

# **Acer Incorporated**

## **Company profile**

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## Introduction

This company profile on Acer is part of a research project on the ICT hardware sector. In addition to this study on Acer, SOMO conducted a study on Fujitsu-Siemens, a sector study and a survey on two major production countries. The aim of the research project is:

- To understand the role of manufacturers in the global supply chain, identify issues that need to be addressed and develop strategies to address identified problems in the supply chain in general;
- To understand the organisation of the supply chains of two specific brand companies in the ICT hardware sector.

SOMO focuses on corporate structures and relations throughout the sector and in production, supply and value chains. The study aims to provide information and arguments for civil society organisations to feed the debate on trade and investment and corporate accountability. The ICT hardware sector study was conducted by SOMO in collaboration with research organisations in China and the Philippines.

The company profile on Acer aims to identify “critical issues” in Acer’s supply chain from the perspective of poverty eradication and sustainable development. All reports associated to the research project on the ICT hardware sector can be found on SOMO’s website: [www.somo.nl](http://www.somo.nl).

Acer Incorporated is a leading Original Equipment Manufacturer (OEM) of notebooks, tablet, handheld, and desktop computers from Taiwan. Acer has streamlined its operations in recent years, spinning off all of its manufacturing operations, which the company considers to be of low value. Acer has implemented a new channel business model, shifting from being a manufacturer to a pure brand company that markets and distributes its products, while leaving the actual production process in the hands of contract manufacturers. Acer’s channel business model comprises a wide net of sales services, in contrast with the direct sales approach of market leader Dell.

According to Acer, the company now sources from approximately one hundred system suppliers and primary component suppliers in Asian countries. Labour conditions at these suppliers are often appalling. In order to identify the labour issues in Acer’s supply chain, research was undertaken on the working conditions in four factories in China and one in the Philippines. All of the companies that were researched provide manufacturing services to Acer.

## 1. Policies and business overview

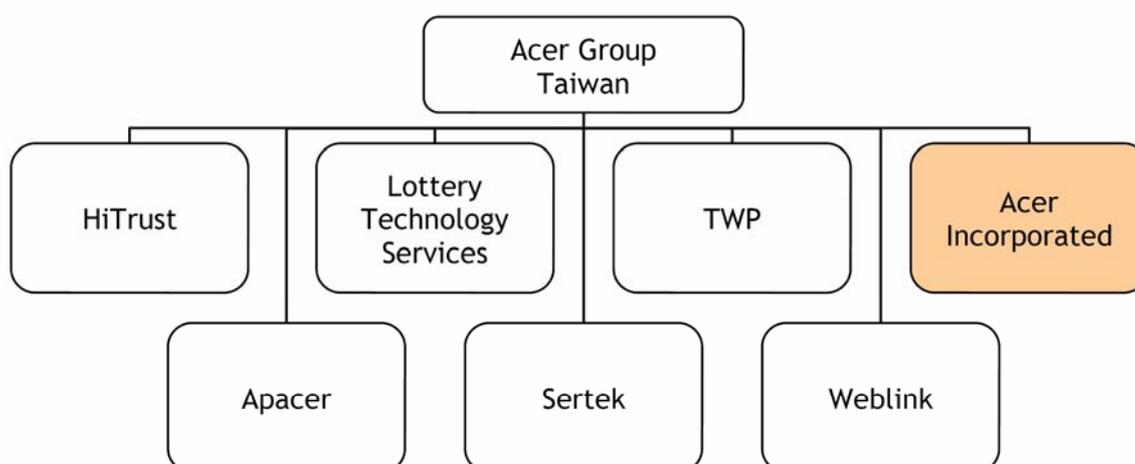
### 1.1. General characteristics

Name:	Acer Incorporated
Business Address:	137 Sec 2 Chien Kuo North Road, Taipei, 10479, Taiwan
Telephone:	+886 2 2696 1234
Fax:	+886 2 2501 9162
Internet:	<a href="http://www.acer.com.tw">http://www.acer.com.tw</a>
Logo:	

Acer Incorporated's principal activities are to develop, market and sell computer workstations, PC servers, business desktops, computer-related components and software. Its other activities include repair services of Acer brand products, investing, financing, construction, and provision of internet, electronics services and information storage. The Group's operations are carried out in Taiwan, Europe and in the United States of America. The Group exports its products to North and South America, Europe and Africa.

