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**Exposing forced
labour in Malaysian
electronics: the role of
a social auditor in
labour governance
within a global
production network**

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Abstract

Research on actors that shape and influence labour governance in global production networks generally focus on the role of firms, government agencies, and nongovernmental organisations and trade unions. There has been less attention paid to the role of social auditors as agents of change in global production networks. This paper examines the case of Verité, a nonprofit social auditor, whose exposure of forced labour in the electronics industry in Malaysia brought about rapid changes to industry practices over labour governance. Significantly, its close ties to the United States federal government resulted in Verité becoming a political and 'activist' social auditor. This case study widens our consideration of a non-traditional actor – the social auditor – affecting and influencing labour governance in a global industry. The findings of this paper contribute to research on multi-polar governance in global production networks. In particular it demonstrates how a social auditor can help fill in governance gaps in an industry (electronics) and production location (Malaysia) that have been reticent to change and improvement for many years.

Keywords

Social auditor, forced labour, labour governance, Malaysia, global production network, electronics industry

1. Introduction

Labour governance in global production networks (GPNs) has been extensively studied from the perspective of various public, private, and public-private institutions and actors (Locke et al., 2009; Lund-Thomsen and Lingreen, 2013). Within this literature, the role of social auditors as agents of change has received less attention. This paper fills this gap by discussing the international nonprofit social auditor Verité, which I characterize as a political ‘change agent’ and ‘activist’. Verité exposed a high incidence of forced labour in the electronics industry in Malaysia in 2014 in a report commissioned and funded by the United States (US) Department of Labor (DoL). The repercussions of the findings of this report led to substantial and rapid changes in labour governance practices within the global electronics industry. The influence of Verité, the paper argues, is due to two reasons: 1) its long and deep engagement as a competent social auditor with firms and the industry corporate social responsibility (CSR) group the Electronics Industry Citizenship Coalition (EICC); and 2) political and strategic engagement with the US federal government over research and policy advice. The main research question of the paper is: *How did Verité, a non-firm actor in the electronics industry GPN, bring about changes in labour governance through its relationships with public and private actors?* The findings of the paper contributes to the budding literature on multi-polar governance in GPNs by increasing our understanding of a non-traditional ‘governance’ actor – the social auditor – that was able to influence labour governance practices in an industry (electronics) and production location (Malaysia) that has been reticent to change for many years. It points to a widening role of social auditors as agents of change in GPNs.

The paper proceeds with section B which begins by discussing research on multi-polarity and labour governance in GPNs. It then focuses on the literature on social auditors as a non-firm actor in GPNs and the role they can play as ‘change agents’ in labour governance. Section C presents the methodology for the research. Section D discusses forced labour in the context of GPNs and the political economy surrounding its occurrence in Malaysia. This section also presents the main findings of the Verité (2014) report on forced labour in the electronics industry in Malaysia. Section E discusses in what ways the Verité report led to significant changes in labour governance practices in the industry. This is followed with an analysis of how Verité harnessed its knowledge, credibility, and legitimacy through relationships with different actors in the GPN to bring about labour governance changes in the industry. The section engages the findings of the case study to conceptualise a political role for a social auditor and as an agent of change in GPNs. The concluding section F discusses the implications of the paper’s findings on our understanding of power and politics in a multi-polar GPN. It emphasizes the unique position Verité held in the GPN where it had more connections and relationships to different actors which bolstered its credibility and legitimacy as an agent of change. It also highlights the influence of large final consumer markets and large public buyers (the US) in labour governance. It also argues that monitoring and audits are not always futile when their findings are

mobilized through actors with power relationships in GPNs to bring about changes in labour governance.

2. Agents of change in labour governance of global production networks

Most electronic products are produced through complex webs of outsourcing and subcontracted relationships between branded firms mainly in developed countries and suppliers that are mostly located in developing countries. The various firm and non-firm connections that affect and influence these global production systems are referred to as GPNs (Henderson et al., 2002). The different factors that characterize a GPN, such as the product price, quality standards, environmental standards, and labour conditions are determined, influenced or 'governed' by various actors. Research on governance in GPNs (including its cognate literature on global value chains) has shifted from its earlier focus on lead or branded firms driving standards and outcomes in supply chains (Gereffi et al., 2005) to recent ideas around multi-polar governance (Ponte and Sturgeon 2014). The concept of multi-polarity addresses the fact that different aspects of GPNs are governed by different actors. For example, while branded firms set product design and quality standards, NGOs and social movements can affect labour conditions and standards in factories. This paper supports these ideas by focusing on a non-firm actor – the social auditor - that has received little attention in research on GPN governance.

Indeed, research on labour governance in GPNs reflects the fact that labour standards are shaped by both firm and non-firm actors. This stream of research has focused on three groups of actors: 1) firms (Jenkins et al., 2002; Lund-Thomsen and Nadvi, 2010; Raj-Reichert, 2011); 2) NGOs and trade unions (Cumbers et al., 2008; Hughes et al., 2008); and 3) government agencies (Mayer and Gereffi, 2010; Nadvi and Raj-Reichert, 2015; Piore and Schrank, 2008). The focus on lead firms stems largely from campaigns that hold brands responsible for improving labour conditions amongst its suppliers. Despite expending significant amounts of resources and effort in CSR activities, brand efforts have not always been successful or sustainable (Locke, 2013). NGOs and trade unions also play an integral part in shaping labour governance by participating in the making of global labour standards, monitoring their enforcement, and assisting with compliance. They can also create sanctions for non-compliance through negative publicity or boycotts (Gereffi et al., 2001; Neilson and Pritchard, 2009). Research on the role of the state in labour governance in GPNs has in recent years focused on ideas of complementarity between public and private mechanisms that has shown to lead to better governance outcomes in Latin American countries (Amengual, 2010; Piore and Schrank, 2008). The rise of this 'regulatory renaissance' is however not seen in other parts of the world, in particular Asia (Nadvi and Raj-Reichert, 2015). Countries either lack resources for effective labour inspectorates or lack the willingness to govern (Bartley, 2011). In Malaysia, for example, there are only 300 labour inspectors for a workforce of 14 million (Rasiah et al., 2015). Moreover, research on the role of the state tends to focus on host countries. The literature thus far does not consider enough how policies and actions in home countries can affect labour governance in production

