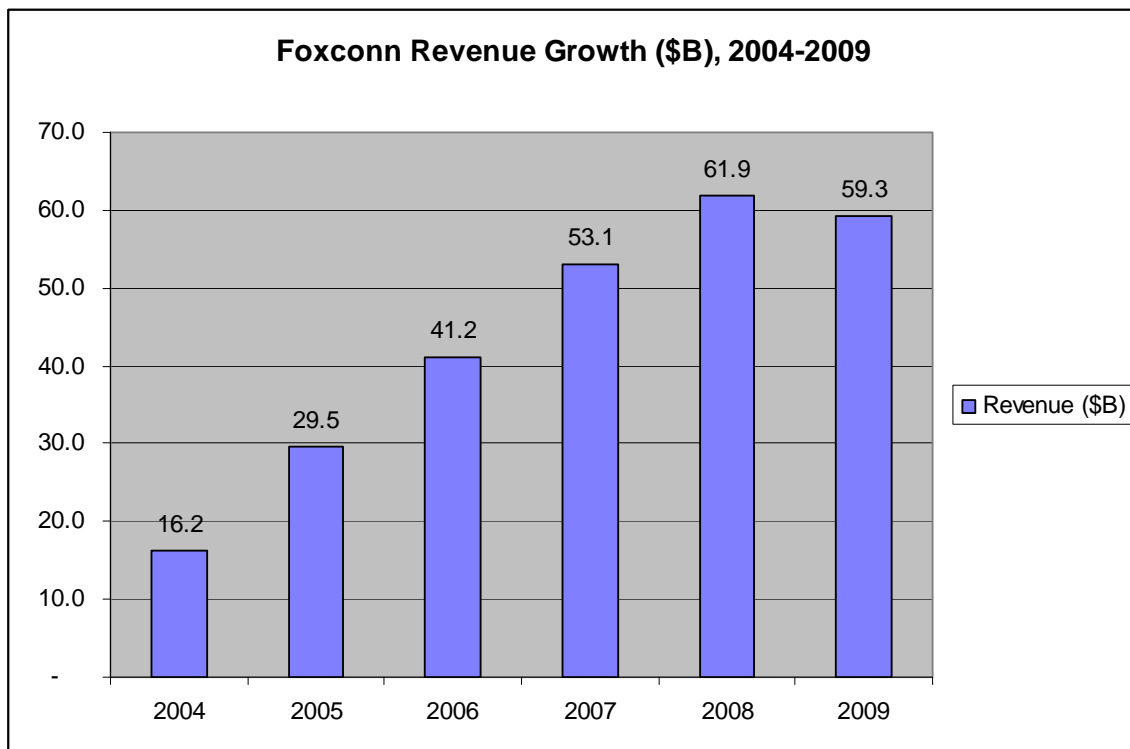


The Dysfunction of EMS and Tragedy of Foxconn

Foxconn Technology Group, a wholly-owned subsidiary of Hon Hai Precision Industry Co., Ltd is headquartered in Tucheng, Taiwan. The company was founded in 1974 as a manufacturer of plastic products (notably connectors) by Terry Gou, who remains its largest shareholder and CEO. Foxconn opened its first electronics assembly manufacturing plant in Shenzhen, China in 1988, which is now the company's largest plant with 460,000 employees, with about 16 percent live on campus and the remaining 84 percent live off-campus in both employee dormitories and in private quarters.

Foxconn is famous for having grown to be the largest contract manufacturing company in the world, expanding in revenue from \$16.3 billion in 2004 to \$59.3 billion in 2009 – a compounded annual growth rate of 29.6 percent (see chart). In the same period, the EMS industry grew from \$167 billion to \$270 billion – a CAGR of 10.1 percent, making its growth three times faster than the entire industry. What is the key to its success?



Source: New Venture Research

Recently, the company has come under public scrutiny due to allegations of employee mistreatment. Twelve employees jumped from company buildings in suicide attempts during 2010; only two survived in critical condition. The company's critics have also leaped to the conclusion that Foxconn is mistreating its workers, but the situation demands greater nuance and understanding. This cluster of suicides should be

investigated, and indeed the government and Foxconn's customers are doing so. Managers have provided trained counselors in a care center since April and a suicide hotline since last year which has significantly been expanded since these tragic events.

The problem has been exacerbated by Mr. Gou's lack of understanding as to why the suicides are happening. Mr. Gou recently commented that it is not possible to determine any one cause for these tragic suicides and seems mystified as to why an employee would take their life. The company responds that Mr. Gou has been based in Shenzhen since May leading a team that is addressing these very complex issues.

The deaths are thought to be related to working conditions at the plant – long hours for poor pay and constant pressure to perform. Indeed, the company's operations and demanding working conditions (although not nearly as bad as the conditions in China's coal mines) appear to be the cause for despair. Workers complain about military-style drills, verbal abuse by superiors and “self-criticisms” they are forced to read aloud, fines for unwritten abuses (talking to co-workers, being late, etc.) as well as allegedly being pressured to work as many 13 consecutive days to complete a big customer order — even when it means sleeping on the factory floor.

