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# Bloomberg Businessweek

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# FOXCONN

**EXCLUSIVE**

**Massive, secretive, and hit by  
a rash of worker suicides,  
the Chinese manufacturer of  
iPhones, PCs, and PlayStations opens up.  
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of the 21st century.**

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# CHAIRMAN



# GOU

TERRY GOU NEVER STOPS THINKING OF WAYS TO SHAVE ANOTHER NICKEL OFF THE COST OF YOUR IPHONE. HIS COMPANY IS CALLED FOXCONN, AND IT EMPLOYS 920,000 CHINESE WORKERS TO FEED THE WORLD'S HUNGER FOR HIGH-TECH GADGETS AND TOYS. HE IS A CHARMING SALESMAN, A RUTHLESS TASKMASTER, AND A DARING STRATEGIST. HE MIGHT BE REGARDED AS HENRY FORD REINCARNATED, IF ONLY A DOZEN OF HIS WORKERS HADN'T KILLED THEMSELVES EARLIER THIS YEAR. AN EXCLUSIVE LOOK INSIDE A POSTMODERN INDUSTRIAL EMPIRE

**O**n a crushingly hot mid-August day at Foxconn's Longhua factory campus in Shenzhen—where a dutiful army of 300,000 employees eats, sleeps, and churns out iPhones, Sony PlayStations, and Dell computers—workers indulged in a rare moment of celebration. First, there was a parade, an Alice in Wonderland spectacle of floats, blaring vuvuzelas, and workers dressed up as Victorian ladies, geishas, cheerleaders, and Spider-Men. This was followed by a two-hour rally inside a vast sports stadium featuring acrobats, musical performances, fireworks, and life-affirming testimonials punctuated by chants of “treasure your life” and “care for each other to build a wonderful future.”

It was hardly a spontaneous outpouring. Rather, it was a joint production of employee unions and management at Hon Hai Precision Industry, the flagship of Foxconn Technology Group, as part of an effort to mend the collective psyche of a Chinese workforce that numbers more than 920,000 across more than 20 mainland factories. The need to do so became apparent after 11 Foxconn employees committed suicide earlier this year, most of them by leaping from company-owned high-rise dormitories. The publicity-averse Taipei-based company and its 59-year-old founder and chairman, Terry Gou, were thrown into the spotlight, subjected to unfamiliar scrutiny by customers, labor activists, reporters, academics, and the Chinese government.

The suicides introduced Foxconn to much of the world in the worst terms imaginable—as an industrial monster that treats its workers like machines, leveraging masses of cheap labor, mainly 18-to-25-year-olds from rural areas, to make products like the iPhone at seemingly impossible prices. For Western consumers, the lost lives were an invitation to consider the real cost of their electronic playthings. For the image-conscious companies with

which Foxconn does business, including IBM, Cisco, Microsoft, Nokia, Sony, Hewlett-Packard, and Apple, the suicides were a public-relations nightmare and a challenge to offshoring strategies essential to their bottom lines.

Foxconn made matters worse with a slow and initially clumsy response. In an exclusive interview with *Bloomberg Businessweek*, Gou conceded that he didn't immediately grasp the significance of the suicides. “I should be honest with you,” he says. “The first one, second one, and third one, I did not see this as a serious problem. We had around 800,000 employees, and here [in Longhua] we are about 2.1 square kilometers. At the moment, I'm feeling guilty. But at that moment, I didn't think I should be taking full responsibility.” After the fifth suicide, in March, Gou says, “I decided to do something different.”

It actually wasn't until late May, after the ninth Foxconn employee had leaped to his death, that Foxconn went into full crisis management mode, stringing more than 3 million square meters of yellow-mesh netting around its buildings to catch jumpers and setting up a 24-hour counseling center staffed by 100 trained workers. Management increased wages for factory workers in Shenzhen by 30 percent, to 1,200 renminbi (\$176) per month, and promised a second raise in October. Finally, Gou's company hired the New York firm Burson-Marsteller to help devise a formal public-relations strategy, its first in more than 35 years of existence.