locations that are difficult to reach with private governance measures. Regulations in final consumer markets such as the European Union (EU) have shown to influence labour governance outcomes amongst lower tier suppliers in GPNs. For example, the EU Directive on the Restriction of Hazardous Substances was implemented by second tier suppliers in Malaysia (improving worker health and safety conditions) where private and local governance measures were absent (Nadvi and Raj-Reichert, 2015). Understanding other types of home country governance pressures such as the recent global supply chain regulations in the US and EU¹, public procurement standards on labour conditions², and labour standards in Free Trade Agreements³ is important because market entry conditions can form part of the strategies for reducing labour violations in GPNs.

A non-firm actor that has received less attention in research on labour governance is the social auditor. Social auditors conduct audits on the performance of firm management systems over labour conditions. Audits are performed to check that systems of information gathering and tracking are in place over labour conditions (Power, 1997). In GPNs, audits are a key tool of governance as it allows headquarters to govern manufacturing locations and suppliers from afar (Raj-Reichert, 2013).

GPN research on labour auditing has focused more on the process and audits as a product that often fails to detect poor working conditions, double book-keeping, or cover-ups (Barrientos, 2013; Hughes, 2009; Raj-Reichert, 2013). Another strand of research focuses on flawed audit methodologies that fail to improve labour conditions (Anner, 2012; Locke et al., 2009). For example, the Rana Plaza building collapse in 2013 that killed over 1,000 workers was audited shortly before the devastating incident (Lund-Thomsen and Lindgreen, 2013). There has however been less focus on the role of social auditors as *actors* with agency that can bring about change through political connections and power relationships in GPNs.

The traditional role of social auditors as actors is to assess workplace conditions against checklists of codes, standards, and questionnaires provided by firms that contract their services (Locke et al., 2009). Auditors are considered to remain 'neutral'

¹ Recent global supply chain regulations include the California Transparency in Supply Chains Act of 2012, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2012, and the Federal Acquisitions Regulation (FAR) and Defense Acquisition Regulations Systems of 2015 in the United States; the Modern Slavery Bill of 2015 in the United Kingdom; and the EU Directive 2014/95/EU on disclosure of non-financial and diversity information by certain large undertakings and groups (<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014L0095>), which comes into force in 2016, and will require companies to report on prevention and mitigation of human rights violations in global supply chains (European Commission, 2015).

² The EU Directive on Public Procurement allows for the introduction of social and labour requirements (<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0024>)

³ For example for Vietnam, the EU-Vietnam Free Trade Agreement (http://europa.eu/rapid/press-release_IP-15-5467_en.htm) and the Trans-Pacific Partnership would commit Vietnam to International Labour Organization (ILO) labour standards, ban forced labour, and independent trade unions (Donnan, 2015).

in order to maintain their 'professionalism'. They tend not to raise questions on issues outside the scope of audits. This is done not only to ensure auditors remain credible as unbiased third-party auditors but also to ensure their clients contract them for future audits. Auditors that discover cheating by factory managers often "lack sufficient incentives to "rock the boat" by demanding significant changes in work conditions, from either buyer or suppliers" (Lund-Thomsen and Lindgreen, 2013: 13). While there are auditors that maintain their neutral, non-biased, and unquestioning professionalism, there is evidence of a more political and 'activist' social auditor in GPNs. These auditors are more knowledgeable about local contexts by being based in the region and communities in which they conduct social audits. Thus they are better able to identify labour violations not caught by checklist audit protocols. These social auditors can also be considered 'activist' when they go beyond the parameter of audit guidelines to raise attention of labour violations not caught or hidden from audits (Auret and Barrientos, 2004; Lund-Thomsen and Lindgreen, 2013; Kortelainen, 2008). 'Activist' social auditors go beyond ticking the boxes and aim to 'rock the boat' after finding labour violations.

The knowledge gained by 'activist' social auditors can be of a different quality due to audit methodologies that are participatory and worker-focused. Auret and Barrientos (2004) discuss the use of participatory tools in social auditing that involves using local auditors that speak the language and understand local cultures. These auditors can have a greater sensitivity to understanding local conditions and contexts behind worker abuses. Local auditors are also less intimidating to workers. The authors also outline participatory action research methods to gain information from workers, in addition to questionnaires and interviews. They also note the need to involve trade unions, NGOs and government agencies in the audit process for triangulation purposes. This holistic approach deviates from the fly-in and fly-out audits that are normally conducted by commercial auditing firms (Lund-Thomsen and Lindgreen, 2013).

In the electronics industry, Verité's is a social auditor whose auditing procedures involve extensive and confidential worker interviews conducted on and off-site. They consider the suitability of group versus individual worker interviews based on cultural circumstances. Their auditors are trained to recognize factory management methods of worker coaching and worker intimidation (Verité, 2009). Verité's audit reports are based on 50% of data originating from worker discussions. Verité has a guide on how to interview migrant workers to identify forced labour and human trafficking. Auditors also interview local NGOs, government agencies, labour organisations and trade unions, and labour agencies⁴ (Hirt, 2007; Kucera 2007). Verité auditors are 'consultants' that are often native to the region or country where they conduct audits. They tend to speak the local language and are engaged in worker communities. This is important because a significant amount of information obtained by Verité is available only in local languages. In Malaysia, a former Verité social auditor of over ten years, Charles Santiago, is a native of the country. Mr Santiago is highly qualified with a BA in Liberal

⁴ https://www.verite.org/sites/default/files/BRANDS-Strengthening_Assessments-Tool1_0.pdf accessed 12 July 2016

Arts and MA in Economics from the New School for Social Research in New York. In 2008 he was elected a Member of Parliament (charlessantiago.org/about-charlessantiago/, accessed 15 February 2016).

