

COMPETING THROUGH GLOBALIZATION

The Price Paid for Low Prices



Foxconn's Longhua factory campus in Shenzhen, China, is as much a city as it is a place of work. The 400,000 employees who work here spend 12 hour shifts in the company-owned plant manufacturing iPads, Playstations, and other high tech toys and electronic devices. After work, they retreat to their company-owned dormitories. From the outside, one of these dormitories looks like any other normal apartment building, except for the nets. Protruding horizontally from each of the buildings on both sides of the road are 15 foot poles that support yellow nets. In fact, there is 3.0 million square meters of such netting within the campus, all with one single purpose—catching potential suicide victims from jumping to their deaths.

The Foxconn suicide nets were put in place after 11 workers at the facility took their own lives in the summer of 2010, many of whom complained of having to work forced overtime, doing mindlessly repetitive work, under military-style rigor and discipline. This stress was exacerbated by the fact that most of the workers were poor,

uneducated teenagers and young adults from rural areas who had never been away from their homes prior to working at Foxconn. The tough culture in place at Foxconn is no accident and, their ruthlessly efficient operations helped the company become the world's largest electronics contract manufacturer by revenue and its CEO, Terry Guo, the richest man in Taiwan. The Longhua plant alone produces 137,000 iPhones a day. The secret to Foxconn's success, according to one industry analyst is simple; "It's the prices. Their prices are lower for high quality work."

The suicide nets of Shenzhen make it clear why the marvelous technology represented by an Apple iPod or iPhone or iPad can be obtained for such a small purchase price, in the sense that the real price was being paid by the workers who build the device. For example, Li Caihe, a 19 year old from Gansu province works 12 hour shifts where she attaches the same nine parts to the same motherboard of a smartphone each and every day, and then retreats to her dorm room that she shares with seven other girls

at night. Li notes that "youth, especially those born after 1990 are less able to endure suffering relative to our parents." Li also notes that when she gets to speak to her parents, often just once a week, "I try to sound happy. I don't speak about my stress."

The negative publicity from the Foxconn suicides proved to be a public relations nightmare for Apple and other U.S. companies. Steve Jobs, the former CEO of Apple, stressed that the news of the deaths was "very troubling" and that "we are all over this" in terms of rectifying the situation. This negative attention led to a 30% increase in wages and other worker-friendly initiatives at the plant, including counseling and a 24 hour suicide hotline. Of course, these amenities don't come for free—they all resulted in a 1% increase in the price of the finished product—roughly \$4 per iPad.

SOURCES: J. Ye, "Suicides Spark Inquiry," *The Wall Street Journal*, May 27, 2010, pp. B1 & B7; S. Wong, "Life and Death at the iPad Factory," *Bloomberg Businessweek*, June 7, 2010, pp. 35–36; F. Balfour, "Chairman Gou," *Bloomberg Businessweek*, September 13, 2010, pp. 57–69.

countries. This can lead to a backlash against companies that benefit from this unethical practice, and increasingly, organizations are taking the lead in preventing these kinds of practices. For example, when it learned that Uzbekistan cotton growers were using child labor to pick their crops, Walmart used its power to force them to abandon this practice. Working with other large U.S. retailers, Walmart took the lead to create the first system for tracking where cotton came from and organized a boycott against Uzbekistan, which quickly acquiesced to the corporate giant's pressure, freeing the children to return to school.⁵⁴ At the time, almost everyone else