Part of Burson-Marsteller's plan was granting *Bloomberg Businessweek's* request for unprecedented access to Foxconn's factory floors, worker dorms, suicide-help-line operators, and Gou himself, who in the course of a three-hour interview riffed on everything from Warren Buffett (“He's too old”) to the uselessness of business degrees (“You can't read a book to learn to swim”) to Steve

Jobs (“I forced him to give me his business card”). Gou also mocked New York bankers who “see the Hudson River and say, ‘I'm a king of the world.’”

The interview took place at Longhua, the entrance to which looks like a border crossing, with seven toll-booth-like lanes and uniformed guards. Although drab and utilitarian, the campus is a fully functioning city, with fast-food joints, ATMs, Olympic-size swimming pools, huge LED screens that flash public-service announcements and cartoons, and a bookstore that sells, among other things, the Chinese-language translation of the *Harvard Business Review*. Prominent on display are biographies of Gou, one of which collects his many aphorisms, including “work itself is a type of joy,” “a harsh environment is a good thing,” “hungry people have especially clear minds,” and “an army of one thousand is easy to get, one general is tough to find.”

Foxconn is now the biggest exporter out of China, and its general is the richest man in Taiwan, estimated by *Forbes* to have a personal fortune of \$5.9 billion. He says he cannot confirm that figure, however, as he does not keep track. “I have one guy in charge,” Gou says in heavily accented English that he picked up while touring the U.S. in the 1980s. “Every year he gives me a piece of paper and says, ‘Hey, this is how much.’ I think for me, I am not interested in knowing how much I have. I don't care. I am working not for money at this moment, I am working for society, I am working for my employees.”

**T**he colossus that Gou (pronounced “Gwo”) runs today started with a \$7,500 loan from his mother. His first world headquarters was a shed he rented in 1974 in a gritty Taipei suburb called Tucheng, which means Dirt City in Mandarin. Gou, then 23, had done three years of vocational training and served in the military. He then worked for two years as a shipping clerk, where he got a firsthand view of Taiwan's booming export economy and figured he ought to stop pushing paper and get into the game. With the cash from his mother, he bought a couple of plastic molding machines and started making channel-changing knobs for black-and-white televisions. His first customer was Chicago-based Admiral TV, and he soon got deals to supply RCA, Zenith, and Philips. →

**“WARREN BUFFETT IS TOO FAMOUS,” GOU SAYS. “YES HE IS GREAT, YES HE MADE GOOD INVESTMENTS, BUT HE IS TOO OLD. HE DOESN'T UNDERSTAND ABOUT CHINESE PRIVATE COMPANIES.”**

## THE WORKERS



## THE SUICIDE NETS



Imagining his future success, he practiced signing his name in English over and over until he had perfected it. He remains proud of it today, walking over to a whiteboard during the interview and signing with a schoolboy flourish. It looked like the perfect cursive script from the credits of *I Love Lucy*.

Gou's first break came in 1980 when he started supplying Atari of Japan with connectors that linked the joystick cable to its 2600 video-game console. At the height of the Atari craze, Hon Hai was producing connectors for the 15,000 video-game consoles that Atari's Taiwanese plant made daily. Gou wasn't content to be a mere supplier of dumb parts. He applied for patents on the technology his company developed, and he kept pressing into new areas such as cable manufacturing.

In the early '80s, Gou made his first big push into the U.S., visiting 32 states over the course of an 11-month tour. He dropped in on companies unannounced, like a door-to-door salesman, arriving in a "big and safe" Lincoln Town Car he rented in every city. Once, to keep costs low, Gou slept in the backseat. In Raleigh, N.C., he booked himself into a motel close to an IBM facility. After three days of hanging around, he got an appointment and came away with a firm order for connectors. "He is really one of the top sales guys in the world," says Max Fang, the former head of procurement for Dell in Asia who did business with Gou and was his regular golf partner. "He is very aggressive and always on your tail."