In addition to audits, Verité provides consulting services of targeted firm level analyses and firm specific programmes for improving labour conditions. Verité has earned a reputation of thorough audits amongst major brands such as Nike and Adidas in the past (Connor 2001). A programme manager for supply chain responsibility at an electronics branded firm (who previously managed an organization that audited apparel firms on labour conditions) found Verité to be

“unique because their model is different... [and] very in depth. They have a larger [audit] team between 5 and 7 [persons]. Their costs are higher for that reason. Their report is a lot more elaborate... [and] is usually around 50 pages. They interview a lot more people. And they also come from a research background [and have] people that have been around doing these same things for a long time... Monitoring firms [that] are for-profit are trying to keep a staff that is lean and efficient. There are differences because of the nature of the company.” (interview, 2016)

Indeed, Verité’s approach differs from commercial for-profit auditing firms. Firms such as PricewaterhouseCoopers (PwC) and KPMG conduct compliance based ‘snapshot’ audits that focus more on quantitative measurements of record-keeping. Their short factory visits does not involve interaction with local non-firm actors. While these firms do conduct brief management interviews and some worker interviews, they are not the primary indicators for assessing compliance of labour standards. Worker interviews tend to be brief and may not capture a large enough pool of workers to understand the varying complexities of permanent versus temporary or foreign versus national worker. A study on PwC’s audit methodologies showed how a heavy reliance on management produced data and management controlled access to worker interviews resulted in problematic findings. Commercial auditing firms which primarily conduct financial audits have inadequate training and understanding on social auditing (O’Rourke 2002). “The PwC auditing methodology largely ignores these crucial, non-management, sources of information [from workers]. Factory managers have incentives to cover up or hide problems, and they are given ample opportunity to do just that... No effort was made to get information through intermediaries... such as NGOs, neighborhood organizations... unions, local researchers...” (O’Rourke 2002: 203; 204). Locke et al (2009) finds similar limitations amongst internal auditors in CSR departments of brand companies.

Verité’s audits have captured more labour violations than those by commercial audit firms. For example, an audit by SGS on a knitwear supplier in Bangladesh passed with flying colours but was re-audited 10 months later by Verité after a worker rampage in the factory. Unlike SGS’s findings, Verité found widespread labour violations (Clifford and Greenhouse 2013). SGS is one of the largest commercial auditing firms used in the electronics industry and in Asia in particular (interview, 2016).

The Fair Labor Association (FLA), a non-profit organization with its own code of conduct and social audits, is also different from Verité. At the FLA firms are fee paying members of the organization. The FLA has failed to understand local context in countries such as China and Vietnam. FLA audits of the Apple supplier Foxconn in China for example did not understand that independent trade unions and the right to strike are not legally allowed and that all unions must be affiliated with the state. Alternative monitoring methods involving wider groups of actors such as labour activists and worker presented complaints can lead to more findings of freedom of association violations compared to FLA's approach (Anner 2002).

Verité stands apart from other social auditing organisations also because of the way it has become a political actor. Social auditors are political actors when they strategically combine their own resources with other sources of institutional and market powers to bring about change. Verité's expertise, credibility and legitimacy in the social auditing space have been combined with relationships with economic and political powers of larger institutions to influence market pressures over labour conditions. For example, in 2002 Verité conducted research for the California Public Employees Retirement System (CalPERS) on country compliance of core labour standards. Their findings led to CalPERS removing its investments from four countries in Asia due to labour violations (Hirt, 2007). A second example of the combination of resources by Verité and government is the case study presented in this paper. This paper demonstrates that the combination of a political and 'activist' role of a competent and legitimate social auditors can translate into change agents over labour governance in GPNs. Hence, this paper highlights an additional governance actor in a multi-polar GPN and importantly shows how its networked relationships brought about changes to labour governance practices.

3. Methodology

This paper is based on field research or interviews with firm and non-firm actors in the electronics industry GPN in Malaysia, Singapore, and the US in 2015. Findings from field-based research in 2008 (in Malaysia), and 2010, 2013, and 2016 (in the US and Western Europe) are also drawn on. In total, interviews and informal discussions in Malaysia were conducted with 10 government officials from 9 government agencies; 25 respondents from 17 firms (2 contract manufacturers, 5 first tier suppliers, and 7 second tier suppliers) where interviewees were CSR, human resources, and health and safety managers; 7 respondents from 6 NGOs; and 6 respondents from 3 trade unions. In Singapore, interviews were conducted with 2 respondents from NGOs, 1 respondent from a contract manufacturer, and 4 respondents from 2 trade unions. In the US and Western Europe, interviews were conducted with 18 respondents from 8 firms (3 brands, 3 contract manufacturers, and 2 first tier suppliers); 3 respondents from an industry organisation; 8 respondents from 8 NGOs; 4 respondents from 3 trade unions; 1 respondent from a government agency; and 1 respondent from a social auditor over several years. Several interviews were conducted with many firm respondents.

Secondary data are from annual firm reports, NGO, trade union and government publications, and information in the press.

4. Exposing forced labour in Malaysian electronics

The occurrence of forced labour or 'unfree labour' or 'slave labour' in GPNs is normally discussed in the very low value added or low cost industries of agriculture and garments where workers are hidden in the poorest corners of developing countries. Forced labour in GPNs are not necessarily workers that are informal, coerced and shackled but have entered into some form of 'contract' to provide their labour in return for payment, normally for the short-term. However, these workers are either deceived about the nature of work, pay, and other conditions and are often bonded through debt owed to recruiters or employers. A defining characteristic of forced labour is the inability of workers to exit their 'contract'. It is high or extreme levels of poverty that make workers vulnerable to the type of exploitation that can lead to forced labour (McGrath 2013; Phillips 2013).