In addition to being an OEM of various types of computers, Acer produces servers, storage systems, projectors, and displays. The company also provides IT support services. Acer has streamlined its operations in recent years, spinning off its manufacturing operations (now Wistron), as well as its consumer electronics and peripherals business (now Benq). It still holds stakes in both companies. Acer now outsources its manufacturing. It sells through resellers and distributors worldwide.

Acer Incorporated is part of the Acer Group. The Acer Group comprises several companies and markets a broad spectrum of branded IT products, e-business solutions and services. In addition, the group supplies multiple brands of IT products including components and software in Greater China. The Acer Group employs 7,800 people, while Acer Incorporated employs 5,600 people supporting dealers and distributors in more than 100 countries.<sup>1</sup>



<sup>1</sup> Acer website <<http://global.acer.com/about/index.htm>> (8 April 2005).

## 1.2. History

Acer founder and chairman Stan Shih designed Taiwan's first desktop calculator in the early 1970s. The company's precursor, Multitech International, was launched in 1976 with US\$ 25,000 by Shih and four other people. In 1980, Multitech introduced the Dragon Chinese-language terminal, which won Taiwan's top design award. In 1983, the company introduced an Apple clone and its first IBM-compatible PC. Multitech set up AcerLand, Taiwan's first and largest franchised computer retail chain, in 1985.

The company changed its name to Acer (the Latin word for "sharp, acute, able and facile") in 1987 and went public on the Taiwanese exchange the next year. Acer got into the semiconductor market<sup>2</sup> in 1989 when it entered into a joint venture with Texas Instruments (named TI – Acer) to design and develop memory chips in Taiwan. In 1990, Acer's US subsidiary, Acer America, paid US\$ 90 million for Altos Computer Systems, a US manufacturer of UNIX systems.<sup>3</sup>

During the prosperous 1980s, Acer increased its management layers and slowed the decision-making process. In late 1990, the company restructured, trimming its workforce by eight percent (about 400 employees), including two-thirds of headquarters. The following year Acer began its decentralization plan to create a worldwide confederation of publicly owned companies. Acer suffered its first loss in 1991 on revenues of almost US\$ 1 billion, partly because of increased marketing budgets in the US and Europe, and continuing investment in TI – Acer. The company bounced back in 1993, with 80 percent of its profits coming from that joint venture.

The Aspire PC was unveiled in 1995. In 1996 the company expanded into consumer electronics, introducing a host of new, inexpensive videodisc players, video telephones, and other devices in order to boost global market share. In 1997, Acer purchased Texas Instruments' notebook computer business. A slowdown in memory chips sales and a financial slide at Acer America cost the company US\$ 141 million, but Acer finished the year in the black.

The founder of the company, Stan Shih, stepped down as president in 1998 to focus on restructuring. The company ended its venture with Texas Instruments, buying TI's 33 percent stake and renaming the unit Acer Semiconductor Manufacturing. The company also began making information appliances, introducing a device able to play CD-ROMs via TV sets and perform other task-specific functions. Continued losses due to a highly competitive US market caused a drop in profits for 1998.

In 1999, Acer sold a 30 percent stake in its struggling Acer Semiconductor Manufacturing affiliate to Taiwan Semiconductor Manufacturing Corp. (TSMC completed its purchase of the remaining 70 percent of the business, which was renamed TSMC – Acer Semiconductor Manufacturing the following year.) The competitive heat and the rise of cheaper personal computers took a toll in 1999 when Acer cut jobs in the US, "streamlined" operations and withdrew from the US retail market. The company intensified its focus on providing online software, hardware and support for users, launching a digital service business and a venture capital operation to invest in promising internet start-ups.

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<sup>2</sup> A semiconductor is a miniaturized electronic device, typically a computer chip for processing or memory, which controls the flow of electricity by varying the conductance between two materials.

<sup>3</sup> UNIX is a popular operating system, developed by AT&T in 1969, that was very important in the development of the Internet. UNIX allows more than one user to access a computer system at the same time. An early version of UNIX, which was used by most colleges and universities, made Internet connections possible.

The company suffered a financial blow in 2000 when large customer IBM cancelled an order for desktop computers. Later that year, after continued losses in a slowing PC market, the company announced it would cut more jobs in the US and Germany and close an unspecified number of plants worldwide.

In 2001, the company spun off its contract manufacturing and peripherals units, and renamed them Wistron and BenQ, respectively. Acer's restructuring activities continued the following year, when it merged with its distribution unit, Acer Sertek. Although Sertek was in fact the surviving entity, the company immediately revived the Acer name to maintain its stronger brand. In 2005, J.T. Wang succeeded the company's founder, Shih, as CEO.<sup>4</sup> Shih is now a member of the board of directors of Wistron. Acer Inc. still has a 32.2 percent stake in Wistron.

