from the initiative. In addition, the number of expelled companies rises every year, with 2 048 companies expelled in 2010.¹⁰² However, the only sanction for expelling is putting company's name on a "black list" of expelled participants on the UN Global Compact official website.



¹⁰² United Nations Global Compact website.

6. Current Status and Understanding of CSR in Taiwan

The previous chapter introduced different regulatory and non-regulatory means, which attempt to address labor issues in Chinese communities and worldwide. In this chapter, understanding of CSR and current status of CSR in Taiwan will be discussed.

Some CSR initiatives in Taiwan were originally government-led with the intention to ensure continuity and sustainability of Taiwanese investments domestically and abroad. Taiwanese corporations have become important players in the global supply chain. With this increasing importance, however, have also come greater expectations from the society to accept responsibility for environmental protection, labor welfare and social justice. For the first time in 2002, the Ministry of Economic Affairs held a seminar on CSR and introduced *the OECD Guidelines for Multinational Enterprises* to the industry and public. Then the Ministry put two agencies, the *Industrial Development and Investment Center* (now the Department of Investment Services) and the *Business Council for Sustainable Development* in charge of promotion and institutionalization of CSR concept in Taiwan. Up to now, the CSR approach in Taiwan accentuates the environmental pillar over the social and economic one. The support from Taiwan's government is limited to infrequent seminars and the entire concept of Corporate Social Responsibility is still developing.

6.1 Environmental Pillar of CSR

6.1.1 Greenhouse Gas Inventory

Environmental issues have become the greatest source of concern in societies worldwide. The international community has recognized the need for development of greenhouse gas (GHG) inventories in order to improve environmental quality, the issue with most impact on people and communities globally. In fact, greenhouse gas inventory is a system where policy makers, scientists and business players are interrelated: policy makers and scientists develop strategies and policies for reduction of GHG emissions based on inventories and track their progress, while regulatory agents establish compliance emission rates. ISO has also responded to the need for quantification of GHG and developed international standard ISO 14064 aimed at

reducing GHG emissions. Many Taiwanese companies, including Lite-On, have adopted the ISO 14064 (Lite-On has certified 18 out of its 48 operating sites):¹⁰³

“We [Lite-On Technology] consider our company to be exposed to regulatory risks. We do watch the government's regulatory and Kyoto's GHG Protocol enforcement that affect our company. Regulatory risks are also from tightening legislation.”¹⁰⁴

About 300 Taiwanese companies reported their inventory data to the national GHG registration platform in 2010.¹⁰⁵

Global efforts to cut emissions of greenhouse gases have been demonstrated by the Kyoto Protocol, a document designed by the United Nations, signed and ratified by more than 190 countries in the world. Taiwan, as a non-member of the United Nations, is not a signatory party of the protocol. However, Taiwan's government encouraged its industries, especially the high-tech industry satisfying the global demand, to accommodate emission reduction measures.

With the greenhouse gas (GHG) inventory, reduction and reporting have been placed on the agenda in Taiwan since 2005 after the Kyoto Protocol became effective in most countries. Yet, the progress of the GHG inventory has been rather slow and lacking strategy and effective tools, thus leaving corporations to disclose the information based on their own choice. Taiwan's Legislative Yuan did not hold the first dialogue on climate change and GHG inventory with NGOs until 2009, which was also the year in which the Executive Yuan released *Environmental Protection Administration Management of Greenhouse Gas Inspection Authority Guidelines* and the *National Greenhouse Gas Registry* was established. The first officially recognized GHG inspection authority, the British Standards Institution, was approved by the Environmental Protection Administration of Taiwan in 2010.¹⁰⁶

Despite the encouragement from government, the voluntary GHG reduction programs like ISO 14064 do not seem to have the expected effect of emission reductions. According to statistics, the total of GHG emissions in Taiwan has risen by more than

¹⁰³ Lite-On CSR Report, 2010.

¹⁰⁴ Carbon Disclosure Project, 2009.

¹⁰⁵ National Council for Sustainable Development Annual Report, 2010.

¹⁰⁶ Environmental Protection Administration, July 2010.

106% between 1990 and 2008.¹⁰⁷ Moreover, *Taiwan is the highest emitter of CO₂ per capita in Asia* and the third highest in the world after United States and Australia.¹⁰⁸

In the light of unfavourable GHG statistics, Taiwan's government clearly had to respond. It has set an ambitious (and probably technologically unfeasible) goal to cut down GHG emissions to 50% of the 2000 level by 2050. The government also prepared two key climate-related initiatives: *the Greenhouse Gas Reduction Act* and *the Renewable Energy Development Act*. But, with the Taiwanese economy still finding its way out of economic recession, the passing of the bills is continuously postponed. Yet, without GHG Reduction Act in force, its strong legal enforcement and mandatory carbon emission inventories, a real carbon and GHG reduction is unlikely to be achieved.

6.1.2 Carbon Footprint Label System

The carbon footprint label system was developed by the Environmental Protection Administration in Taiwan as a response to growing pressure from global brands. Recently, global buyers began to demand detailed information about carbon footprint products, which they purchase from Taiwanese OEMs and ODMs. For example, Hewlett-Packard asked 70% of its Taiwanese IT suppliers to submit carbon footprint data on their products.¹⁰⁹ Other globally leading brands, upon which Taiwanese IT suppliers are dependent, follow this practice too. Lite-On reacted to this new request from customers by focusing on assisting its suppliers with completion of greenhouse inventory forms and carbon footprint forms.¹¹⁰ The idea is to first encourage businesses to provide carbon footprint information in order to receive the carbon footprint label and then educate consumers about labelling. In most countries, the carbon footprint labelling is in its initial phase.

In fact, Taiwan is pressured to implement carbon footprint label system for its products in order to remain competitive and again, to respond to the increasing demands from clients abroad. Moreover, Taiwan fears that the European Union, Japan and the United States might impose environmental tariffs on imported goods, which

¹⁰⁷ United Nations Framework Convention on Climate Change, 2012.

¹⁰⁸ Taiwan Today, May 15, 2009.

¹⁰⁹ The China Post, January 3, 2010.

¹¹⁰ Lite-On CSR Report, 2010.

do not possess carbon footprint labels. Naturally, such measure would have a tremendous impact on Taiwanese exports. Yet, Taiwanese high-tech manufacturers face a difficult situation: only 1% of Taiwan's energy supply is categorized as green energy and the share of nuclear power is low too.¹¹¹ This results into high carbon footprint for Taiwanese products and gives Taiwanese high-tech companies big disadvantage over their competitors from other Asian Tiger economies. ISO is also expected to launch a new certification on carbon footprint of products in 2012: ISO 14067. The Ministry of Economic Affairs in Taiwan thus appealed to Taiwanese corporations to prepare for adoption of the new norm "to prevent any barrier of foreign trade".¹¹² But ironically, it is the Taiwanese government whose energy policy has so far been unstable and unsupportive to green energy, which would help companies decrease their carbon footprint.

In the light of necessary adoption of carbon footprint labelling, the *Industrial Development Bureau* (an agency under the Ministry of Economic Affairs) started subsidizing companies (including Lite-On) willing to voluntarily participate in the labelling program. With this financial help from the Industrial Development Bureau, Lite-On started to trace the carbon footprint data for its LED components and completed the *Optoelectronic Semiconductor Product Carbon Footprint Declaration* and *Environmental Product Declarations Type III* to comply with international standards.