Forced labour in GPNs largely stems from the pressure lead firms place on suppliers to meet quality standards at the lowest cost possible. Since labour costs is the most variable for outsourced suppliers, workers are hit the hardest through excessive overtime, low pay, lack of freedom of association and collective bargaining, and conditions that amount to forced labour. There is also an important link between the mobility of foreign workers and their higher degree of vulnerability and exposure to forced labour (McGrath 2013; Phillips 2013; Phillips and Mieres 2015). Thus 'forms of labour exploitation... are intrinsic to the functioning of GPNs' by (re)producing poverty in locations where capital can benefit from a pool of vulnerable and exploitable workers' (Phillips and Mieres 2015: 246). The movement of low cost labour to match the movement of capital in low cost production locations through outsourcing represents the ultimate global race to the bottom that is characteristic of GPNs. Related to this is the rise of labour agents whose activities are implicated with the rise of forced labour in GPNs because 'local labour markets are often unable to provide a sufficient supply of casual labour with the right skills on a 'just-in-time' basis' (Barrientos 2013: 1065). For the electronics industry, the short-term nature of migrant worker contracts is also key to ensuring a fresh and continuous supply of young 'healthy' workers with able fingers and eyes needed to toil through the, at times, intricate nature of work in factories (Raj-Reichert, 2013).

The literature on forced labour in the GPNs of the agriculture and garments sectors is often characterised by the informal nature of worker contracts and recruitment. This paper, however, is focused on forced labour that occurs through formal contracts with labour agencies registered and 'regulated' in an upper middle-income country and in a sector that is higher value added and technologically advanced than agriculture or garments. This is forced labour that is not hidden in jungles or homes or garages but occurs in hi-tech factories surrounded by gates and barbed-wires in free trade zones (FTZs) that have been monitored and audited multiple times a year by multinational

corporations, auditing organisations, and government agencies. What is more, forced labour in Malaysian electronics is seen not only amongst lower tier suppliers hidden from branded firms, but amongst key multinational first tier suppliers to brands such as Apple (Simpson, 2013).

In September 2014, Verité released the report 'Forced Labor in the Production of Electronic Goods in Malaysia: A Comprehensive Study of Scope and Characteristics'. It was based on interviews with 501 workers in over 100 factories throughout Malaysia. 87% of the workers were foreign migrants. The investigations found 28% of the workers in forced labour. Amongst foreign workers alone, 32% were in forced labour. Only 1 Malaysian worker was under conditions of forced labour. Forced labour was concluded to be widespread which meant it occurred in different locations, in factories of all sizes, and in production lines of various goods and components. The names of the firms and their buyers or their home country origins were not made public.

The report focused on several aspects of forced labour. First was high recruitment fees charged in home and host countries which led to debt bondage from excessive overtime. 92% of workers paid fees and 77% had borrowed to do so. 92% of workers felt compelled to work over-time to pay off their debts. Some workers took two years (of their three year contracts) to pay off debts through wage reductions. Excessive fees included a government levy on foreign workers. Second was the withholding of foreign worker passports by labour agents which were returned for a fee or not at all during a foreign worker's stay in Malaysia. 94% of workers had their passports taken away and 71% reported it would be difficult to get them back. Government officials stated passport seizures by employers protected the documents on behalf of workers. Third were restrictions of movement and the institution of fear and insecurity amongst workers by employers. This was exacerbated by public government raids on undocumented workers which led to foreign workers being afraid to move around freely in the country. In Malaysia, a recent law allowed indefinite periods of detention without trial for undocumented foreign workers. Almost half (46%) the workers had been stopped by either a paramilitary civil volunteer group RELA (*Ikatan Relawan Rakyat Malaysia or Volunteers of Malaysian People*), immigration officials, or the police. 70% reported paying bribes in response to threats of detention. Fourth was the inability of foreign workers to break employment contracts, change employers, or return home (reported by 50% of workers). Registered labour agents are the only ones authorised to renew or cancel a foreign worker's permit. These barriers to 'exit' were further entrenched by debt bondage and passport confiscations. Fifth was deceptive recruitment that occurred in home or sending countries resulting in some foreign workers not receiving the wages or the type of work promised. Various wage deductions were made and most workers did not know what they were for. Sixth, was excessive dependency by foreign workers on labour agents for housing, medical care, food, transport, legal status, employment status, and other welfare issues. 92% of workers received housing from a labour agent. Also because worker passports were held by labour agents the latter were the only ones able to release a worker from detention centres. This left foreign workers vulnerable to abuse and often powerless

over their work and living conditions. The Verité report concluded foreign workers hired by third party labour agents were overall more vulnerable to forced labour.

Verité's findings was damning also because it implicated the historical policies and practices of the Malaysian government with the influx of vulnerable foreign workers into the electronics industry. The electronics industry has historically been is a significant pillar of the overall economy in Malaysia. The sector was key to industrialization in Malaysia and in 2013 it made up 32.8 per cent of all Malaysian exports and represented 27.2 per cent of all employment. It is also heavily dependent on foreign corporations, which contributed 86.5 per cent of investments in the industry in 2013 (Rasiah et al., 2015; Verité, 2014).

There has been a steady policy by the government to ensure continual outsourcing of production to electronics firms in its FTZs since the 1980s. However, the industry is mainly engaged in assembly and testing activities that are the most labour intensive in the industry where the need for cheap labour has resulted in major use of foreign workers. The inability of the industry to upgrade and move out of the low value added, labour intensive segments of the GPN since the late 1990s has been a major contributing factor to the influx of foreign workers and their exploitation. The Malaysian government recognises that the prevention of an influx of low wage foreign workers into its manufacturing sector would result in the moving out of MNCs to other lower wage countries (Devadason and Meng, 2014; Henderson and Philips, 2007; Rasiah et al., 2015).