As the Taiwanese labor market tightened throughout the '80s and wages rose, manufacturers started moving to Malaysia, the Philippines, and Thailand. Although China was nearby and offered a virtually limitless supply of cheap labor, few companies dared to go there; the primitive infrastructure and inscrutable Communist government scared them off. Gou was undeterred, setting up shop in a dusty suburb of Shenzhen across the border from Hong Kong, where factories producing cheap garments, shoes, and children's toys were springing up. The political situation was tricky. Beijing still regards Taiwan as a one of its provinces that should be integrated back into the motherland, by force if necessary.

In 1991, Gou listed Hon Hai Precision on the Taiwan Stock Exchange to fund expansion, mostly into China. By 1996, he says, it was clear to him that China would

become a manufacturing juggernaut, and he started investing heavily in his facilities at Longhua.

Gou's role in revolutionizing manufacturing at the turn of a new century has an obvious precedent. Henry Ford also understood the importance of vertical integration, of producing his own materials, and tweaking his assembly lines for maximum efficiency. Ford dreamed of a corporate empire so large that it would require the population of an entire American state to fuel it. Where Ford had Michigan, Gou had Shenzhen.

**T**o sustain an efficient Chinese workforce, Gou quickly discovered that he had to provide housing, food, and health care, additional costs that kept most of his competitors out of the country. He had to do everything himself. Michael Marks, then chief executive officer of contract-manufacturing giant Flextronics, saw Foxconn's Shenzhen operations taking shape in the late 1990s. "They were making wire out of ingots of copper," says Marks. "They had chicken farms to lay the eggs for the cafeteria. One building had 2,000 toolmakers. We had none at the time. But we did after that."

In 1996, Gou offered to build the chassis for Compaq's desktop computers at a fraction of what it would cost Compaq to do the job itself. (Compaq is now part of HP.) "He had this vision and the guts to do anything in a big way," says Fang. "When I first visited the factory, I saw the whole value chain nicely and effectively designed, starting from a big coil of sheet metal at one end that was cut, formed, welded, and stamped to make the top and bottom of the chassis. Then they did the in-line subassembly, adding a floppy drive, the power supply, and cables. It was all shipped to customers who only had to install the

motherboard, CPU, memory, and hard drive. After this revolution by Terry, final computer assembly was easy."

Soon, Foxconn was shipping bare-bones computers to IBM, HP, and Apple as well, transforming the industry. In 1998, when Gou won his first order from Dell to make the chassis for its desktops, Dell insisted he do it in the U.S., close to the final market. Gou obliged. "I bought a company in Kansas City. We quickly needed tooling shops and stamping," Gou says.

"That factory was a money loser, but Terry had to build it to accommodate Dell against his own will," recalls Fang. "For Foxconn, it bought a ticket into the Dell business." (Dell executives declined to comment for this story.)

The three-decade expansion from television-knob maker to the world's dominant consumer electronics manufacturer passed with little notice from the Western press. That changed in June 2006 when the *London Daily Mail* published a story about harsh conditions for 30,000 workers at Foxconn's iPod factory in Longhua. When two reporters at *China Business News* did their own version of the story, Gou's first reaction was to counterattack. Foxconn sued them personally for libel and secured a court order freezing their assets, backing off only at the behest of Apple and HP.

The incident prompted Apple executives to dispatch an audit team to investigate conditions at the Longhua plant. The report, still available on Apple's company website, uncovered several violations of Apple's code of conduct, including excessive overtime, an overly complicated wage structure, and unacceptable living conditions such as triple-decker bunk beds. Foxconn made changes that included an overhaul of its overtime practices.

Although Apple pressured Foxconn, Steve Jobs wasn't about to sever ties with Hon Hai, not with preparations under way for the production of Ap-

**"I'M PRETTY ADAPTABLE, AND I CAN COPE," SAYS A 19-YEAR-OLD FEMALE LINE WORKER. "WHEN I SPEAK TO MY PARENTS, I TRY TO SOUND HAPPY, I DON'T SPEAK ABOUT MY STRESS."**

ple's next big product, the iPhone, which came out the following year. "Steve Jobs' achievements wouldn't be possible without Terry," says Chang Tien-wen, author of the 2005 book *The Tiger and The Fox: Terry Gou's Global Competitive Strategy*.