### 1.3. Ownership structure

Acer Sertek Inc. (ASI) was incorporated on August 1, 1976, as a company limited by shares under the laws of the Republic of China (ROC). ASI changed its Chinese name to its current name on January 7, 2002.

For the purpose of integrating resources, expanding business scale, and building up efficiency and competitiveness, it was resolved in the shareholders' meetings of Acer Incorporated (AI), then the single major shareholder of ASI, and ASI held on December 17, 2001, that ASI merge with AI, retaining AI's English name for the merged company. Upon the Effective Day of Merger, March 27, 2002, ASI issued new common shares to AI's shareholders at the ratio of 2.5 shares of AI stock in exchange for one common share of ASI stock. After revoking the cross-holdings between the two companies, ASI accomplished the merger with total issuance of 1,727,725,303 new common shares to AI's shareholders. Legally, ASI is the surviving company, with AI being the liquidating entity, while from the accounting perspective, pursuant to the interpretation of the ROC Accounting Research & Development Foundation regarding the criteria for reverse acquisition, AI is substantially the economic acquirer and ASI, the acquired.

AI was established and registered according to the Republic of China Company Law and the ROC Statute for the Establishment and Administration of Science-based Industrial Parks on January 19, 1981. On December 17, 2001, AI's shareholders' meeting resolved the spin-off plan whereby on February 28, 2002, the Company spun off its design, manufacturing and services (DMS) business from its Acer brand business and transferred related operating assets and liabilities to its subsidiary Wistron Corporation (Wistron). Wistron issued 400 million common shares (par value 10 New Taiwanese Dollars – NT\$) to AI at NT\$ 14.5 per share. As the company had not participated in Wistron's capital injection during the year and continued to sell portions of its ownership in Wistron, the Company held less than 50 percent of ownership in Wistron as of December 31, 2002. Therefore, Wistron and its subsidiaries were excluded from the consolidated companies.<sup>5</sup> In August, 2005, Acer still held 32.2 percent of Wistron's shares. The company will continue to diminish its stake in Wistron. Analysts from the Citigroup expect Acer to sell up to 10 per cent of Wistron's total outstanding shares in 2005 or 2006.<sup>6</sup>

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<sup>4</sup> Hoover's company record, <[www.hoovers.com](http://www.hoovers.com)> (8 April 2005).

<sup>5</sup> Acer Incorporated, 2003 annual report (translation), <<http://global.acer.com/about/investor/pdf/Y2003AnnualReportEnglish.pdf>> (7 April 2005).

<sup>6</sup> K.W.B. Chan et al., *Wistron Corp.: company report* (Investext, Citigroup: 2005), p. 2.

