Pressing Apple for Change at The Oscars of Capitalism

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The media calls the shareholder meeting of Warren Buffet’s Berkshire Hathaway “Woodstock for capitalists.” Apple’s annual meeting in California, which we attended late last month, should be called “The Oscars of capitalism.” The Apple shareholder meeting is exclusive (it’s difficult for investors to nab a ticket and Al Gore is in attendance), slickly produced in the gleaming “Steve Jobs Theater,” and surrounded by several layers of Secret Service-level security.

Roaming a brand new corporate campus, designed by the iPhone’s creator, it may have been easy for investors to imagine that all is shiny and perfect at Apple Inc. But a glance at the headlines exposes short-circuits under the company’s gleaming exterior. Just a week before the shareholder meeting, CEO Tim Cook was forced to delay releasing revenue figures because of fears surrounding coronavirus.

Which brings me to Zevin Asset Management’s presence in Cupertino this year. Unlike the vast majority of investors attending the shareholder meeting, we arrived not as Mac fans but as advocates for change and critics of the company. Coronavirus is certainly a threat to many firms, not just Apple. At Apple, however, the risk is multiplied by the sheer size and complexity of the company’s global supply chain -- in which just about every stage of production is outsourced to vulnerable third-party workers in East Asia.

As impact investors, we are committed to understanding companies’ long-term sustainability risks and pushing for positive change. Our environmental, social, and governance (ESG) research tells us that, beyond coronavirus, the real danger for Apple is that it will continue to ignore various other risks in its massive supply chain.

Labor standards violations and safety issues persist in the Chinese factories producing Macs, iPhones, and iPads. Workers have been harmed through exposure to toxic chemicals, such as benzene and n-hexane. In 2019, Apple and its supplier Foxconn reportedly broke Chinese laws by deploying too many temporary workers in the run-up to the launch of the highly anticipated iPhone 11. Researchers at the University of Technology Sydney summed up Apple’s supply chain risks in 2018:

Our research shows human rights, environmental and ethical problems persist inside Apple’s vast global supply chains.
Low pay, poor working conditions and environmental hazards in supplier factories in China and across Asia are sources of long-running controversies. Suicides of workers subject to the intensive work regime of these factories shocked Apple into action.

Apple does address these disturbing issues in its annual Supplier Responsibility Progress Report. Progress has been uneven and limited, but the company has created the appearance of corporate social responsibility. Any reputational damage does not seem to undermine financial results.

Still, for a company as successful as Apple, the failure to find a permanent solution to recurrent environmental and labour issues in its global value chain is not acceptable.

In short, it’s clear that all is not well at Apple, and while these issues have not yet harmed financial performance, the seeds of long-term risks and business interruption are being sown. Add to that Apple’s slow progress on diversity and inclusion: despite positive steps, leadership and technical teams are predominantly white and male. And there is mounting evidence that the company is complicit in China’s human rights violations. For instance, Apple removed popular “VPN” apps in China that allowed users to browse the web privately and avoid government surveillance.

We have raised each of these issues over the last two years, attempting to use shareholder pressure to move Apple in the right direction. Last month’s shareholder meeting was an opportunity to turn up the heat. Investors would vote on our shareholder proposal urging Apple to “put its money where its mouth is” and tie a portion of executive pay to environmental and social metrics. (We led this challenge with support from three institutional investors who co-sponsored the measure: the Employees’ Retirement System of Rhode Island, the SEIU Master Trust, and Friends Fiduciary Corporation.)

Linking executive pay to good management of sustainability issues (like those above) is a commonsense reform already in use at Apple’s peer companies, such as Microsoft, Intel and IBM. When we presented the proposal in a brief speech, there were several nods of approval around the theater.

Our proposal won support from 12 percent of voting investors, attracting news coverage and building pressure on the company. The vote total was strong for an investor proposal in its first year, and after the shareholder meeting concluded Apple’s legal team was keen to schedule another meeting with us to discuss investors’ concerns over sustainability and compensation. We will continue to press executives at Apple for more accountability and progress on human rights, diversity, and supply chain risk.

There were two final highlights in the shareholder meeting itself. Casually wielding an iPad from a stool, CEO Tim Cook held a partly vetted, but still revealing, Q&A.

Would Apple enter the business market for health records management? “No,” but it was obvious
from Cook’s answer that the company had studied such a move. The CEO described Apple’s new effort on e-waste recycling and why it did not pay to bring the re-union of the 90s sitcom Friends to Apple TV+: “We focus on original programming.”

The most intriguing question was about the recent shooting at a naval air station in Pensacola, Florida and the perception that Apple was not sufficiently cooperat-ing with authorities’ attempts to retrieve information from various iPhones. Cook declared: “Don’t think that we have something that we are not giving” to the authori-ties. He drew a line, however, against giving law enforcement a “backdoor into the iPhone.”

This balancing act was familiar for Apple watchers and concerned investors who have seen the company try to portray itself as a privacy champion while facing human rights and surveillance risks around the world. The inconsistencies were not lost on our colleagues from the corporate accountability group SumOfUs. A shareholder proposal from SumOfUs, focused exclusively on reports that Apple facilitates cen-sorship by China’s government, received a huge 40 percent vote. We coordinated with SumOfUs and the human rights activist who presented their proposal ahead of the annual meeting. When the time came, we helped her deliver a petition of concern with 130,000 signatures to Tim Cook during his “selfie session” after the meeting.

Shareholder meetings in American capitalism serve many purposes. Not surprisingly, at Apple, they are part marketing presentation and part pep rally to almost ritually restore a brand built on innovation, nostalgia, and a powerful personality cult.

As impact investors, we aim to make shareholder meetings serve our purposes: accountability for executives, solidarity with affected communities and stakeholders, and building pressure for real change. The work of change continues at Apple. We may not attend next year’s meeting in person, but we’ll see executives around the negotiating table before then.

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Thank you for reading. Zevin Asset Management and our partners are still shaping this work, and we welcome your thoughts at pat@zevin.com.

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