The crisis passed, and Gou, hungry for growth, set his sights on the 200 million-unit-a-year notebook market. Three Taiwanese companies—Quanta, Compal, and Wistron—then dominated the market and were valuable customers for Foxconn, buying billions of dollars' worth of components. Deciding to compete against your own customers is a dicey move. But Gou calculated that in the time it would take them to find new suppliers he could swipe enough of their business to come out ahead. Today, Foxconn controls 4 percent of the notebook market and expects to grab 11 percent next year, according to Yuanta Securities in Taipei.

Therein lies the beauty of the Foxconn model. The margins on the parts it provides for its customers' machines are extremely high, so when it comes to the final assembly work for the likes of Dell, Nokia, or Sony, Foxconn is willing to sacrifice profits—or even do the job at a loss—because it makes so much money from the parts. Analysts expect Hon Hai Precision's sales to grow 40 percent this year, to \$85 billion.

Foxconn's business has evolved to the point where it's not just relying on cheap, unskilled labor. It now employs 50,000 toolmakers, including a team of 2,000-plus workers who focus on the design and fabrication of molds and dies. This enables the company to boost production faster than anyone else, especially important in the handset market where new models are constantly introduced. "If you want to look under the hood at Foxconn and understand why they have a high market share, it's because of these things," says Jason Dedrick, associate professor at the School of Information Studies at Syracuse University.

To understand how diversified Foxconn's supply chain is, pry the back off a Nokia 1209 handset. The plastic casing is molded by Foxconn Tech-

nology. The speaker is made by Hon Hai Precision, as are the keypad and printed circuit-board connector. The printed circuit board is made by Foxconn Advanced Technology. The TFT LCD screen is made at Chimei Innolux, an affiliate 2.7 percent-owned by Gou. In all, about 70 percent of the phone's components are made by a Foxconn-related company.

As he squeezes costs throughout his empire, Gou also takes huge risks on behalf of his major clients. In Chongqing, in central China, Foxconn is spending \$1 billion on a factory that will produce 30 million machines a year just for Hewlett-Packard. When Apple's iPhone4 was nearing production, Foxconn and Apple discovered that the metal frame was so specialized that it could be made only by an expensive, low-volume machine usually reserved for prototypes. Apple's designers wouldn't budge on their specs, so Gou ordered more than 1,000 of the \$20,000 machines from Tokyo-based Fanuc. Most companies have just one. "Terry is a strong leader with a passion for excellence," says Tim Cook, Apple's chief operating officer. "He's a trusted partner and we are fortunate to work with him." The Longhua plant now produces 137,000 iPhones a day, or about 90 a minute.

**S**ince the end of May, Gou, who normally divides his time between Hon Hai headquarters in Taipei and China, has been living at Longhua in a room behind his office, dealing with the aftermath of the suicides. He says he works 16 hours a day and eats three meals at his desk. There is scarcely time for indulgences. "I was getting my hair dyed at 11 p.m. last night for this interview," he says, introducing himself with a firm handshake. He hasn't played a round of golf in months and stays fit by doing pushups in the morning and using the time to reflect on "the five-year plan. That's the most important."

Gou's family came from Shanxi province in north-central China. His father fought with the Kuomintang army in the civil war and fled along with Chiang Kai-shek after his defeat in 1949 by the Communists led by Mao Zedong. He eventually became a mid-rank police officer in Taipei. Terry is the oldest of his three boys.