## 1.4. Basic financial information

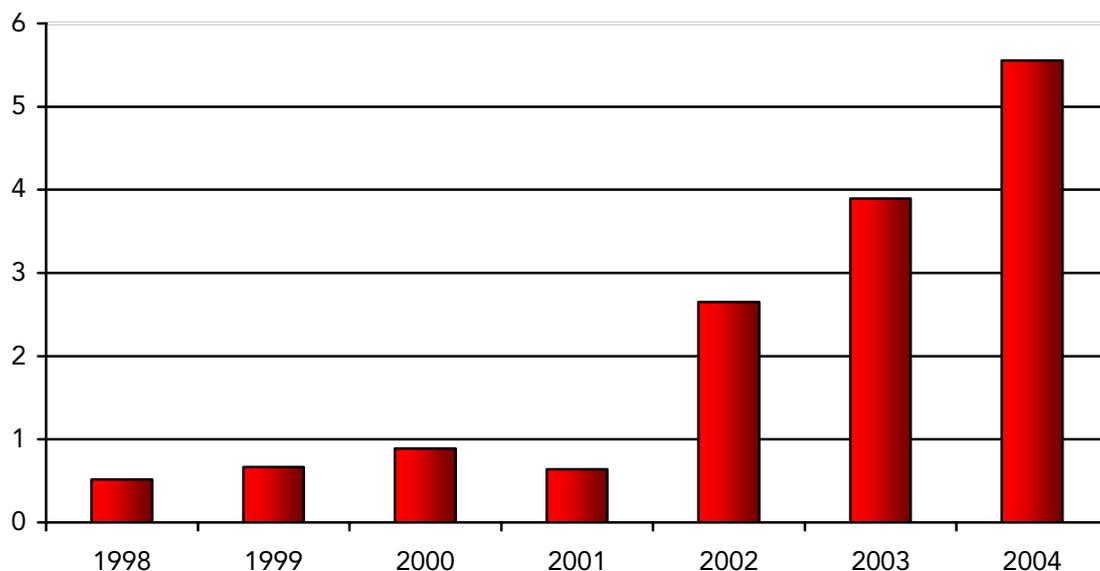
### 1.4.1. Sales and profitability

During the year ended December of 2003, sales at Acer Incorporated were NT\$ 157.66 million (€3.89 billion). This is an increase of 46.9 percent over 2002, when the company's sales were NT\$ 107.35 billion. Sales of information products saw an increase of 52 percent in 2003, from NT\$ 89.20 billion to NT\$ 135.71.

The company derives most of its revenues in Europe: in 2003, this region's sales were NT\$ 84.39, which is equivalent to 53.5 percent of total sales. In 2003, sales in Europe were up at a rate that was much higher than the company as a whole: in this region, sales increased 96.8 percent to NT\$ 84.39 million. Although the company's overall sales increased, sales were not up in all regions of the world: sales in other countries were down 7.0 percent (to NT\$ 28.01 billion).<sup>7</sup>

#### Sales value, fiscal years 1998 – 2004

In billions of €<sup>8</sup>



On the NT\$ 157.66 billion in sales reported by Acer in 2003, the cost of goods sold totalled NT\$ 134.97 billion, or 85.6 percent of sales (i.e. the gross profit was 14.4 percent of sales). This gross profit margin is slightly lower than the company achieved in 2002, when costs of goods sold totalled 85.1 percent of sales.

Acer Incorporated reports profits by product line. During 2003, the itemized operating profits<sup>9</sup> at all divisions were NT\$ 1.43 billion, which is equal to 0.9 percent of total sales. Of all product lines,

<sup>7</sup> Corporate Information. *Company research report: Acer Incorporated*. <[www.corporateinformation.com](http://www.corporateinformation.com)>, 8 April 2005.

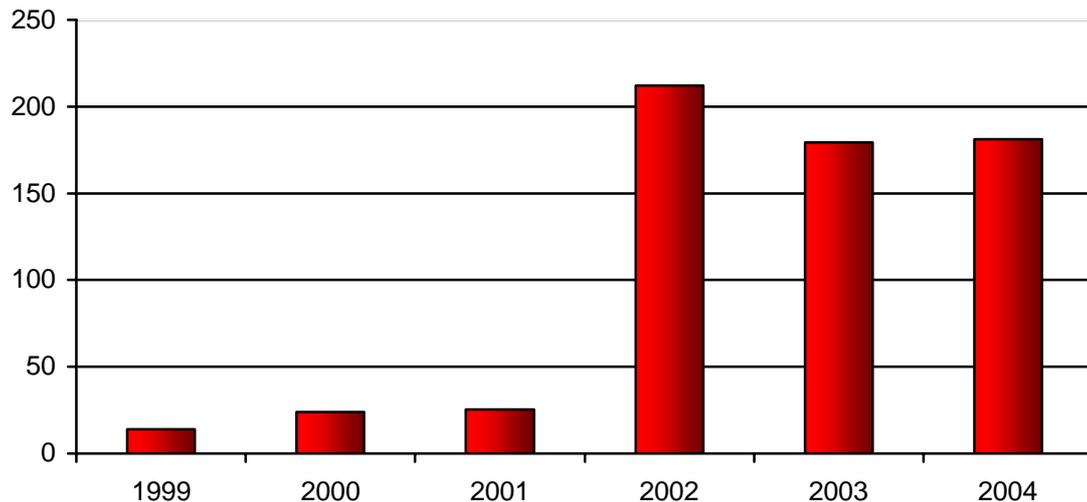
<sup>8</sup> Acer website <<http://global.acer.com/about/news.asp?id=6549>> (8 April 2005).

<sup>9</sup> Operating profit: The difference between turnover (or revenue) and total operating expenses, but before interest and taxation have been taken into account.