*"The Environmental Product Declaration and Carbon Footprint Declaration for Lite-On LED products are prepared primarily to deal with the impact on environment and energy/resource consumption arising in the process of upstream suppliers' acquisition of raw materials, chips and production of main raw materials for optoelectronic semiconductor products and during the life cycle of LED products assembly and testing, covering carbon footprint, raw material utilization, energy utilization, water resources utilization and pollution, waste and air pollution, making them comprehensive environmental product declarations."*¹¹³

¹¹¹ Asia Times, March 27, 2012.

¹¹² CSR in Taiwan, 2011c.

¹¹³ Lite-On CSR Report, 2010.

Since 2010, Lite-On has made the hazardous substance management and carbon management its key criteria for suppliers selection, knowing that the European Union had already implemented the *Directive on Restriction of Hazardous Substances (RoHS)*. The following scheme illustrates the procedure for control of hazardous substances in Lite-On Technology:

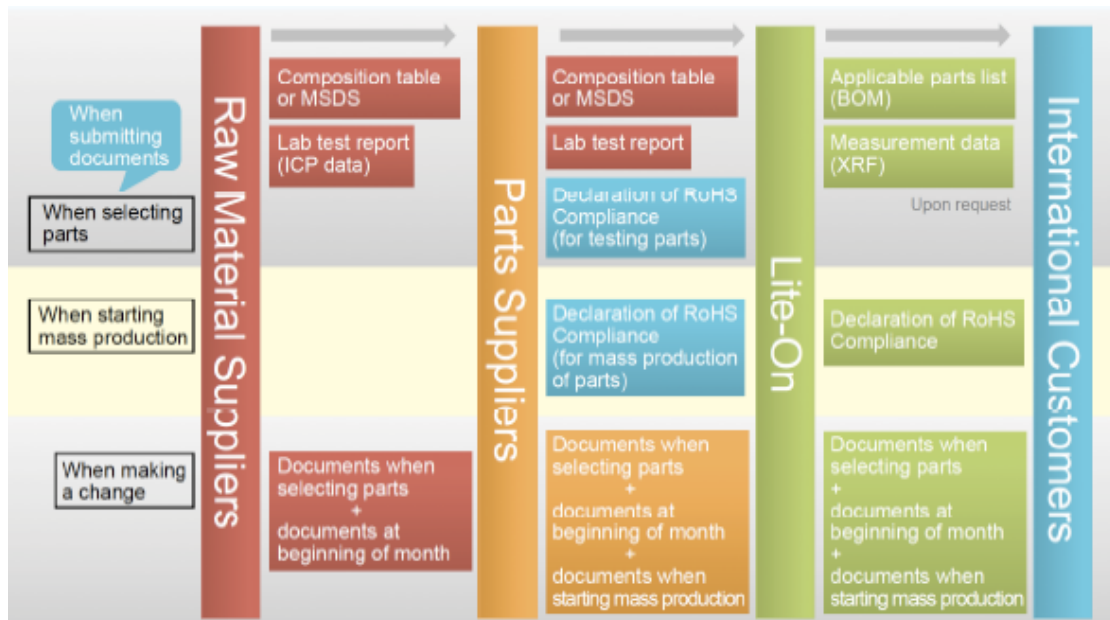


Figure 11: The control procedure for hazardous substances in Lite-On Technology.

Source: Lite-On CSR Report, 2010.

6.1.3 Carbon Disclosure Project

The Carbon Disclosure Project emerged concurrently to the greenhouse gas inventory, after national governments had proven reluctant to implement stringent measures on emissions and the implementation of the Kyoto Protocol appeared to be problematic. Thus, CDP focuses on individual corporations rather than national governments and primarily works with shareholders. Initially, CDP was established to collect carbon management information from the world's largest 500 companies. Eventually, the initiative turned into the largest carbon disclosure database in the world with extension to cities and municipalities. The relatively quick popularization of CDP stems from a new trend in international financial markets: inclusion of environmental, social and governance performance into the investment analysis.

Similar to other sustainability initiatives, Taiwanese companies began to affiliate with CDP following a pressure from Taiwan's government and their clients abroad. In 2011, 92 Taiwanese corporations (including Lite-On) were requested to provide their emissions data to CDP.¹¹⁴ Some Taiwanese corporations (Advanced Semiconductor Engineering, Chinasteel Corporation, Chimei Innolux Corporation, Taiwan Semiconductor Manufacturing Company, Acer, Chunghwa Telecom, Asus, United Microelectronics and AU Optronics) had previously referred to CDP in their sustainability reports, but so far only Acer is a CDP member. Lite-On was first asked to participate in the CDP in 2008, but declined its participation in the project at the time. The company later began to participate in 2009.¹¹⁵

According to Lite-On's response, Taiwan's government organized a program to help companies collect the carbon disclosure data:

"We [Lite-On] will participate in the coach program that is sponsored by Taiwanese government, including these activities:

- 1) Accelerate the process of emission quota verification and the establishment of management system,*
- 2) Establish an industrial GHG emission database,*
- 3) Implementing cleaner production and green technology,*
- 4) Initiative Green Management System (IT)."¹¹⁶*

In reality, whilst an increasing number of Taiwanese corporations are requested to submit their carbon disclosure data, most of them are not familiar with how to respond to questionnaires from CDP. Many lack motivation to spend financial and human resources to develop mechanisms that would prepare the data. Lite-On's response to CDP left most questions in the CDP questionnaire unanswered. Furthermore, institutional investors in Taiwan still base their investment decisions on traditional financial performance rather than on environment, society and governance performance and carbon disclosure. Last but not least, no binding rules for carbon disclosure exist: Taiwan Stock Exchange Corporation (TWSE) and GreTai Securities Market (GTSM) have adopted the *CSR Best Practice Principles for TWSE/GTSM*

¹¹⁴ CSR in Taiwan, 2012a.

¹¹⁵ Carbon Disclosure Project website.

¹¹⁶ Carbon Disclosure Project, 2009.

listed companies, yet the principles only *advise* corporations to promulgate their own CSR principles and to monitor their impact on climate change.

6.2 Social Pillar of CSR

6.2.1 Working Culture in the Chinese Communities

In relation to persisting issues of forced overtime and unpaid work, which were detected in Lite-On's and other Taiwanese factories, it is useful to briefly introduce the working culture of Taiwan. Often, what Western media and society consider as violation of labor standards or exploitation of workers, is accepted as a norm in Taiwanese workplace. Overtime work (often unpaid) is a common feature of corporate culture in Taiwan. On average, Taiwanese people work 20% more than Japanese and Americans, and 50% more than Germans.¹¹⁷ Simultaneously, according to government's investigation in 2010, 80% of the big high-tech corporations in Taiwan violated overtime laws.¹¹⁸

With the relocation of labor-intensive high-tech industry to countries with cheap labor, the overtime corporate culture has spread abroad via Chinese and Taiwanese managers, as the case of Lite-On's factories in China pinpointed. In China, the issues associated with working conditions have intensified on a much larger scale due to the massive labor-intensive production. At present, no international law regarding labor conditions exists. Companies are thus left with non-binding standards, such as the *CSR Best Practice Principles for TWSE/GTSM Listed Companies in Taiwan*.¹¹⁹ The international community hopes that businesses will implement fair practices in their operations voluntarily under the framework of their CSR.

Although Taiwan has shifted from labor-oriented to a service-oriented economy, harsh working conditions and violations of labor law concern both blue-collar workers in factories and engineers. Labor studies in Taiwan signalize that more than a half of Taiwanese employees work long overtime and about 700 000 do not receive overtime pay.¹²⁰ Another survey found that 61.18% of respondents reported their jobs

¹¹⁷ BBC News, March 20, 2012.