Investigations by Simpson (2013) found Sony and Western Digital in Malaysia hiring almost exclusively foreign workers. Interviews with contract manufacturers in Penang, Malaysia revealed wide-spread use of foreign workers contracted through labour agents. In 2015, 40% of workers in one contract manufacturer factory and 60% of workers in another were foreign. It was common for MNCs with large factories to use foreign workers because they provided a stable workforce on two to three year contracts that could not be terminated (interviews, 2008). In a survey by the Malaysian Employers Federation in 2014, 87.2% of employers recruited foreign workers from labour agents. The main reasons were because of shortages of local workers (78%), "foreign workers willing to work hard and perform overtime during rest day and holidays" (53%), low absenteeism (31%), and work attitude (24.1%).

Additional policies and actions by the Malaysian government have also contributed to forced labour in the country. The Malaysian government has signed Memorandum of Understanding (MoU) Agreements with sending countries such as Bangladesh, Indonesia, Thailand, India, China, Sri Lanka, Pakistan and Vietnam which had allowed employers to withhold foreign worker passports (SOMO 2013). The government also charges annual worker levies to manage the inflow of foreign workers. This levy implicates the Malaysian government to debt bondage amongst foreign workers. The levy can fluctuate increasing during periods of economic downturn. Changes in the policies over levies have led to employers abusing wage deductions from workers (Verité, 2014). In 2014 the foreign worker levy in the manufacturing sector was RM

1,250 (USD 290). This fee is deducted directly from employees' monthly paychecks (interview, 2015).

The Malaysian government is also accused of harbouring a lax approach to managing foreign workers because of the flexibility it provides for large worker influxes during economic boom years and mass deportations during economic downturns (Devadason and Meng, 2014). This is related to the creation of a labour outsourcing industry that is not well regulated or monitored and filled with confusing and unpredictable policy changes. This has contributed to abuses with the rise of informal and private labour contractors that are part of global networks. Factories in Malaysia fill their production lines with foreign workers by tapping a large transnational network of thousands of informal and largely unregulated recruiters and sub-recruiters (Simpson, 2013). While there has been little research on transnational networks of labour agents, there exists a long history of well-established recruitment links between Malaysian labour agencies and sending countries (Verité, 2014).

Forced labour in the electronics industry in Malaysia is widely acknowledged by locals and companies operating in the country. This was revealed from interviews with MNCs, NGOs, trade unions, and government officials. There are also revelations of forced labour from news reports (Simpson, 2013), by sending country government officials such as India, Nepal, and Indonesia, and by local NGOs and the Malaysian Trade Union Congress for over a decade (Devadason and Meng, 2014). The Malaysian government is generally reticent towards international scrutiny over labour violations. Combined with government suppression of local NGOs and trade unions, there has been weak local monitoring of labour conditions in the electronics industry. However, as the following section shows, Malaysia's deep embeddedness in the electronics industry GPN exposed it to external actors whose use of resources, power, and politics were able to affect changes in labour governance from the outside.

5. Verité as a political and 'activist' social auditor affecting change in labour governance

5.1. Verité and its links with electronic firms and the US federal government

Founded in 1995, Verité conducts training, capacity building, and social auditing for firms. It also conducts research on child labour, slavery, gender discrimination, dangerous working conditions, and unpaid work in global supply chains. Unlike other NGOs Verité does not target companies as part of public campaigns (Verité website, 2015). Its main source of revenue is income generated from services provided to firms.⁵ Unlike for-profit multinational accounting firms, Verité does not perform other audits, such as accounting, financial, and quality management systems. Being non-profit and independent has shown to increase its integrity as a competent social auditor (Conroy, 2007). Amongst Verité's Senior Program Directors is a former Hewlett-

⁵ <https://projects.propublica.org/nonprofits/organizations/43304538>

Packard (HP) employee with over 20 years of experience in social and environmental responsibility and health and safety at the brand. According to its former CEO, Dan Viederman⁶, Verité is a research NGO that uses data and information to drive changes in industry. Viederman is also a public figure which has helped raise the profile of Verité. In 2011 he was named Social Entrepreneur of the Year by the Schwab Foundation for Social Entrepreneurship.⁷ In 2015 he gave a TEDx talk on 'Modern-day Slavery in Supply Chains'. Viederman is also regularly interviewed by the press on labour violations in global supply chains.

Verité engages with private and public actors in different ways. With firms and industry Verité's main activity is auditing and training. Verité has worked with major brands like Apple and HP for many years. Personal interviews with brands, first tier suppliers, and contract manufacturers show that Verité is trusted over other auditing organisations when it comes to labour issues (interviews 2008, 2015).

According to Viederman, forced labour was not an issue Verité had sought to work on. Several years before the 2014 Verité report on forced labour, auditors began noticing from firm audits a correlation between a high usage of foreign workers and a high incidence of forced labour (interview, 2015). "We first picked up the issue of foreign workers and forced labour from auditors. We were gathering information from these audits" (Viederman interview, 2015). Verité had warned firms for years about the incidence of forced labour in the industry (Simpson, 2014). However, these warnings led to very few changes to labour governance practices by the industry. A few exceptions included Apple who worked with Verité to reimburse recruitment fees of over USD\$ 3.4 million to foreign workers in 2011 (Verité, 2011). The finding of debt bondage in Apple's supply chain implicated other brands because they share many of the same suppliers.

Verité is also heavily engaged with the EICC. The EICC which is the only industry CSR organisation with members was created in 2004 and developed an industry code of conduct called the Electronics Industry Code of Conduct. The code specifies guidelines on firm conduct and policies on labour, health and safety, the environment, ethics, and management systems. On labour, the code of conduct includes standards on the categories of 'freely chosen employment', 'child labor avoidance', 'working hours', 'wages and benefits', 'humane treatment', 'non-discrimination', and 'freedom of association'. Code compliance amongst members is verified by audits. During the early years EICC pilot audits were poorly conducted due to a lack of proper skills amongst the auditors. To remedy the situation the EICC set up an auditor certification scheme in 2010 that would go beyond 'checklist' type audits (EICC, 2009; Raj-Reichert, 2011). Recognising their expertise in social auditing, the EICC called on Verité to develop and conduct their auditor trainings for the certification. Till today Verité is the only provider of auditor training for the EICC. Verité is also itself an accredited third party auditor for

⁶ In 2016, Viederman left Verité to become the Managing Director of Humanity United.

