Memo

Subject: Grounds for a Yes vote on Motorola Solutions (MSI) shareholder resolution to move company suppliers to begin publishing annual sustainability reports.

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Contact: Ken Sylvester, NYC Comptroller’s Office, ksylves@comptroller.nyc.gov, 212-669-2013
Michael Garland, NYC Comptroller’s Office, mgarlan@comptroller.nyc.gov, 212-669-2517

Motorola shareholders are encouraged to vote FOR the following resolution:

RESOLVED: Shareholders request that the Board of Directors, using a phased, tiered approach that the Company deems reasonable and practical, take the necessary steps to help move the Company’s supplier(s) to begin publishing annual, independently verifiable, sustainability reports. Among other important disclosures, reports should include the suppliers’ objective assessments and measurements of performance on workplace safety, and human and worker rights, using internationally recognized standards, indicators and measurement protocols. In addition, reports should include incidents of non-compliance, actions taken to remedy those incidents, and measures taken to contribute to long-term prevention and mitigation.

Background:

Although Motorola offers a supplier code of conduct and policies that demonstrate the company’s acknowledgement of supply chain risk, the nature of the company and its multinational reach demands further action. Sustainability reporting is widely considered to be one of the most effective and comprehensive Environmental, Social, and Corporate Governance (ESG) tools, and although Motorola itself issues a satisfactory report, its suppliers do not, nor does the company encourage them to do so. The company has suffered negative press related to supply chain issues, and in 2011 Motorola advised against a shareholder proposal that recommended implementation of a comprehensive human rights policy¹. In today’s global economy, a company's impact, as well as its financial and reputational risk, reaches far beyond its headquarters to include every part of the supply chain. As a large, well-known, international company with 23,000 employees in 65 countries and thousands of suppliers,² Motorola is in a position of high visibility, vulnerability, and accountability if the company does not follow its peers in adopting leading practices regarding supply chain management.

Rationale for a ‘FOR’ vote:

I. Motorola’s international supply chain involvement poses operational and reputational risks to the company and stockholders due to human rights violations and Environment, Health, and Safety (EHS) noncompliance.
A. Long-term investors are concerned about financial risks in the supply chain.
   1. As Motorola procures some of its materials from single source suppliers, disruptions or public relations disasters suffered by these vendors can have significant, negative financial impacts for Motorola and its shareholders. Therefore, the company needs to find a way to ensure that Motorola is not associated with suppliers whose poor environmental, worker’s rights, or business practices could be damaging to Motorola or whose practices might threaten the timely flow of supplies. Independently verified supplier sustainability reports would help to reduce these risks and make it much more feasible for Motorola to identify risks and take appropriate action. The resolution gives Motorola plenty of flexibility to work with the most important suppliers first.
   2. Most Motorola products are manufactured outside of the US—largely in Malaysia, China, and Mexico—exposing the company to risks relating to changing foreign regulations of trade, environmental, health, safety, and technical standards, employment regulations, and local labor conditions. Laws concerning reducing or eliminating certain hazardous substances in electronic products and the transportation of batteries continue to expand significantly, an important supply chain concern that, if not handled properly by suppliers, could result in heavy remediation costs and fines all the way up the supply chain.
   3. An NGO report from July 2011 revealed that overtime, wages, labor intensity, contracts, and discrimination were issues that continued to exist in factories with which Motorola has contracts. Motorola acknowledges that it does not control supplier’s labor or business practices and notes that problems in this area could result in reputational and financial damage and disruption of production. Sustainability reports would help to ensure that suppliers are managing their risks, and would help Motorola identify those who are not.

B. Motorola has been and continues to be involved in supplier conflicts and incidents throughout the world, receiving negative media attention and damaging the company’s reputation.
   1. Several of Motorola’s supplier factories in China have experienced protests and worker strikes associated with issues of fair pay and humane working conditions.
      At the Hi-P International electronics plant in Shanghai, hundreds of workers went on strike in December 2011, protesting layoffs, the relocation of the plant, and worker contract violations.
   2. Motorola has plans to source the mineral tantalum from coltan ore in the Democratic Republic of Congo. As legislation requiring companies to disclose their use and source of potential “conflict minerals” such as tantalum is ongoing and there is currently no accepted verification system to ensure that a given source is conflict free, many companies and groups such as the United Nations have adopted embargos of varying degrees on
materials from the Democratic Republic of Congo until such a system is implemented.  
Motorola Corporate Vice President Rich Valin states that the company’s “tightly controlled supply line will ensure conflict-free tantalum” but in Motorola’s 2011 10-K report, the company acknowledges that the complexity of their supply chain could likely render the company unable to verify the origins of the tantalum and other “conflict metals” and unable to guarantee that these supplies are conflict free, leading to reputational challenges by shareholders, customers, and the activist community.  
Despite this uncertainty, Motorola has decided to continue to source minerals from the Democratic Republic of Congo.

II. As a member of the rapidly advancing electronics industry, it is important that Motorola remains competitive with its peers.