¹¹⁸ BBC News, March 20, 2012.

¹¹⁹ Law Source Retrieving System of Taiwan, ROC, 2011.

¹²⁰ CSR in Taiwan, 2011f.

to likely cause death because of overwork.¹²¹ In 2011, the Council of Labor Affairs confirmed that over 40 people died from overwork, four times more than in 2010.¹²²

6.2.2 Loopholes in Taiwan's Labor Law

Taiwan's government does not tend to be supportive in protecting workers' rights. The problem of excessive working hours in Taiwan lies in a loophole of the law: *the article 84-1 of the Labor Standards Act* in Taiwan states that in certain jobs (e.g. managers, supervisors, etc.) companies may arrange their own working hours, regular days off and national holidays.¹²³ In other words, the employer is free to set work tasks to be completed before the employee may leave his/her workplace. Whilst the article limits maximum working hours to eight hours per day and eighty-four hours every two weeks, at the same time it exempts certain employees from being protected by this law. As a result, Taiwanese companies frequently misuse this law and overwork their employees.

Apparently, compensation lawsuits in Taiwan are lengthy and it is very difficult to achieve settlements. Many times, even though the Council of Labor Affairs in Taiwan determines a person to be victim of overwork, companies refuse to recognize this fact. Furthermore, penalties for violating overtime laws are relatively small and most employers calculate with a low chance of being checked for labor violations.

Besides frequent unpaid overtime work, unpaid leaves (not covered by labor law in Taiwan) have spread after the financial crisis in 2008 when businesses encountered less orders from their foreign clients. According to informal surveys, this problem was detected at 63 Taiwanese employers with about 33 000 employees in 2011.¹²⁴ Moreover, some employers were also caught requesting foreign workers (who only get the minimum wage) to work overtime while asking domestic workers to take unpaid leaves.

Instead of adopting legal provisions to address the essence of such problems, Taiwan government's actions are limited to weak announcements and recommendations from the Council of Labor Affairs (CLA). For example, in the case of unpaid leaves, the

¹²¹ HR, 2005.

¹²² BBC News, March 20, 2012.

¹²³ Asia-Pacific Industrial Relations Network, 2011.

¹²⁴ CSR in Taiwan, 2011b.

CLA announced that unpaid leave should be mutually agreed between the employee and the employer. But given the difference in bargaining power, such announcements remain an empty statement. As for foreign workers being requested to work overtime by their Taiwanese employers, CLA would revoke their permits. Such measure, punishing foreign workers with already limited labor rights instead of punishing employers taking advantage of their relatively better bargaining position, completely ignores the cause of the problem.

6.2.3 Violations of Labor Law in Taiwan

As mentioned earlier, the problem of sweatshop conditions in the IT sector is widespread throughout the entire industry. In 2010, a number of labor issues emerged in the factory belonging to Taiwanese touch screen manufacturer Young Fast Optoelectronics in Taiwan: low wages, high work intensity, forced overtime without pay (up to 100 hours monthly), poor health and safety conditions, hiring of school interns below the age of 16 (it is illegal to employ children below 16 in Taiwan) and paying them less than a minimum wage. A full list of illegalities committed by the company includes a violation of *Labor Standards Law* (Articles 5, 11, 24 and 32), *Employment Services Act* (Articles 5, 42 and 47), *Labor Union Law* (Article 35), *Labor Insurance Act* (Article 14), *Labor Pension Act* (Article 14), *Employees' Welfare Funds Act* (Article 5), *Regulations for Cooperative Education of Vocational High Schools* (Article 5) and *Criminal Law*.¹²⁵ Furthermore, after the workers had formed a trade union, the management transferred some of the members from production unit to cleaning unit. Eventually, over fifteen members of the union were dismissed, while the managers claimed that their production line would move to China.¹²⁶ As Wang points out: “*In Taiwan, the attitude of management to trade unions is generally hostile.*”¹²⁷

After investigations by Taiwan authorities, the company was accused and fined for some of the above listed labor violations. However, penalties imposed on the company were ridiculously low: 18 000 NTD (about 600 USD) for inappropriate

¹²⁵ Young Fast Optoelectronics Trade Union, 2010.

¹²⁶ GoodElectronics, 2010b.

¹²⁷ Wang, 2005, p. 48.

dismissal of trade union leaders.¹²⁸ Regarding other violations, penalties were also extremely low, e.g. 20 000 NTD for overtime working hours exceeding 100 hours per month and the same amount applying for owing overtime wages.¹²⁹

Young Fast Optoelectronics supplies its products to Samsung, LG, HTC, Google, Qualcomm, Vodafone, Chunghwa Telecom and Taiwan Mobile. Shortly after the labor violations were proven to have occurred in the factories of Young Fast Optoelectronics in Taiwan, Lite-On partnered with Young Fast Optoelectronics to form a joint venture and open a large factory to produce touch panel modules in Huizhou, China. Interestingly, this facility obtained the certification SA 8000 for decent workplace in 2011.¹³⁰

6.2.4 Labor Movement

The labor movement in Taiwan gained more importance as a social movement after the abolition of martial law in 1987. The first labor activist organization was formed under the name of Taiwan Labor Front with the goal “*to build a new society without exploitation, where people enjoy freedom and equal access to resources.*”¹³¹ More labor organizations were founded later, but no powerful labor social movement has emerged in Taiwan. Many researchers attribute this fact to the traditional Confucian culture of group loyalty, acceptance of hierarchy and docility. But, if the only reason was cultural, how would one explain seeing a staggering number of strikes in Mainland China, Vietnam and other Asian industrialized economies?

There may be other reasons behind the weakness of Taiwan’s labor movement, originating in the repressive rule of martial law and political and economic history of Taiwan after 1949. Prior to 1987, trade unions in Taiwan were affiliated to the KMT Party in a very similar way as they are still affiliated to the CCP in China. All the trade unions of Taiwan were unified under *the Chinese Federation of Labor* with union officials being simultaneously members of the KMT. The KMT financially sponsored this Chinese Federation of Labor and had the power to dissolve any union that seemed rebellious. In short, the Chinese Federation of Labor served as a KMT

¹²⁸ The China Post, April 13, 2010.

¹²⁹ Young Fast Optoelectronics Trade Union, 2010.

¹³⁰ Social Accountability Accreditation Services, 2011b.

¹³¹ Taiwan Labor Front website.

instrument facilitating mobilization of workers and support for KMT during elections. Until now, member unions of the Chinese Federation of Labor are characterized by close connections to the KMT and are managed by employers with a reputation for exploiting their own employees.

The second reason for weak labor movement in Taiwan is the nature of the Taiwanese economy during the time of martial law. At the beginning of the 1990s, there were about 700 000 small and medium sized enterprises in Taiwan.¹³² These numerous small and medium enterprises were mainly family businesses run by farmers as their additional activity besides farming. Naturally, family ties, which dominated the business sector, did not set a solid base for labor movement. Furthermore, due to the widespread small manufacturing businesses, Taiwanese society did not experience the rise of inequalities (that would lead to formation of a strong labor movement) to the same extent as other industrialising economies did.

Consequently, very few labor disputes (often associated with political opposition against KMT) occurred between 1949 and 1987.