⁷ http://www.Verité.org/news/social_entrepreneur_2011

the code of conduct (EICC, 2010). It is recognised and trusted by the industry as a competent social auditor.

Verité engages in research to raise public awareness on labour issues because it recognises that audits alone cannot create systemic changes (Viederman interview, 2015). In order to conduct wider research, it receives funding from external sources which includes the US government. Verité (with The Center for Reflection, Education and Action, Inc.) received its first US federal grant from the Department of State's Office of International Labor Affairs and CSR in 2008 to develop universal standards for social auditors. The results of this project built Verité's credibility and public reputation around social auditing.

Verité also worked closely with the US government on forced labour and human trafficking. In 2012, it worked with the US Administration to develop the Executive Order 'Strengthening Protections against Trafficking in Persons in Federal Contracts' (E.O.) which was signed by President Obama in 2012.⁸ The E.O. acknowledged that as the largest consumer of goods and services in the world the US federal government has a duty to combat trafficking to ensure 'American tax dollars do not contribute to' it.⁹ Verité's increasing credibility, legitimacy, and reputation as an expert on forced labour in global supply chains led it to participate in the opening of a White House Forum on Combating Human Trafficking in Supply Chains. This work led to the passage of the Federal Acquisitions Regulation (FAR) and Defense Acquisition Regulations Systems – a landmark US legislation prohibiting the use of forced labor in goods and services purchased by the US federal government domestically and abroad (Simpson, 2013; Verité, 2012).

The US Department of Labor Bureau of International Labour Affairs (ILAB) is another government agency Verité has worked with closely. ILAB investigates child labour and forced labour globally to produce an annually updated List of Goods Produced by Child Labor or Forced Labor¹⁰. ILAB had sensed for many years that Malaysia was a high risk country but lacked sufficient data around forced labour. Verité through its relationship with ILAB had repeatedly raised concerns of forced labour in Malaysian electronics. In order to learn more about the situation in Malaysia, ILAB in 2012 granted USD\$ 450,000 to Verité for the project 'Research on Labor Conditions in the Production of Electronic Goods in Malaysia' (interviews, 2015). The research was to examine labour conditions, identify specific electronics goods manufacturing associated with particular types of labour conditions, and describe how widespread these practices were in Malaysia. Verité was also to research the relationship between labour brokers, recruiters, and other employers in the recruitment, transport, and placement of foreign workers in the Malaysian electronics industry.¹¹ The project was carried out from 28 November 2012 to 30 November 2014 and resulted in the report

⁸ <http://www.verite.org/node/967> accessed 26 March 2015

⁹ <https://www.whitehouse.gov/the-press-office/2012/09/25/executive-order-strengthening-protections-against-trafficking-persons-fe>

¹⁰ The list can be accessed at <http://www.dol.gov/ilab/reports/child-labor/list-of-goods/>

¹¹ See http://www.dol.gov/ilab/projects/summaries/Malaysia_ResearchFY12.pdf

discussed in the previous section. As a result of the Verité 2014 report and other findings, the manufacture of electronic goods in Malaysia was added to the List of Goods Produced by Child Labor or Forced Labor in December 2014 by ILAB raising the attention of firms, NGOs, trade unions and governments (interviews, 2015). This coincided with Malaysia being placed on the US Department of State Trafficking in Persons report as a violator of human trafficking earlier that same year.

Thus, Verité's established knowledge from individual firm audits and relationships with the US government resulted in investigations and a report that caused a ripple effect for labour governance practices in the electronics industry. The responses to the report are discussed in the next sub-section.

5.2. Changing labour governance practices in the electronics industry

The Verité report made a strong impact on public and private actors in the electronics industry GPN. As Viederman noted, 'No one has come out to try to poke holes in it and it helped put Malaysia on the forced labour list' (interview, 2015). What is striking about Verité's engagement is not only its exposure of forced labour, but *what* changes it led to and *how quickly* by the EICC and individual firms.

EICC audits did not find forced labour in member firm factories. Despite its auditors having been trained by Verité, the EICC audit methodology had not detected forced labour in the way Verité's investigations did. The EICC, mired by the report and inadequacies of its own audit processes, changed its audit methodology in 2015. Eight months after the Verité report was released the EICC updated its code of conduct. The section on 'Freely Chosen Employment' doubled in size with additions on 1) prohibiting unreasonable restrictions on workers' freedom of movement in factories and other company facilities, and for 2) foreign workers to receive contracts in their native language with terms and conditions prior to departing their home countries. Code changes also directed employers and labour agents not to confiscate identity documents unless required by law. The strongest addition was prohibiting charging workers 'employers' or agents' recruitment fees or other related fees for their employment' and if such fees are found they are to be repaid. In 2016, a second revised code of conduct explicitly prohibited 'forced, bonded (including debt bondage) or indentured labor, involuntary prison labor, slavery or trafficking'. In August 2015, the EICC announced its first grievance mechanism for foreign migrant workers in the electronics industry worldwide. The first pilot year was located in Malaysia.

The code of conduct changes were direct responses to the Verité report. During an EICC stakeholder meeting leading up to the code changes in March 2015, the EICC Executive Director Rob Lederer noted that the issue of forced labour had occupied most of the attention at the EICC. "Our suppliers don't want to be a part of it and governments don't want to be a part of it [forced labour]" (Lederer, March 2015). According to Viederman, 'No one wants there to be 'slavery' in their industry. [The EICC] realized the inadequacy of their work... [and after FAR] there is no longer room for recruitment fees' (interview, 2015). Viederman implied the industry did not have any

incentive to address forced labour problems associated with recruitment fees in the past (interview, 2015).