Foxconn denies these claims and states that it follows EICC overtime guidelines of a maximum of 60 hours per month and will follow Chinese government overtime guidelines of no more than 36 hours per month when it is imposed by the government. Moreover, the company's recent wage hikes purportedly ensure that workers will not have reduced wages with the reduced overtime hours.

It's true that Foxconn has done itself no favors with its past conduct. A young manager killed himself last July after an Apple iPhone prototype went missing, and his final messages to friends suggest he had been interrogated and beaten. In a separate incident the following month, the company confirmed its guards beat employees after the incident was caught on video. In 2006, after a Chinese newspaper reported that employees were being abused, a charge that was later shown to be false, Foxconn sued the two reporters personally and sought to have their assets frozen, provoking a public backlash against the company.

Mr. Gou's own lack of awareness has not helped the situation either although he has made repeated efforts to apologize to the families of the deceased. However, in a recent shareholder meeting for Foxconn's parent group, Hon Hai, Gou announced, “If a worker in Taiwan commits suicide because of emotional problems his employer won't be held responsible...” Such statements seem aimed at defending the company rather than honestly facing the core reasons to the problem.

Suicide results from depression and the belief that there are no other options. Indeed, when a worker comes from the countryside to work and send back money to their family, and this does not happen, it can be a basis for despair. One inside reporter confirmed this by saying that young people frequently come to Foxconn hoping to eventually start their own business or go to college, but most never realize that dream. According to the New

York Times, recent interviews with employees said the typical Foxconn hire lasts just a few months before leaving, demoralized.

Sociologists and other academics see the deaths as extreme signals of a more pervasive trend: a generation of workers rejecting the regimented hardships their predecessors endured as the cheap labor army behind China's economic miracle. While the EMS industry drives productivity to the extreme, and at times can be extremely demanding and punitive, it is not necessarily the cause of despair and hopelessness that sometimes causes people to commit suicide, although it can be a contributing factor.

Regardless, the company could do more to alleviate the conditions for despair and demoralization. For example, on May 27, 2010, the Shenzhen Post relates the case of a typical Chinese female worker named Happy who is a 19 year-old assembly line worker. She sends back home as much of her 1000rmb (\$150) monthly salary as possible, but with Foxconn's severe penalties for unwanted kinds of behavior, this dream seems remote. For example, Happy likes washing her own clothes by hand, she claims it calms her in times of stress. However, if she washes the mandatory dry cleaning of her factory uniform then she will be penalized 500rmb. If she is late, she will be charged 100rmb per minute. If she refuses or can't work overtime when needed, she will be removed from work line-up for over a month or until she can come up with the fee for reinstatement. If you talk during working hours you get penalized 100rmb. She even had to borrow money once to pay the negative balance from her salary. Such conditions would leave anyone feeling hopeless.

Subsequently, the rash of suicides has intensified scrutiny of the working and living conditions at Foxconn. Responding to the clamor, Foxconn has raised salaries offering to double salaries in three months time, setting a new standard for many other companies such as Honda. Moreover, the company is building an enormous safety net in a pathetic effort to stop people jumping to their deaths, but a recent attempted suicide by a young man trying to slash his wrists shows that such efforts will not deter workers who are determined to take their lives.

The gap in recognition of the problem underlying of why a person commits suicide was further reflected in Mr. Gou's proposed solution to get all employees to sign a non-suicide pact. Employees have already complained that the letter makes it seem like they could be carted off to a mental hospital if they argue with a supervisor and that they don't know what the consequences are if they don't sign. The company has since been forced to withdraw the letter. In a seemingly final act of desperation, on May, 2010, DigiTimes reported that Mr. Gou has sought the aid of an exorcist to try and put an end to the tragedies, however, Foxconn representatives responded by saying that this a common cultural practice in China when a death has occurred.

Overall, the indications are that conditions in Foxconn's factories are good and job applicants are eager to work there. By in large, most workers are happy to submit to the culture and receive overtime opportunities. Yet, the labor intensity is high and Chinese workers have commented that many Westerners would find it difficult to work at

Foxconn. The BBC news issued a recent report quoting one employee, "I always smile when see pictures of Chinese workers asleep at production lines - this is their culture. Chinese are taught from school that lunch time is nap time. The 1.5-hour lunch break is common practice, almost sacred. How often do we have that in the West?"

The problem of ongoing suicides at Foxconn needs to be put in perspective. Ten people (at last count) sound like a lot, but the firm has an estimated 800,000 workers, more than 460,000 of them at a single plant in Shenzhen. According to the World Health Organization, China's suicide rate is 13 males and 14.8 females per 100,000 people (by comparison, the U.S. has 11 per 100,000). In other words, Foxconn's suicide epidemic is actually lower than China and many other countries national average of suicides (some commentators claim that working at Foxconn dramatically reduces people's risk of suicide). Unfortunately, this says nothing about the fact Foxconn is the only EMS company in Asia that seems to be experiencing this problem.

Suicide is too complex an issue to rush to conclusions and the working conditions in China are inevitably improving. For the time being Foxconn seems to be taking its responsibility to its workers' health seriously and deserves the benefit of the doubt.