In the early 1990s, the public started to show some discontent with working conditions. Labor strikes and demonstrations became more frequent. The legislation framed in the Labor Standards Law adopted in 1984 did not allow for improvements in salaries and working conditions and the employers continued to evade the payment of overtime rates, bonuses and other employee entitlements. But, in most cases, workers' struggles against employers violating labor laws ended up being defeated, leaving companies and managers unpunished. Workers commonly lost their jobs because of participation in the strikes. In addition, many labor-intensive businesses started to be relocated to South-East Asian countries and China, where the labor was cheaper and abundant. Consequently, Taiwanese workers have become discouraged from taking any kind of initiative and fighting for their rights. According to a survey conducted in 2005, 89.7% of publicly traded companies in Taiwan established a code of conduct, but at the same time, 69.7% of companies did not have employees' unions.¹³³ This implies another characteristics of Taiwanese companies: not only are

¹³² Minns & Tierney, 2003.

¹³³ Ip, 2007, p. 169.

Taiwanese managers hostile to trade unions, but they are also inexperienced with them:

“In the research of Malaysian Taiwan-invested factories, (...) no one company has a trade union in the workplace, because they [Taiwanese bosses] don’t allow it. (...) Most Taiwanese companies would have had no previous experience in dealing with trade unions when they were in Taiwan.”¹³⁴

In 2008, the European Union has launched several projects (e.g. MakeITfair and ProcureITfair) to raise awareness about environmental pollution and labor conditions in the IT sector and to open the discussion between local labor organizations and suppliers. However, local labor associations in Taiwan did not unite to join these Western initiatives. Non-governmental organizations in Taiwan still lack comprehensive projects dedicated to labor issues and thus, the pressure on the government remains without response. Labor movements, although growing in number and becoming more active than before, are still fragmented, weak and in most cases affiliated to political parties.

6.3 Economic Pillar

Even though the CSR idea is to step beyond the legal minimum of what corporations should do according to the law, the government and public institutions remain important stakeholders in the CSR concept. Taiwan’s government has understood the need to respond to CSR, which has become a mainstream approach in the West, but no long-term strategy has been developed yet. The reason behind this is perhaps the wide range of aspects covered by CSR: labor rights, enterprise disclosure, anti-bribery, environmental protection, technology development, consumer interests, fair competition, taxes and levies, education and social welfare. In terms of legal embedding of CSR, it may be pointed out that the People’s Republic of China has gone one step further than Taiwan by explicitly requiring companies to abide by social and business ethics, honesty and fulfilling of social responsibilities in its

¹³⁴ Wang, 2005, p. 48.

amended Company Law from 2005.¹³⁵ Clearly, *enforcement* of the amended law in China could be a matter of discussion.

*“Governments are not pulling their weight. (...) There has been too much outsourcing of enforcement to the private sector. Individual firms may find enforcement difficult. Governments may do better, but few governments of emerging markets like to be bossed around.”*¹³⁶

From Taiwan government’s perspective, a multi-agency cooperation among Ministry of Economic Affairs, Ministry of Finance, Council of Labor Affairs, Financial Supervisory Commission, Ministry of Justice, Environmental Protection Administration, National Science Council, Consumer Protection Commission, Fair Trade Commission, Ministry of Education and Ministry of the Interior, should be ensured in order to cover all areas in a firm governmental framework for CSR. So far, the cooperation regarding CSR is fragmented and limited to few agencies and isolated aspects of CSR.

An example of such isolated aspect of CSR recently promoted by both Taiwanese and Chinese governments is their energy policy stressing a switch to energy saving LED lights. Taiwan’s government promised subsidies for LED providers, especially after the growth of LED production slowed down in 2011.¹³⁷ Taiwan’s government announced to spend NTD 500 million on LED subsidies for consumer and government purchases in 2012. The financial help is especially targeted at companies including Everlight, Epistarp and Lite-On and consists of technologic breakthrough, investment in key technologies, environmental upgrade, export expansion and augmentation of domestic demand.¹³⁸

China announced to spend 40 billion RMB in 2012 for the purchasing of street lamps under the project “10 000 lights in 1 000 cities”.¹³⁹ The Chinese government started offering subsidies to large firms (with a registered capital of at least 50 million RMB), which want to compete for the public projects through initial public offerings. Taiwan’s big providers of LED, including Lite-On, are expected to benefit from the

¹³⁵ Ip, 2009.

¹³⁶ The Economist, March 31, 2012.

¹³⁷ LEDinside, November 8, 2011.

¹³⁸ Computex, November 9, 2011.

¹³⁹ LEDinside, June 15, 2011.

subsidies because they possess advanced technology and financial strength, which their Chinese competitors often lack. Consequently, Lite-On has already signed a cooperation with the city of Nanjing to provide lighting technologies for the city's needs.¹⁴⁰

Interestingly, *Chinese government* (especially in Guangdong province) *is much more active* in promotion of CSR and green technologies than Taiwan's government.¹⁴¹ Of course, since Lite-On's manufacturing sites are located in Mainland China, the impact of government incentives on the company is higher there. But generally speaking, the CSR encouragement from the PRC side is greater. Specifically, Lite-On Technology receives numerous awards and cash funding for the production and carbon footprint labels of its green products, green design and green management practices in Mainland China.

Socially responsible investing has become a new important trend under the economic pillar of CSR. Adopting this new trend will be a challenge due to underdeveloped corporate governance in Taiwan: shareholder-voting system is rather inconsistent, leaving shareholders to vote in an uninformed manner. Lite-On Technology emphasizes being an exception in Taiwan to have a board of directors composed of seven institutional investors and three independent directors. In fact, three independent directors in the board of directors are generally considered as a minimum. Audit committees should be comprised *solely* of independent directors, but often, it is not the case in Taiwan. In March 2012, the Legislative Yuan amended *Taiwan Company Act* by holding registered and shadow directors liable for civil, criminal and administrative acts, but left a loophole again: government officers, who may act as shadow directors, are exempt from the liability.¹⁴² The inconsistent regulatory regime has not been pushed to improve for many years for three reasons: a lot of companies are family-owned, long-term institutional investors are lacking and legislative process is slow.¹⁴³ As for regional comparison, only 8% of publicly listed

¹⁴⁰ LEDinside, February 23, 2011.

¹⁴¹ Personal interview.

¹⁴² Winkler Partners, 2012.

¹⁴³ Reuters, February 24, 2011.

companies in Taiwan issue CSR reports, while the percentage is 35% for Japan and 33% for China.¹⁴⁴

6.4 Understanding of CSR among Taiwan’s Business Community

The concept of CSR is young and still developing in Taiwan. Business leaders mainly adopt CSR upon requests from their customers and often do not have a clear understanding of the concept. One of the early surveys about CSR in Taiwan, carried out among publicly traded companies in 2005, showed an inconsistency about perception and implementation of CSR practices:

Rank	The most importantly viewed CSR items in Taiwan	%	How CSR is actually implemented in Taiwan	%
1.	Shareholders’ rights	87.2	Paying taxes honestly	77.8
2.	Employees’ rights	84.9	Respecting ethical norms	76.7
3.	Corporate governance	68.5	Protecting the environment	69.9
4.	Financial disclosure	66.8	Improving labor relations	69.6
5.	The environment	66.5	Providing employment	67.9
6.	Customers’ rights	63.6	Philanthropic activities	50.6
7.	Honestly paying taxes	60.5	Protecting consumers’ rights	49.7
8.	Community relationship	34.9	Practicing fair competition	30.1
9.	Fair competition	30.7		
10.	Supply chain management	21.6		

Figure 12: Perception and implementation of CSR practices in Taiwan.