Five months after the release of the report, interviews I conducted with two of the largest contract manufacturers in Penang, Malaysia revealed that company budgets for labour governance activities had increased significantly in response to the report. The report gained the attention of their brand customers' CEOs and Vice Presidents (VPs) who reacted immediately with requests for additional audits. CEOs and VPs of some brands had conducted personal visits to worker hostels and ate at factory cafeterias in Penang. One facility in Penang had stopped using labour agents altogether and switched to hiring foreign workers directly. This involved setting up a new hiring division staffed with 100 new hires to conduct direct hiring of workers in Nepal. One contract manufacturer representative revealed "There were immediate inquiries. HP had tailored a questionnaire on Malaysian migrant workers" (interview, 2015). According to a branded firm, the US government had also applied a lot of pressure to American first tier suppliers present in Malaysia (interview, 2015).

The Malaysian government made a few immediate tepid responses. The Ministry of Human Resources reported conducting sudden inspections of 26 employers between September 2014 and January 2015, holding three briefings with 110 employers between September and November 2014, and distributing 12,500 handbooks on indicators of forced labour to government agencies, employers, and workers (interview, 2015; personal communication, 2015). Various meetings between the US Embassy, Malaysian government agencies, firms, and the EICC took place in 2015 though their outcomes are not known (interviews, 2015; MITI, 2015). In March 2015, the International Trade and Industry Deputy Minister noted 'The government will continue to be involved in this issue and resolve the matter immediately to avoid difficulties which will affect the value of exports and growth of gross domestic product' (The Borneo Post, 2015). In Penang, where the electronics industry makes up a significant portion of the economy, a Member of Parliament from the region which houses the largest FTZs called on the federal government to urgently produce a counter-report to prevent the industry from being placed on a 'US watch-list' and potentially face an exports ban (The Rakyat Post, 2015).

Changes by large brands are also notable. A brand firm representative noted that after the Verité report they began looking more specifically for forced labour conditions amongst foreign migrant workers in the supply chain. The brand also received a spike in customer inquiries after the report on what the brand was doing to remedy the situation (interview, 2016). Two months after the Verité report, HP banned its suppliers from using forced labour and issuing recruitment fees. It also promoted direct hiring of workers. Verité had also assisted HP with the new supplier standards (Biron, 2014). One month after the Verité report Apple also banned recruitment fees in its supply chain - a policy which Verité had assisted with implementing (BBC, 2015).

Also significant was the announcement of FAR in January 2015. This is because the US federal government is a major consumer of electronics. In 2013, US government

purchases of computers and related equipment totalled USD\$ 5.31 billion¹² (Verité, 2015). Verité's findings provided hard evidence that FAR was tackling a real problem and with possible implications to the electronics GPN. HP's responses reflect the fact that the US federal government is one of its largest customers. In 2013, US federal government contracts made up almost 40 per cent of HP's contracts. This included a USD\$ 3.5 billion contract with the US Navy in 2013 to run its communications network until 2018 – the single largest information technology project by the federal government in history (Taborek and Capaccio, 2013).

5.3. Verité as a change agent

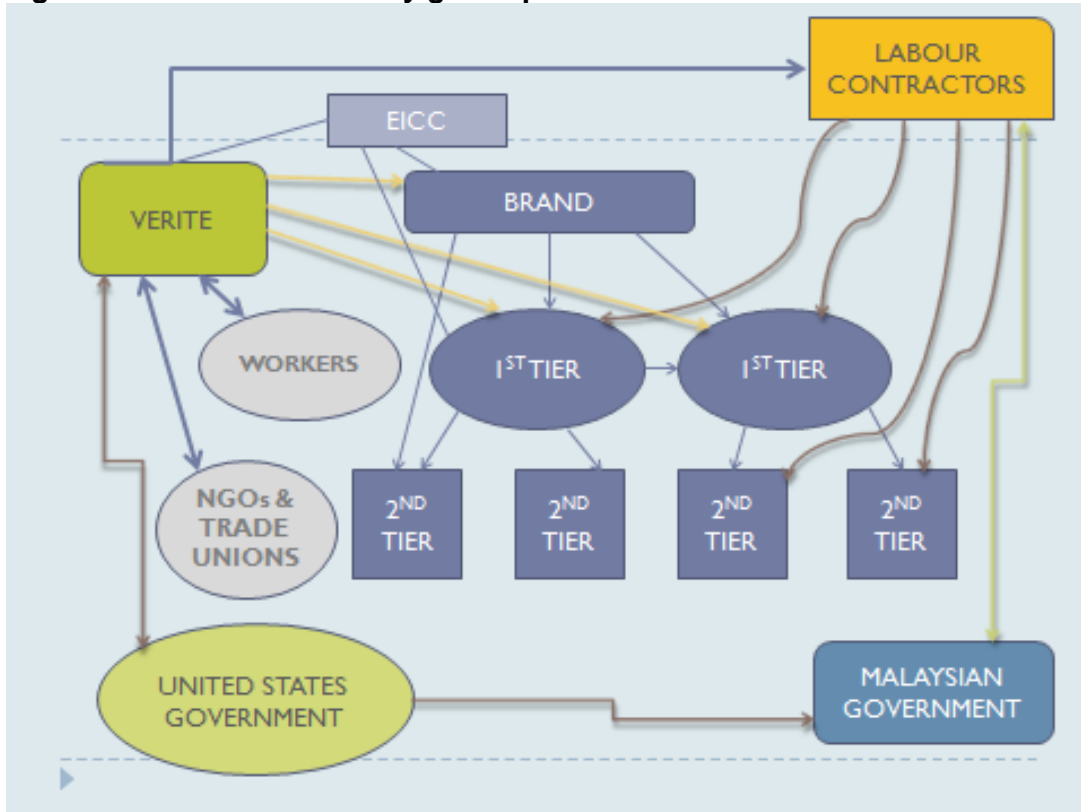
The power of first-hand knowledge Verité had of labour violations in factories was unprecedented. No other organisation had access to factories and workers in the same way Verité auditors had. Verité also gathered data from a wide range of non-firm actors that included NGOs, worker organisations, and trade unions.