Gou's personal life is the object of much fascination in the Taiwanese press, and in recent years it has been marked by tragedy. Serena, his wife of nearly 30 years and mother of his adult daughter and son, died of cancer in 2005. After his brother Tony died of leukemia in 2007, Gou started showing more of an interest in life beyond the factory gates. He practiced yoga, took his mother, now 85, out regularly for Taiwanese noodles, and became more active in his charity, the YongLin Foundation. He explored his mainland Chinese heritage and bankrolled *Empire of Silver*, a lavish film set in feudal times in Shanxi. His picture started appearing in Taiwan's glossy magazines with beautiful younger women on his arm. Ultimately, he settled down with Delia Tseng, a dance instructor 24 years his junior who had been hired to prepare him for the company's annual Chinese New Year bash, in which he would perform the tango with Taiwanese model Lin Chi-ling. Gou needed training. Delia didn't know who he was, only that he was "an important businessman," according to Bruce Chang, who runs the Taipei studio where she worked. "Terry danced very well for an amateur," says Chang. "Delia said he was very determined."

The two were married on July 26, 2008, at the Grand Hyatt hotel in Taipei. During the reception, Gou mounted the stage, shed his tuxedo jacket, and did 30 pushups to prove his virility. Nine months and four days later, Delia gave birth to a daughter, Hsiao-ru. A second child is due this fall.

Gou has always kept his family close—though in the past, at least, he made it clear that business comes first. His brother T.C. Gou, who served as president of the Foxconn cable and connector division until the mid-1990s, received anything but preferential treatment. According to an executive who has worked with both brothers, Gou would scold T.C. as he would any other employee, sometimes telling him to sit in the back of the room. Eventually, T.C. left to run his own company, Foxlink, which makes cables. Gou explains the shift by saying he didn't want to run a family company—more than

**“NEW YORK BANKERS,”  
SAYS GOU, “SEE THE HUDSON  
RIVER AND SAY,  
‘I’M A KING OF THE WORLD’”**

## THE TAO OF GOU

环境严苛是件好事。

A harsh environment  
is a good thing.

走出实验室就没有高科技，  
只有执行的纪律。

Outside the lab,  
there is no high-tech,  
only execution  
(implementation)  
of discipline.

千军易得，一将难求。

An army of a thousand  
is easy to get,  
one general is tough to find.

向对手学习。

Study your opponent.

人生分三个阶段来看，  
二十五岁到四十五岁  
是为赚钱做事；  
四十五岁到六十五岁，  
是为理想做事；  
六十五岁退休以后，  
是为自己兴趣做事。

Life has three phases:  
25-45 is for making money,  
45-65 is for following  
your ideals, after 65 is for retiring  
and following your own  
interests.

大陆不是全球化的唯一

Mainland (China) is not  
the only one globalizing.

饿的人，脑筋特别清楚。

Hungry people have  
especially clear minds.

我的信心源自于努力与经验。  
所谓信心是，无论景气再坏，  
都要相信自己有能力。

My confidence comes  
from effort and experience.  
Confidence doesn't matter  
if prosperity turns bad  
as I trust my own power/ability.

用外国人的游戏规则打仗。

Use foreigners'  
rules of the game  
to fight.

60 percent of Hon Hai is owned by pension funds, he points out—and that it was time for T.C. to go his own way.

Gou exhibits severity and kindness in the extreme. According to one former Foxconn executive, at a meeting of about 200 people last year to discuss the company's underperforming mobile-phone division, Gou ordered another executive to remain standing for 10 minutes when his answer proved unsatisfactory. Gou also makes a show of rewarding his employees. While his own official salary is just one Taiwanese dollar, or about 3¢, analysts say he pays executive bonuses out of his own pocket using dividends from his company shares held in trust. That makes it easier for Foxconn to retain top-level staff without hurt-

ing the bottom line, says Jamie Wang, an analyst at Gartner in Taipei. His 12 percent ownership in Hon Hai Precision is worth about \$4 billion, and he has a stake worth about \$300 million in affiliate company Chimei Innolux, a maker of flat-panel displays. At the company's Chinese New Year party, Gou holds a raffle. In 2008 the top prize was 300,000 shares in Hon Hai, a stake now worth \$1 million.

When it comes to competitors, Gou fiercely guards his turf. He sued the Chinese battery maker BYD in a Hong Kong court in 2007, alleging that BYD, of which Berkshire Hathaway-controlled MidAmerican Energy holds a 28 percent stake, poached 50 of its employees to set up a rival cell-phone assembly oper-

ation and stole trade secrets. Foxconn then launched a similar claim in Illinois. BYD countersued Foxconn in Hong Kong for defamation and alleged that it had bribed Chinese officials and had intimidated a former Foxconn employee into giving false evidence to police.