Source: Ip, 2007, p. 168-169.

The selection of CSR items shows that the survey was adapted to local conditions: e.g. paying taxes honestly in most Western countries would be considered as obeying law rather than aspect of social responsibility. The inconsistencies are clear-cut: paying taxes was ranked the highest in terms of implementation, but quite low (rank

¹⁴⁴ CommonWealth, August 10, 2011.

7) in terms of perception. Similar discrepancies exist regarding customers' rights and other items, suggesting that corporate leaders in Taiwan either do not mind the gap between the idea and practice or understand CSR vaguely. In China, "*the true determination of CSR is still firms' economic features, and managers' interpretations of CSR activities could be seen in terms of economic incentives.*"¹⁴⁵

Currently, surveys about CSR in Taiwan are carried out annually by two magazines: *the CommonWealth Magazine* and *the Global Views Magazine*. Global Views Magazine examines three CSR criteria when granting the CSR Award to companies: *social participation, environmental protection and financial transparency*. Yet, this magazine only takes into account corporations listed on the Taiwan Stock Exchange. The information is gathered from questionnaires designed by a German sustainable performance rating agency OEKOM and ranked upon the three criteria.

Surveys conducted by The CommonWealth focus on four categories considered as strategic for CSR in Taiwan: *corporate governance, corporate commitment, community involvement and environmental protection*.¹⁴⁶ The list of Taiwan's top 30 large companies in 2011 with the best CSR practice according to the CommonWealth Magazine is available below. Lite-On ranks as the second best for 2011 and the fourth best in 2010 based on the four criteria mentioned above. AU Optronics, a Taiwanese corporation whose CSR performance is regularly evaluated with A+ GRI degree, does not figure in the list at all. As mentioned before, the company is known for law violations in Taiwan and thus holding a place among the top corporate citizens would be contradictory.

¹⁴⁵ Chan, Ip & Lam, 2009.

¹⁴⁶ CommonWealth, August 10, 2011.

Table 1

2011 Top 30 Large Companies

Taiwan's Top Corporate Citizens (Revenues above NT\$10 billion)

2011	2010	Company	Average Score	Corporate Governance	Corporate Commitment	Community Involvement	Environmental Protection
1	2	Taiwan Semiconductor Manufacturing Company	8.68	9.1	7.9	8.9	8.9
2	4	Lite-On Technology	8.59	9.3	8.1	8.2	8.8
3	1	Delta Electronics	8.44	7.9	8.3	8.9	8.7
4	3	Chunghwa Telecom Co.	8.39	8.4	8.8	8.8	7.7
5	1*	Sinyi Realty	8.18	9.0	7.4	9.3	7.1
6	5	Taiwan Mobile Co.	7.87	9.2	6.8	8.3	7.3
7	8	Macronix International	7.73	7.5	7.7	7.8	8.0
8	10	Wistron Corporation	7.71	8.6	7.4	7.5	7.5
9	12	Fubon Financial Holding	7.64	8.2	6.7	9.3	6.4
10	19	Chinatrust Financial Holding Company	7.61	8.3	7.2	8.2	6.7
11	12	China Steel	7.53	6.6	8.1	7.3	8.2
12	-	Advanced Semiconductor Engineering	7.28	7.3	7.3	7.0	7.6
13	6	E.Sun Financial Holding Company	7.20	8.4	6.9	7.5	6.0
14	23	CTCI Corporation	7.04	7.0	6.8	7.6	6.8
15	26	Yulon Motor Company	7.01	5.5	8.3	6.7	7.6
16	27	Compal Electronics	6.94	6.1	6.9	6.9	7.9
17	7	Asustek Computer	6.88	6.9	5.9	7.2	7.6
18	-	Motech Industries	6.86	6.1	6.6	7.6	7.1
19	16	Cathay Financial Holdings	6.86	7.4	7.5	7.6	4.9
20	9	President Chain Store	6.74	6.2	6.7	7.2	6.9
21	-	China Life Insurance	6.74	7.2	6.5	7.3	6.1
22	20	Micro-Star Int'l	6.56	5.2	6.9	6.5	7.7
23	-	Shihlin Electric & Engineering Corp.	6.45	4.9	7.5	6.9	6.6
24	22	Hotai Motor	6.34	5.3	7.0	6.2	7.0
25	29	Far Eastern New Century	6.22	4.7	6.2	6.8	7.2
26	24	Cheng Loong	6.22	3.9	5.8	7.3	7.9
27	-	Feng Tay Enterprises Co., Ltd.	6.21	5.5	6.9	5.9	6.6
28	15	Far Eas Tone Telecommunications	5.97	6.1	6.1	6.0	5.7
29	-	Makalot Industrial Co.	5.96	6.0	7.0	6.2	4.7
30	-	TSRC Corporation	5.91	6.2	6.9	3.9	6.7

* Sinyi Realty ranked number 1 among medium-sized companies in 2010; this year was its first year to rank among large companies with revenues exceeding NT\$10 billion.

Note: Average score rounded out to the second decimal. Some companies may appear to have the same score but are not ranked the same.

Figure 13: Taiwan's 30 best corporate citizens in 2011 according to the Commonwealth Magazine.

Source: Commonwealth, August 10, 2011.

Public and media attention to CSR in Taiwan primarily focuses on large corporations. Indeed, researchers worldwide have observed that companies engaging in CSR are companies with excess profits, but it is not true vice-versa.¹⁴⁷ Yet, Taiwan has a large number of small and medium enterprises, which have limited resources and take longer time to develop CSR strategies and activities. Thus, many enterprises are reluctant to invest in CSR. The period after which CSR pays off, if at all, is also a matter of uncertainty for most Taiwanese businesses. According to an empirical research carried out among Taiwanese companies listed on the stock exchange, although social responsibility and maximization of profits are not conflicting goals, financial performance of corporations with CSR programs *only slightly outperforms* those without CSR (and only for two indicators: return on assets and return on earnings per share).¹⁴⁸ After all, CSR has to make sense economically and financially, as John Anderson, CEO of Levi Strauss & Co, points out:

“That’s why it’s very important we link it to profits with principles. One of the dilemmas that we’ve been dealing with over time is that there are many people who say ‘let’s do it regardless of the impact on profit’. (...) I’ll be honest, we do it because it’s the right thing to do but it’s also got to make business sense.”¹⁴⁹

6.5 Suppliers’ Motivation for CSR

In fact, even if there was a clearer understanding of CSR in the Chinese business communities (and generally in the world), there are still questions about the actual implementation of the concept and the distribution of CSR costs. Louder voices of stakeholders demand transparency and justice from multinational corporations reaping profits. Multinationals, pushed to take actions, respond by auditing their suppliers and pressuring them to rectify problems, all this paid for from suppliers’ pockets. But, downstream suppliers often operate at very low margins, as confirmed during the interviews. Yet, they still engage in CSR programs, despite lacking means enabling them to show their good will to consumers.

¹⁴⁷ Shen & Chang, 2009.

¹⁴⁸ Shen & Chang, 2009. Note: In fact, there was a systematic divergence of characteristics of the companies with and without CSR. Consequently, the results of the survey should be treated with cautiousness.

¹⁴⁹ INSEAD Knowledge, 2009.