The information auditors had gained from audits were the building blocks for the wider and more substantial research and investigation that led to the 2014 report on forced labour in Malaysian electronics. The management of data collection for the report was conducted out of a Verité office in the region and included a network of NGOs and worker communities. A team of dozen researchers from Nepal, Burma, Vietnam, the Philippines, Bangladesh, Indonesia, and Malaysia carried out the investigations. Several spoke many languages and most had links to worker communities. While investigators were not made public (out of personal protection) several sources suggested past auditors were involved. Viederman noted that some researchers had conducted research at a high personal risk to them (interviews, 2015). This contributes to the 'activist' nature of the social auditor.

According to Viederman, the 2014 report led to more rapid change by an industry than any of its previous work (interview, 2015). How Verité as one of many actors in the GPN helped bring about changes raises a new dimension to the understanding of politics and change agents in labour governance in multi-polar GPNs. Verité had relationships with key firms, the industry group EICC, and a powerful consumer state the US. It can be argued that Verité had the most connections to different actors and sources of information and influence in the GPN (Figure 1). These simultaneous links were critical in how Verité not only learned and exposed forced labour in the electronics industry but also what it was able to do with that information to bring about changes to labour governance in the industry.

¹² This amount is an under-estimate because it does not capture the purchase of electronics inputs for certain types of hardware purchases (Verité, 2015).

Figure 1: Electronics industry global production network links between actors



Source: Author's own.

Verité handled its relationships strategically. Verité’s work with firms and the knowledge gained from audits alone was not sufficient. Rather it was the combination of credible information gained through research and funding by a politically and economically powerful institution, the US government, which transformed its knowledge into initiating change. Indeed, a powerful technique was its ties to the US government which could not be ignored by industry and the Malaysian government. As such, Verité’s influence on the GPN is an influence by proxy of the US government as a powerful geopolitical player, a large consumer and public buyer of electronics, and the home of a large number of key brands. Verité mobilised power to change labour governance practices through its credibility, reputation, and legitimacy by harnessing it through its relationship with a greater and more resourceful political and market power of the US government.

Also strategic is Verité’s policy of client confidentiality. Verité does not aim to expose and shame firms in public. This has buffered its political and ‘activist’ actions while not deterring firms from utilising its key services in the future. According to representatives from a brand,

‘I think people should differentiate between the different roles that Verité was playing in that situation. They were working on this investigation on migrant workers and that was not any company specific performance related issue like an audit is. If Verité is doing an audit in your facility... that is a one on one

arrangement between Verité and the organisation... and it is confidential. The other report was [not] to expose one particular organisation. We understand the differences' (Representative A, interview 2016).

'I know that other brands share that idea. Everyone is OK. Verité has been a very helpful resource in a time when it was very hard to get information about the supply chain and ... what to do with that information. Verité is a not for profit so they stood out in their main goal to promote information, guidance and education. They are a great resource not just for individual companies but the EICC and governments' (Representative B, interview 2016).

'They have conversations with so many companies in our industry it's nice to get advice [on] where we stand in comparison to others because no company wants to share with another company what they're doing' (Representative C, interview 2016).

From a supplier perspective Verité maintains a careful balance of its relationships where suppliers at the same time understand the risks of thorough audits. As a large contract manufacturer noted:

'I think Verité's doing a lot of audits right now. If you have an actual audit... by an independent company like Verité the results are potentially available... if someone finds that information and its available to them, as any reporter does, the freedom of speech and the right to share that information externally [is there]' (interview, 2015).

Verité's positionality in the GPN is a balance of strategic relationships it has created that could lead to suspicions raised if firms or the EICC severs its relationship with the social auditor. Doing so may raise more questions to the firm or industry on their ability to comply with labour standards and pass thorough audits.

6. Conclusion

Research on labour governance in GPNs has focused on firms, NGOs, trade unions, and government agencies. There has been less attention paid to social auditors as agents of change in GPNs. This paper has widened our understanding of how a social auditor can play a political and activist role in labour governance through a case study of the international non-profit organization Verité. With an investigative report funded by the US government exposing forced labour in the electronics industry in Malaysia, Verité brought about more change more quickly to labour governance practices in the global electronics industry than has been seen in the past.

The paper provides case study evidence to further our understanding of how multipolarity functions in GPNs (Bair and Palpacuer, 2015). The findings supports Ponte and Sturgeon's (2014: 197) calls for understanding multi-polar governance in GPNs that is broad and flexible and considers the "overlapping and shifting constellation of key [firm and non-firm] actors [and the] complex roles they play in shaping chain

governance”. This case has shown that actors in GPNs do not occupy one role or wear only one hat. Verité acted as auditor, adviser, activist, and whistleblower simultaneously. This case attests to the messy nature of how governance actually takes place in GPNs (Bair and Palpacuer 2015).

Key aspects of Verité’s ability to influence labour governance are its competency, access to information, and relationships. Its competency is based on the thorough social audits of firms as well as its training and problem solving programmes on labour violations and research and policy advice on global supply chains. Its audit methodology provides it access to credible information namely from workers and external organisations. Its relationships extend beyond the private sector and includes powerful geopolitical and market actors namely the US government. Thus Verité is a competent social auditor whose access to credible information on labour violations was mobilized through relationships with powerful institutions to bring about change to labour governance in a GPN. These attributes legitimise Verité’s GPN positionality as a change agent. Verité indeed occupied a unique and critical position in the GPN. Unlike most other actors in the electronics industry GPN, it had links to more firm and non-firm actors relevant for understanding labour violations and having power to influence labour governance.

The findings of the paper also showed that monitoring and audits can be positive when the information they produce is linked to additional resources and powerful institutions. The paper also showed that a deep and historical embeddedness of Malaysia as an outsourced production location in the electronics industry GPN opened up the possibility for an outside actor, Verité, to influence labour governance practices locally.

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