Information Products had the highest operating profits in 2003, with operating profits equal to 0.9 percent of sales. (This product line is the largest at Acer and accounted for 86 percent of sales in 2003). In 2002, Circulation had the highest operating profits (1.8 percent of sales versus –1.0 percent for Information Products).<sup>10</sup>

### Net income, fiscal years 1999 - 2004<sup>11</sup>

In millions of €



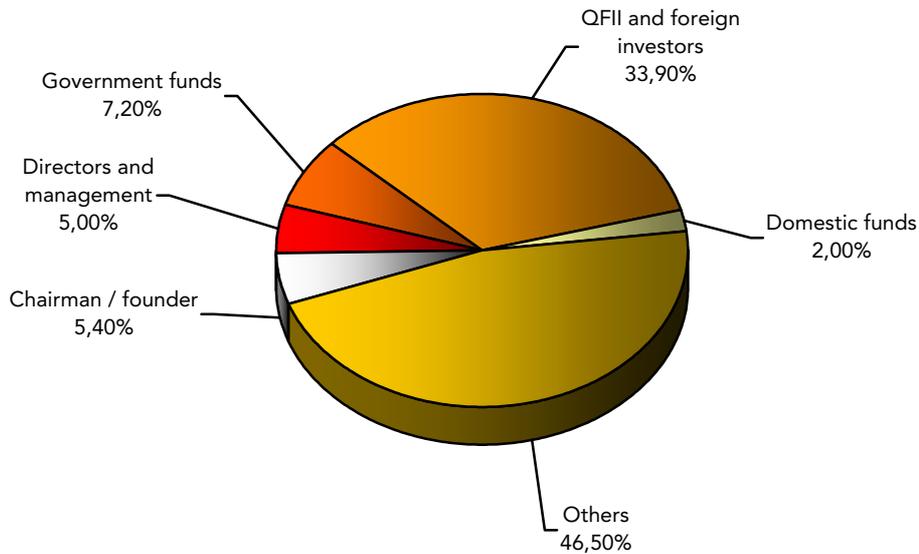
### 1.4.2. Shareholding structure

Acer chairman and founder Stan Shih and his family (via Hong Rong Investment Holdings Co.) altogether represent the single-largest shareholder, with a total of 5.4 percent of Acer. Directors and key managers hold about six percent of total shares, leaving 94 percent as free float shares. Foreign investors and Qualified Foreign Institutional Investors (QFII) currently possess 34 percent of the company.<sup>12</sup>

<sup>10</sup> Corporate Information. *Company research report: Acer Incorporated*. <[www.corporateinformation.com](http://www.corporateinformation.com)>, 8 April 2005.

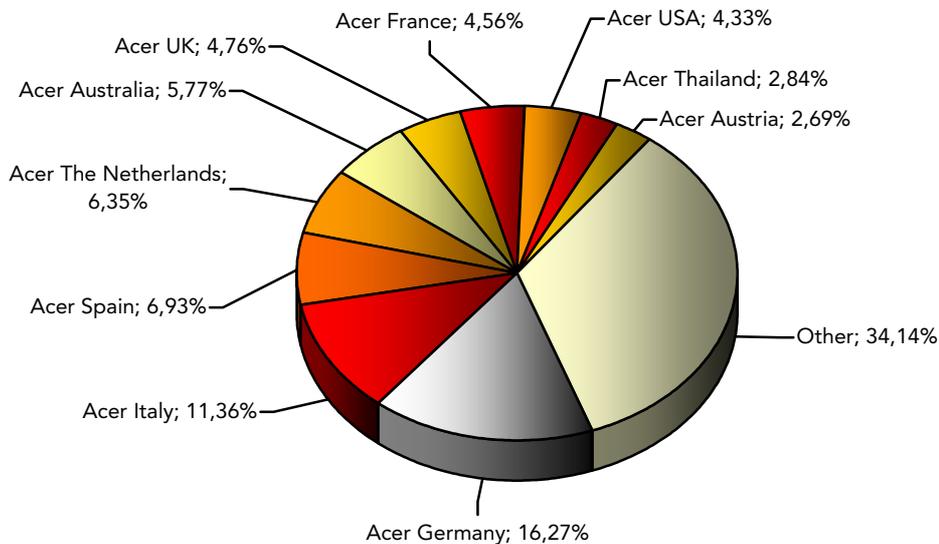
<sup>11</sup> Net income: gross sales minus taxes, interest, depreciation, and other expenses. Net income can also be called net profit, net earnings or bottom line.

<sup>12</sup> Acer Incorporated, 2003 annual report (translation), <<http://global.acer.com/about/investor/pdf/Y2003AnnualReportEnglish.pdf>> (7 April 2005); several broker reports.