The analysis below shows the supply chain profit analysis (first-tier suppliers) illustrated by an example of iPhone product:

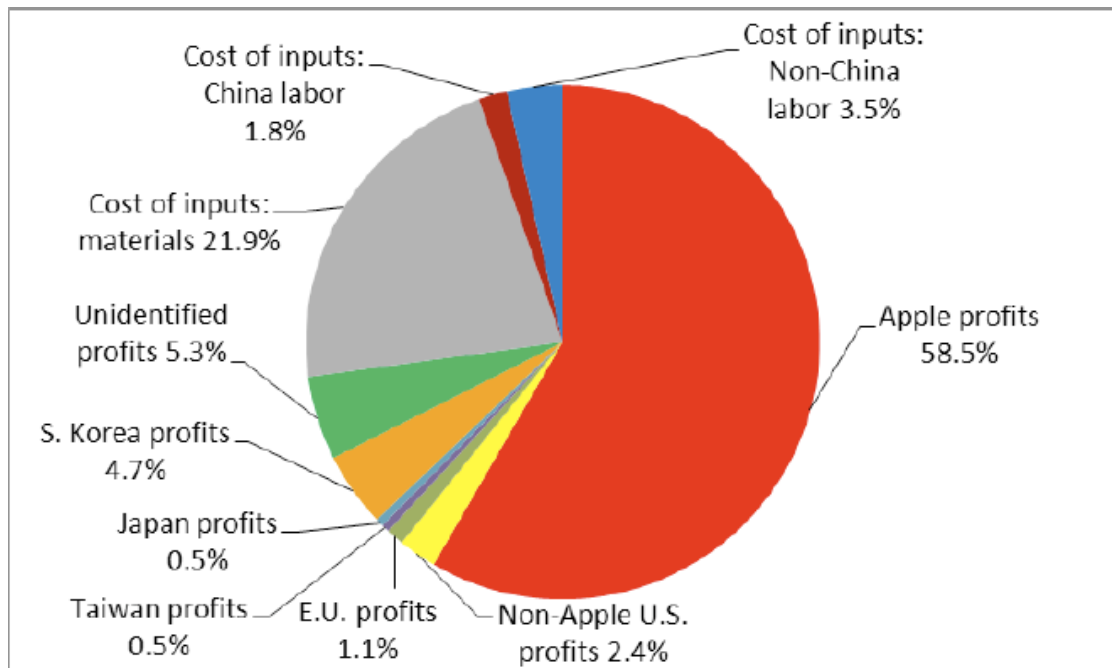


Figure 14: Supply chain analysis on the example of iPhone.









Source: Kraemer, Linden & Dedrick, 2011.

First, it should be noted that although the iPhone products are assembled on the territory of China, this happens in the factories owned by Taiwanese Foxconn. No Mainland Chinese first-tier suppliers are involved in the production of iPhone. *Second*, the share of value for Apple's suppliers is very low, at only 0.5% for Taiwan, 0.5% for Japan and 4.7% for South Korea. With such low margins, suppliers' managers face a dilemma when allocating their resources. The costs of CSR are clear-cut, while benefits are still difficult to calculate. *Third*, suppliers (e.g. Foxconn, Lite-On) do not benefit from CSR in the same way as the multinationals (e.g. Apple), especially when corporations use CSR as a PR tool. Interestingly, one study about Asian consumers showed that Asians are more supportive of socially responsible activities than their Western counterparts, and that they even better distinguish between economic, legal, ethical and philanthropic responsibilities of businesses.¹⁵⁰ But again, *consumers are more likely to identify responsible behavior with a global*

¹⁵⁰ Chan et al., 2009.

brand rather than with an OEM/ODM company. Moreover, consumers’ willingness to pay a higher price for a branded product reflects their higher expectations about the product. Yet, majority of them will associate these expectations with product safety, quality and technical parameters, and not with labor and environmental conditions, under which the product was made. These facts naturally decrease suppliers’ motivation for CSR.

Despite the low margins and no recognition from customers, Lite-On still invests its resources and efforts to develop a pioneer CSR program. The following table summarizes motivational factors behind the CSR in Lite-On Technology:

Factor	Motivation	Reason/Note
Pressure from global brands		Competitiveness
Pressure from other stakeholders		Manifold
Cash funding from PRC government		Higher than from Taiwan government
Green operations		Cost saving
PR instrument		High for premium brands only
Better financial performance		Only for ROA and ROE/share
Getting feedback from other stakeholders		Low, but rising slowly
Improving labor relations		Originally low, now rising

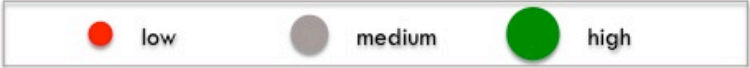


Figure 15: Motivational factors for Lite-On Technology CSR program.

Source: Author’s scheme.

In fact, if environmental and working conditions are to be improved, there has to be a transformation of relationship between the global brand and its suppliers. This relationship has to be more *stable*, *collaborative* and *exclusive*. Most importantly, global brands need to share their gains from the new, more efficient production

processes with their suppliers.¹⁵¹ In other words, the distribution of profits in the supply chain needs to be more equitable.

6.6 Ethical and CSR Challenges in the Chinese Communities

The concept of Corporate Social Responsibility is closely linked to business ethics and to individual responsibility of organizational leaders. Although regional differences may exist within the Chinese communities, common moral characteristics may be identified in Taiwan and Mainland China. Organizations in the Chinese communities are believed to have a *strong collectivist culture* with a *high degree of power distance*. Based on the socio-cultural paradigm by Hofstede, leaders in the Chinese organizations are not only expected to set moral examples for their subordinates, but also to examine their own moral values and behavior more deeply.¹⁵² This may imply favorable conditions for good business ethics in case of high-moral leaders. Yet, in case of low-moral leaders, not only the moral environment deteriorates and demonstrably lowers employees' efficiency,¹⁵³ but imbeds the immoral values within the organization due to the high degree of power distance that is translated into employees' fear of taking action. As Chan et al. point out, Chinese "*people's perception of organizational ethical culture is a significant factor influencing their judgement of whistleblowing.*"¹⁵⁴

In Lite-On Technology, employees may use various communicational channels to express their suggestions or complaints. One of them is "Call Me David" box, which is available in all Lite-On Technology's facilities. However, the use of this channel is not common. Most employees prefer direct talks with their managers (also because employees in China do not have access to computers). Occasionally, the HR department receive emails from employees.¹⁵⁵ Besides these channels, the company holds two labor-management communication meetings every year, which specifically target labor issues and are attended by supervisors and top management¹⁵⁶ (but it is not clear whether union representatives may take part in these meetings too).

¹⁵¹ The Economist, March 31, 2012.

¹⁵² Jiang, Lin, Y.-C. & Lin, L.-C., 2011.

¹⁵³ For the results of empirical study please refer to Jiang et al., 2011.

¹⁵⁴ Chan et al., 2009.

¹⁵⁵ Personal interview.

¹⁵⁶ Lite-On CSR Report, 2010.

According to Wang, a *hierarchical relationship* between trade union officer and personnel manager is very common in Taiwanese companies in order to facilitate labor control.¹⁵⁷

Jiang et al. have identified several moral value challenges that managers and employees face in the Chinese companies:

- Hiding colleague's or supervisor's illegal behavior;
- Bribing (including treating a potential customer to a vacation, giving gifts to important customers, especially during the Chinese New Year and trying to obtain an information from competitors' employee);
- Disrespecting job duty (simply not doing one's best to accomplish work);
- Using a political ruse (taking credit for other people's work or attributing mistakes to other people);
- Acquiring corporate resources illegally;
- Cheating customers.¹⁵⁸

According to some researchers, the *guangxi* culture itself may lead to unethical behavior. Notably with relation to supervisor-subordinate *guangxi*, *perceived unfairness* and *supervisor-targeted impression management* are more likely to occur.¹⁵⁹ Decisions are guided by personal influence and not by well-established, functional administrative frameworks, which ultimately results in corruption. In the Chinese communities, interpretations of law are flexible and it is relationships, not law, that provide security and framework for doing business.¹⁶⁰

Besides the *guangxi* culture, gift giving and generous treatment are also special features of the Chinese business environment. Naturally, it is difficult to draw a boundary between ethical and unethical behavior, as the 2010 Lite-On CSR Report suggests:

¹⁵⁷ Wang, 2005, p. 49.