Stella Li, CEO of BYD Electronic International and one of the three executives named in the Illinois suit, which, like the other suits, is pending, says Foxconn is determined to crush the competition. "They will do anything they can to stop us from becoming a leading player," says Li.

Gou says he can't understand why Buffett didn't do his homework before investing in BYD in 2008. →

THE FACTORY



THE GUARDS



THE DORMITORY



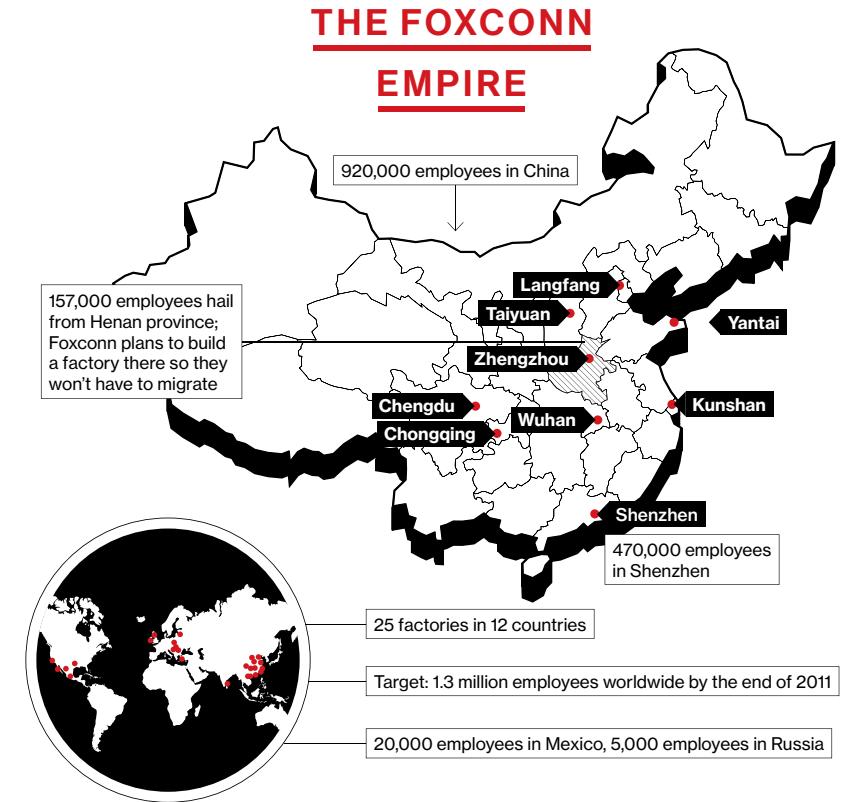
THE CRISIS-HELP-LINE DESK

“Warren Buffett is too famous. Yes he is great, yes he made good investments, but he is too old. He doesn’t understand about Chinese private companies. If I see him face-to-face, I will say, ‘In the U.S. you tell everybody they need to protect their R&D. So how can you invest in a company that steals someone’s technology and says it’s great?’”

**L**ouis Woo, a silver-haired executive in an open-necked shirt and polka-dot suspenders, is the person Foxconn picked to brief *Bloomberg Businessweek* on the company’s transformation into a more benign corporate citizen. Woo, a 62-year-old Macanese American with a Ph.D. from Stanford, delivers a PowerPoint presentation of Foxconn’s “Prevention-Reengineering Caring” program. The company has set up 24-hour care centers staffed by certified counselors. It has created a “Campus Loving Heart” website, has started big-brother and big-sister programs in staff dormitories, and is teaching managers to be more attuned to workers’ emotional needs. “Yelling is not the only way,” says Woo. “The new generation of workers is changing in China, and Foxconn is changing to meet this new reality.”