A. As businesses and economies become more globally developed and their impacts more far-reaching, executives and shareholders alike are realizing how increasingly important and expected it is to be informed of, disclose on, and implement leading best management practices regarding the material supply chain and workers rights issues.  
In the fast-moving and highly competitive electronics industry, these practices are necessary to remain at the top of the field.

B. In the Company’s opposition statement to the resolution related to this memo, it was stated that moving suppliers to issue sustainability reports “would place the Company at a competitive disadvantage.” However, several of Motorola’s major competitors, including Apple, Dell, Hewlett Packard, Intel, and Microsoft have already been engaged by shareholders on this issue and have agreed in some way to begin asking suppliers for annual sustainability reports. Clearly the true competitive disadvantage would be to continue to refuse to participate in this initiative, when competing companies are leading the way.

1. In a statement released in 2011, Microsoft announced that starting in 2013, it “will require a cross section of its suppliers to provide reports” on sustainability disclosure and adherence to Microsoft’s supplier code of conduct.

2. Dell will add to its supplier policy and practices by disclosing which of its suppliers provide annual sustainability reports.

If Motorola continues to hold out on this rapidly advancing issue, it risks lagging behind its peers and other leaders in the electronics industry.

III. The current practices Motorola has in place represent a good start in supply chain corporate responsibility, but lack sufficient depth and reach.

A. Motorola currently implements supply chain management practices that provide a good foundation for shareholder’s request to move suppliers to issue annual, independently verifiable sustainability reports.
1. The company requests that suppliers disclose a list of banned, controlled, and reportable substances in order to track the contents of products and comply with environmental and health regulations. It also expects its suppliers to comply with the company’s own EHS and human rights values and the Motorola Supplier Code of Conduct. To get a more complete supply chain picture, Motorola asks its tier one suppliers to monitor the corporate responsibility performance of their suppliers (Motorola’s second tier suppliers) and furnish lists on request. While these efforts are admirable, there is no way for Motorola to verify the accuracy of what the suppliers choose to report, nor is it possible for the company to reach or monitor nearly all of its suppliers.

2. Motorola also offers training programs on internal corporate responsibility and monitoring programs, which again would only affect a small fraction of its thousands of suppliers worldwide. It has issued self-assessment questionnaires in the past, which suppliers fill out themselves based on their environmental, safety, and ethics practices and performance. To extend their efforts and require suppliers to issue annual sustainability reports that would be able to be verified by an independent third party seems to be the logical next step. This could save the company time and effort by delegating the detailed monitoring and reporting work to the supplier companies and third-party verifiers. It would allow Motorola’s auditing and conflict resolution processes in the supply chain to be more targeted and effective as Motorola would be able to review and respond to problems already identified and independently verified in supplier-issued reports.

B. Motorola’s current monitoring program is inadequate and makes it unrealistic to reach a large percentage of their suppliers.

1. The company reports having 24,800 suppliers in 2009 and in 2010 conducted only 30 site audits of suppliers. These numbers apply to Motorola, Inc. before the spinoff of Motorola Mobility, and research did not reveal new supplier numbers specific to Motorola Solutions. We believe that Motorola Solutions is likely to still have thousands of suppliers and to perform an inadequate number of audits on these suppliers. There is no way for the company to monitor or audit every supplier and the focus is limited to direct-materials, high-risk suppliers. As a result, some of the company’s suppliers that have gone under the radar or not been properly managed have been criticized for labor rights violations and non-compliance with Motorola’s supplier standards.

2. Motorola monitors the “percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken,” which is an enormous task. When problems in human rights or other issues are identified in the supply chain, Motorola works with that supplier to resolve the problem. However by the start of 2011, only 42% of the identified problems from 2010 had been resolved. No doubt many more issues existing in the supply chain have yet to be identified or solved.
because they exist outside of the focus of Motorola and the company is unaware.

3. Even the company itself admits, “While monitoring is important, we believe that lasting improvements will only be achieved if suppliers have the capacity to manage worker rights and environmental impacts themselves.”

In order to instill this capacity in their suppliers and to increase the reach and detail of supply chain corporate responsibility, Motorola should move its suppliers to begin issuing annual, independently verifiable sustainability reports.

IV. When suppliers are wrongfully accused of abusing workers, leading to a media firestorm -- such as Mike Daisey’s recent admission to lying about certain conditions/events in Apple’s supply chain on NPR’s This American Life and other major media outlets -- third-party verified supplier sustainability reports can be expected to help reveal the truth, protecting the company’s reputation and shareholder value. The reports could in fact help reduce the chance of damaging false accusations in the first place.

Conclusion:

Supplier-issued sustainability reports are an increasingly key and expected part of a company’s ESG process and health and safety management. The reports are highly valued by an ever-increasing number of shareholders in order to adequately assess the Company’s financial and reputational risk. Several of Motorola’s major competitors are already engaged in this process and Motorola is quickly falling behind the leaders in its field. Motorola does not currently require or encourage any suppliers to issue sustainability reports and the company’s monitoring and auditing process is inadequate, not allowing the company to fully understand and manage environmental and human rights issues or deal with the associated risk. Shareholders should vote FOR the proposed resolution.

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3 2012 Motorola Solutions Annual 10-K Report, filed 2/15/12, available at

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