¹⁵⁸ Jiang et al., 2011.

¹⁵⁹ Chan et al., 2009.

¹⁶⁰ Blackman, C., 1997, p. 9-10.

“While dining is a necessary accompaniment of meetings between the employees and suppliers or customers, treatment should be appropriate and emphasize reciprocity.”¹⁶¹

Now, let us summarize CSR challenges in Taiwan’s business environment from the government’s perspective. First, as mentioned earlier, there are loopholes in Taiwan’s company law, labor and environmental law. Government’s regulations are often unclear, too. Economic growth in Taiwan, as it is the case in other Asian tiger economies, is put ahead of regulation. In Western developed countries, CSR usually exists as a strategic extra-value in an already mature and functional legislative environment. Sometimes, CSR may even have the ambition to shift business and legal environment towards more justice (e.g. inclusion of environmental and social criteria in public tenders according to the directives 2004/17/EC and 2004/18/EC of the European Parliament and of the Council).¹⁶² In Taiwan, CSR so far exists as a necessary minimum reaction to pressure from international customers, yet parallel to an imperfect system of legislature and corporate governance.

Second, there is a lack of cooperation between ministries and agencies. This results in two major problems: poor central planning and poor tracking management. The government is aware of the need to respond to CSR *somehow*, but does not develop a concrete plan as to laying out *how*. Because the approach to CSR is fragmented, no comprehensive tracking management system can be developed. Instead of enforcing compliance, government awards certificates to few selected companies for their isolated achievements.

Third, inspection and audit agencies in Taiwan are highly underfinanced and understaffed. It is still a prevalent belief in Taiwan that strict regulation will bring slowdown to the country’s economy. But the fact is that stricter, clearer, anchored regulation and more efficient supervision would create new opportunities and thus would contribute to Taiwan’s development in another, perhaps safer and increasingly righteous way.

Now, let us continue with the business perspective. Similarly to the government’s perspective, companies are aware of the urgent need to respond to global CSR trends

¹⁶¹ Lite-On CSR Report, 2010.

¹⁶² Butollo, Kusch & Laufer, 2009.

somehow, but do not know exactly *how*. When Lite-On asked for help from other stakeholders' when establishing its CSER monitoring system, there was "(...) *no help from Taiwan's government*" and "*very little help (some consultations) from global brands*."¹⁶³ This holds two consequences: for most companies, CSR is not one of the companies' strategic values and their resources are not used efficiently. In other words, most Taiwanese corporations do not develop and improve CSR continuously, but improvise in reaction to the situation in the market. Drifting in and out of CSR commitments is the consequence of this reality.

CSR challenges, especially those related to the social pillar, lie in a relatively conservative management culture in Taiwan: many Taiwanese companies still try to compete with China in the price and cost domain, although they are no longer competitive there. The understanding of true employee value is lacking, encouraged by the existence of imperfect legal framework. In many managers' eyes, working long hours with no holiday and silent participation to inefficient meetings are major criteria for a good employee assessment. One worker described the working environment in Taiwan as „*tough, but stupid*“.¹⁶⁴ Workers are simply regarded as expendable and easily replaceable. Competitive recruitment, performance remuneration and management by objectives are still relatively new ideas.¹⁶⁵ Promotions are granted to those who have cemented different kinds of relationships over time and not to those with extraordinary performance. Workplaces also suffer from inability to take individual responsibility for one's tasks,¹⁶⁶ both originating from fear of losing face and fear of losing the job. Decisions are pushed up-ward to an overburdened top management.

Due to similar cultural background, the Taiwanese way of doing business is very similar to the Chinese way:

“It's [Chinese way of doing business] based on the idea of a collective, as opposed to an individual, culture. To oversimplify, people from individualistic cultures tend to think of themselves primarily as individuals and as distinct from others. People from collective cultures consider it a primary obligation to look

¹⁶³ Personal interview.

¹⁶⁴ Personal interview.

¹⁶⁵ Blackman, C., 1997, p. 66.

¹⁶⁶ Blackman, C., 1997, p. 127.

out for those who are connected to them by family, home town, or employer. In most Chinese companies, employees from the CEO down to the lowest-paid factory worker believe that harmony and loyalty should be maintained and confrontation avoided. Disagreeing with a colleague's or boss's opinion in a meeting or in public is out of the question. A collective culture is great for rapidly building an organization from scratch. But too often, companies with collective approaches continue to disempower individual employees and devalue their intellectual contributions.”¹⁶⁷

Only recently, Lite-On Technology began to understand the importance and benefits of feedback from their employees and the wider community - especially after witnessing the success of feedback culture at its Taiwanese competitor, Delta Electronics. Now, Lite-On Technology employees' suggestions and feedback are slowly encouraged by offering financial bonuses, awards and other incentives to the employees.¹⁶⁸

After the implementation of the environmental accounting system, the biggest challenge for the Lite-On corporation in 2011, two major challenges for Lite-On's CSR in 2012 and onwards were identified:

- 1. deeper community involvement;*
- 2. employee assistance.*

The community involvement has been made the priority and the LBG methodology is applied to this aspect of CSR, but the results are mixed depending on the facility and employee's position in the company. Generally, more encouragement is needed, especially for corporate volunteering. Yet, it is hard to overcome this problem in an environment of frequent overtime work.

The second challenge - employee assistance - seems even harder to overcome. In fact, Lite-On Technology's factories in China suffer from a very high turnover of employees (as described in the fourth chapter). The company feels that measures to increase employees' loyalty need to be taken urgently, but it is difficult because the reasons behind the high employee turnover are manifold. Two main reasons may be

¹⁶⁷ Harvard Business Review, December 7, 2011.

¹⁶⁸ Personal interview.

quoted here: *wages and personal characteristics of nowadays strawberry generation*,¹⁶⁹ who quit jobs easily, soon become frustrated and cannot deal with pressure.

6.7 Outlook

While Lite-On has just started to develop its CSR program in one of its subsidiaries, the leading brands in the West are moving beyond CSR. Some western managers have started thinking about new ways of:

- How to bring business and society together;
- How to legitimize the business after the general sentiment has been developed in the Western society that companies create profit at the expense of communities;
- How to achieve economic profits.

Some corporations began to realize that moving their operations to low wages locations is not only a short-sighted strategy - as in the case of China, where wages have risen by 22% since 2010¹⁷⁰ - but also an unsustainable strategy. Michael E. Porter and Mark R. Kramer propose the new principle of *shared value* as a new way of profit making by criss-crossing profit and non-profit boundaries in corporate operations:

“(...) the principle of shared value, which involves creating economic value in a way that also creates value for society by addressing its needs and challenges. (...) Shared value is not social responsibility, philanthropy, or even sustainability, but a new way to achieve economic success. It is not on the margin of what companies do but at the center. We believe that it can give rise to the next major transformation of business thinking.”¹⁷¹

¹⁶⁹ *Strawberry generation* is a Chinese neologism for young generation of Taiwanese people born after 1980 who were raised in overprotection from their parents and economic prosperity. In older generation's eyes, they cannot withstand social pressure and hard work as the older generation could, and bruise easily, like a strawberry skin. The term is now used commonly in Taiwanese society and media. As for the generation of Chinese youth born under the one child policy, the high turnover in factories is emphasized by their inability to adapt when they reach adulthood, because as single kids they lack social skills and draw the whole family's attention and resources (*syndrom of little emperor*).