Eric Caine, chair of the department of psychiatry at the University of Rochester and an expert on suicide prevention, says the deaths at Foxconn exhibit the characteristics of a suicide cluster, the copycat phenomenon first observed during Europe’s industrialization a couple of centuries ago. What distinguishes conditions in today’s Chinese factories from Dickensian workhouses is scale. “When you have more than 900,000 workers you are going to have people with mental-health problems, from romantic breakup and feeling fraught and overwhelmed, to clinical depression, to some who could be psychotic,” says Caine, who visited the plant as part of an independent review organized by the West China Hospital at Sichuan University. “Foxconn had set up some employee-support services before the suicides and clearly realized there was an issue, but the contagion and jumping overwhelmed them as it would any organization, and they just got swamped.”

The Longhua workers interviewed by *Bloomberg Businessweek* objected to various aspects of how they are treated but not in terms starkly different from the complaints many people have about their jobs. More than two dozen Foxconn em-



ployees were interviewed; none showed signs of being afraid to speak freely to a reporter. Those interviewed on the job did so without a supervisor present. Other discussions took place in Internet cafés, staff dormitories, and in the company canteen. Most seem keenly aware of their choices. They work at Foxconn because they want to make money as quickly as possible. Some want cash to buy the things they make. Others want to become entrepreneurs. None of the workers was upset about having to work overtime. To the contrary, the availability of overtime hours was a big attraction.

Li Caihe, a 19-year-old from Gansu province, works a 12-hour shift attaching nine parts to the motherboard of a Nokia N90 handset. “It takes so much concentration, it was very stressful at first,” she says. “I know I can go to a counselor, but I don’t think it will help. I’m pretty adaptable, and I can cope. When I speak to my parents, I try to sound happy. I don’t speak about my stress.” Li shares a dorm room with seven other girls and plans to stay on for another year. After that she hopes to open a small business back home, a beauty salon perhaps.

A 23-year-old man who gave his name only as Cheng spray-paints plastic sheets that are then molded into handset covers. He says conditions are much better than at his three previous employers, though he did take part in a one-day strike of 70 people in May that was organized by his department to protest expo-

sure to toxic fumes. They wanted better protection than the paper masks they continue to use. He was skeptical about morale-boosting exercises like the rally in August. “Everyone is happy when they are playing,” he says. “After this event, people who are depressed will get depressed again. It’s all superficial.”

Guo Yan Bing, a 25-year-old from Henan province who works in logistics, spoke while having his eyebrows shaped with a razor on his day off. He lives off-campus with his fiancée in a one-room apartment that costs \$44 per month, exactly the amount they receive from Foxconn as a rental subsidy. “This factory is too big,” he says. “Low-level and mid-level management aren’t educated, and they aren’t nice to people. I blame Gou for this. It’s always about the boss trying to squeeze money.”

Li Xiaofeng, a 20-year-old from a farm in Hunan province, joined Foxconn in May 2009 to work on an HP color printer assembly line at the Longhua campus. Her generation, she says, is far less accepting of long hours, low pay, and verbally abusive managers. “Youth, especially those born after 1990, have a lot more enthusiasm and passion but are easily depressed once they meet obstacles,” explains Li. “We are less able to endure suffering.” She complains about the cockroaches in her dorm and how she couldn’t shower for three days after the water had been turned off recently.

As demanding as Foxconn is, its

record for employee treatment is better than most, partly because of its vast size as well as the intense competition for workers in China. “I can’t believe there aren’t worse places to work in China than Foxconn,” says Flextronics CEO Michael McNamara, “and if someone didn’t like working there they could walk across the street and find 10 different places to work.”

“They are a leadership company in what they do with respect to higher salaries, better working hours, and better facilities,” says Ian Spaulding, managing director of InFactory-Solutions, a Hong Kong consultancy that works with electronics companies to develop employee grievance programs. To some extent, he adds, Foxconn is a victim of its success. “There are parallels to Nike. It was egotistical about its approach to the world, saying, ‘Some of our factories are the best,’ so it invited criticism.”