¹⁷⁰ Financial Times, January 4, 2012.

¹⁷¹ Harvard Business Review, January 2011.

Porter and Kramer's rethinking of Corporate Social Responsibility suggests that companies should stop pursuing the old CSR rule of *what is good for business is then good for society*, but look at the business-society relationship from a reversed perspective: *what is good for society is good for business*. Porter goes even beyond this definition by saying that creating a societal benefit is a powerful way of creating economic benefit.¹⁷² By producing products that are actually good for people and address their real needs, companies could make a kind of profit that creates a shared value and thus is not profit made at the expense of society. Porter gives fair trade products as concrete examples of such meaningful products.

Even though the concept of shared value is very new and a comprehensive framework is missing, its emerging form may be already found in Taiwan. For example, after the typhoon Morakot hit Taiwan in 2009, most corporations donated money to help rebuild the affected communities. Yet, a small company Canmeng chose a different approach: instead of philanthropy, the company targeted a group of aboriginal women and provided them with an employment opportunity to manufacture birthday gifts for the company's staff.¹⁷³ This approach helped cement the community spirit among local people and enriched both the company and the local community.

However, the concept of shared value may not be applicable to OEM/ODM companies, which are dominant in Taiwan, because the nature of their businesses designates them to follow their customers' orders. Referring back to Dunning's scheme, only companies possessing ownership advantage would be able to shift the core of their production, while their first-tier suppliers would be left with the competition for margins. Even in this concept, a more exclusive collaboration between global brands and their suppliers is needed in order to resolve CSR issues in the supply chain.

In conclusion, a successful way of developing a sustainable business nowadays needs to be interrelated with individual responsibility, long-term strategy and an excellent understanding of communities in which the company operates. Some corporations have begun to realize that the CSR phase is over. In the future, businesses may move to the next phase by creating a shared value for consumers and society. Such approach

¹⁷² Ibid (audio podcast).

¹⁷³ Euroview, August/September 2011.

might bring together the two seemingly antagonistic business objectives: making real impact and reaching sustainable profit. It will be a new challenge for Taiwanese companies to participate in this new trend.



7. Conclusion

The idea of sustainability and the concept of Corporate Social Responsibility are both built on three pillars: economy, society and environment. The implementation of this concept has to be undertaken by all actors in the international community. Yet, in light of multinational corporations that become increasingly powerful at the expense of other stakeholders, it is the MNCs that need to engage in this implementation in a much more serious manner than has been the case until now. The model of CSR represents a means of how business may mitigate the negative impacts of globalization, but only under the condition that elaborate controlling mechanisms exist. Corporate operations and perplexed supply chains have evolved into an uncontrollable net, which is difficult to monitor and manage not only by the corporations themselves, but also by state and international institutions. Keeping track of the entire production chain has proven to be an extremely difficult task. Drawing consequences from impact of MNCs' operations in the developing world turned out to be impossible.

In order to address the problem of consumers' goods being produced in developing countries with weak legislation and poor rule of law, the MNCs, often after a collaboration with non-governmental organizations, developed various instruments of how to improve the environmental and working conditions in their supply chains. Although the progress has been slow, MNCs, including Lite-On, claim to have achieved some improvements: especially after they paid repeated visits to factories, after global brands started to cooperate closely with their suppliers, and after suppliers established reliable systems to gather and analyse CSR data. However, the time period, during which the information from auditors has been collected, is too short to conclude whether the improvements will be sustained or just temporary.

Codes of conduct are the most widespread CSR instruments. However, they do not seem powerful enough to trigger the shift towards more ethical production. Audits and compliance programs bring mixed results. Generally speaking, they collect valuable data about the situation, but this analysis has shown that the more audits are carried out in factories, the more evidence about code violations they bring. Industry initiatives, like EICC, remain closed and non-transparent to other than business-

member stakeholders and therefore do not provide a helpful platform for CSR. The intergovernmental initiatives, such as the United Nations Global Compact, have not brought the desirable outcomes either. Many corporations do not take this scheme seriously, although it is believed to possess the most advanced controlling mechanisms. Furthermore, this approach did not improve transparency with regard to other stakeholders, as the international community initially hoped.

In fact, it is the business model of just-in-time manufacturing, shorter life cycle of products, frequent changes in design and demand volatility, which impose substantial challenge to CSR. Thus, even if a factory improves its management and technical capabilities, the risk of labor issues may persist. With the business models unlikely to change in the near future, corporations have no choice than to work more exclusively with their suppliers, incorporate them into the production processes and continuously evaluate these procedures. This may also help increase workers' loyalty and decrease the high turnover in factories, as emphasized in the case of Lite-On.

Given the relatively modest impact that CSR brings to corporations and communities, some leaders started to rethink the concept of CSR altogether. The idea of shared value may remodel the current, almost hostile relationship between business and society. If a sophisticated framework is provided for this concept, businesses may not only discover a new way of making a real impression on the territories in which they operate, but also a new strategy on achieving a sustainable profit-making.

Since Taiwanese companies have vital links in the global supply chains, particularly in the production of electronics, they face increasing scrutiny from their customers. Up to now, the motivation for CSR in Taiwan primarily stems from the pressure from upstream players - global brands - that are leaders in innovations and CSR. But, this pressure has been put on the first-tier suppliers only recently and thus, the concept of Corporate Social Responsibility is still relatively new to the Taiwanese business community.

Taiwanese corporations are currently at the initial stage of the development of their CSR programs. As shown in this analysis, OEM/ODM suppliers are in an uneasy position: they receive minimum benefits from CSR and operate on very low margins. Yet, Lite-On Technology and a few other corporations still invest their efforts and resources into development of CSR program and try to improve the situation in the

electronic supply chain. Most Taiwanese companies focus on selected aspects of CSR, prioritizing the environmental pillar due to their limited budgets. Besides financial reasons, they pursue this prioritization again in relation to their global customers and in order to remain competitive on the global market. Many of them go green in their operations because they see CSR as an opportunity to decrease their operating costs.

Lagging behind the environmental aspects in Taiwan are the labor and social aspects. This study serves to show that Taiwanese companies come from an environment with an imperfect labor law, weak and underdeveloped labor movement and frequent overtime work. The Taiwanese government does not seem to be labor-friendly, thus leaving its own people unprotected from labor mistreatment. This fact partly explains the labor-abusive behavior of Taiwanese companies abroad, especially in China, where the labor issues occur on a larger scale due to the massive production of goods. Taiwanese and Chinese managers need to understand that they cannot succeed in the long-run if they continue to stress the value of mere hard work and managability of workers over employees' individual thinking and feedback.

Taiwan's path to sustainability has to lead first via improvements of legislation and via stronger rule of law, before moving on to voluntary initiatives such as CSR or concepts of shared value. Only after the country's legislative milieu and law enforcement reach maturity, CSR may serve as a complementary instrument to improve people's lives and bring about prosperity. A greater civic engagement and societal pressure may be conducive to speed up this process.

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