Labor watchdogs give Foxconn credit for exceeding the norms. “They pay workers on time and for overtime according to the regulations, and that’s why workers always queue to work there,” says Geoffrey Crothall, spokesman for Hong Kong-based China Labor Bulletin, a worker-rights organization. “Despite [Foxconn’s] repressive regime and the intense nature of the work, it’s still better than a small workshop with no guarantee you’ll get paid.”

The public nature of Foxconn’s labor problems could end up benefiting the company, enabling it to pass on the costs of its new worker-friendly initiatives. The raises will cut earnings per share by about 5 percent this year and by 12 percent in 2011, according to Daiwa Securities in Taipei. Yet all it would take is a 1 percent increase in the price of most finished products—\$4 more for a 64-gig iPod touch, for

example—to offset the added labor costs. Given the awful spectacle of the suicide epidemic, who’s going to complain?

**T**here’s a joke among executives whose livelihoods depend on Foxconn: In 20 years, there will be only two companies. Everything will be made by Foxconn and sold by Wal-Mart.

Gou finds the punch line flattering, and unrealistic. “This is just a joke. I’m not saying I am so great. I just work hard and work smart.” For more than a decade, Gou has exhorted his executives to achieve 30 percent annual growth, but now that the company has grown so immense, he has dialed that target back for 2011 and beyond to 15 percent. Still, he’s not about to ease up—on himself or anyone else. “I never think I am successful,” he says. “If I am successful, then I should be retired. If I am not retired, then that means I should still be working hard, keeping the company running.”

Foxconn’s next evolutionary wave has already begun. It established itself by building city-size factory campuses. Now, Gou wants to pass the burden of employee services on to local Chinese governments. “We came in the early ’90s to Shenzhen and built factories and provided dormitories and cafeterias and everything, even laundries,” says Gou. “We are not just a factory, we take social responsibility.” Now, “I think we need to change the way things are. Businesses should be focused on business and social responsibility should be government responsibility.”

Authorities in Chengdu, Sichuan, have already agreed to a deal in which Gou will spend \$3.5 billion over five years to build

factories for component manufacturing and assembly, while the government will provide low-cost housing to his workers. “We don’t want to still be running cafeterias,” says Gou.

The move inland will enable Foxconn to pay its workers less and might help prevent suicides, too. If workers are closer to home, reason Foxconn executives, they’re more likely to have someone to turn to when problems arise. So Foxconn is building a facility in the city of Zhengzhou, the capital of Henan province, which has a population of more than 100 million. Migrant workers from Henan account for about a fifth of Foxconn’s workforce. “We want to go to the source of abundant workers and where there is a support group of family and friends,” says Woo.

As Western companies outsource more of their design work, Gou faces stiff competition from specialist notebook makers Compal and Quanta as well as electronics maker Flextronics, which have superior research teams. “Design capability is Hon Hai’s weakness,” says Wang, the Taipei-based analyst at Gartner. “But they are very aggressive about poaching engineers, and they have very deep pockets.”

While Foxconn still exports most of what it produces in China, global brands are looking to sell to increasingly affluent Chinese consumers. That’s why Gou hired Woo to help develop the so-called channel business, which will take Foxconn into retail. Woo, who ran the consumer side of Apple in Taiwan in the 1990s, says he plans to have 10,000 retail outlets in China by 2014, many operated by former Foxconn factory employees. In most economies, an individual’s journey from the low wages and long hours of the factory floor to the relative comfort of white-collar work can take generations. Thanks in part to Gou, Chinese laborers may make it over the course of a few years.

Gou has plans to capitalize on the changes he has wrought. Perhaps most intriguing is his plan to move additional production to the U.S. The company currently employs about 1,000 workers in a Houston plant that makes specialized high-end servers for corporate clients the company declined to disclose, and Gou envisions a fully automated plant to produce components within five years. “If I can automate in the U.S.A. and ship to China, cost-wise it can still be competitive,” he says. “But I worry America has too many lawyers. I don’t want to spend time having people sue me every day.” **B**

—With Peter Burrows, Baizhen Chua, Wei Du, Debra Mao, and Aaron Ricadela

## THE CHAIRMAN