### 1.4.3. Key accounts during 2003

Percentage of total net sales (%)<sup>13</sup>



### 1.5. Characterisation of activities

Acer's major IT products can be divided into notebooks, desktop PCs, display (CRT and LCD) and others (servers, PDAs, etc.). These products belong to the core IT Business Group (ITBG), which accounts for 80-85 percent of Acer's total consolidated revenues, and 85-88 percent of Acer's total core business.

<sup>13</sup> Acer Incorporated, 2003 annual report (translation), <http://global.acer.com/about/investor/pdf/Y2003AnnualReportEnglish.pdf> (7 April 2005).

Other core businesses include Channel Business Group (CBG, 13 percent of total consolidated revenue, 14 percent of total core revenue), and E-service Business Group (EBG, 1 percent), which offers end-to end business IT solutions. Non-core businesses include 56 percent-owned Lottery Tech and 52 percent-owned Apacer, a maker of flash-memory cards and MP3 players.

In the third quarter of 2004, notebook computers were Acer's top revenue-contributing product, with 47 percent of total consolidated revenue. Both desktop PCs and display (CRT and LCD) account for 13-14 percent of total consolidated revenue in the third quarter of 2004. CRT products will soon be phased out and replaced by the volume ramp of LCD products in 2005.

Other IT products include server and storage, handhelds such as PDAs, and projectors. Acer is planning to offer LCD televisions too, as it believes that such products – coupled with integrated Internet connectivity – will become the centrepiece of the living room under the concept of 'digital home' in the near future.<sup>14</sup>

## **1.6. Main products**

### **Computers**

- Desktop (home and business)
- Notebook
- Personal digital assistants (PDAs)
- Servers
- Tablet

### **Displays**

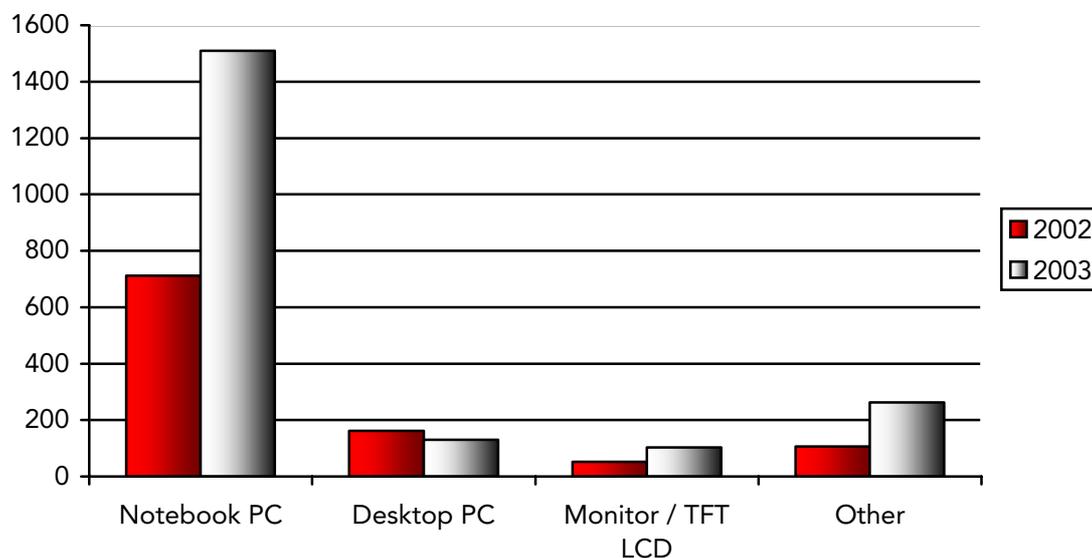
- Digital projectors
- Monitors (cathode-ray tube and liquid-crystal display)
- Plasma displays

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<sup>14</sup> Deutsche Bank, Global Equity Research: Acer. (December 2004), p. 24.

## Operating revenue by products, fiscal years 2002 - 2003

In millions of €<sup>15</sup>



## 1.7. Organisational structure

### 1.7.1. Divisions

Acer Incorporated is divided in the following divisions:

Division	Main functions
Holding & Investment	Manage Acer's holding and/or invested companies.
Chief Financial Officer	Manage Acer's finance and investments.
General Auditor	Evaluate and execute plans to improve Acer's internal operations.
Service Value Lab & Product Value Lab	Develop innovative, customer-oriented products and services with high market value, and profitable business models.
Key Account Business Development	Develop new and feasible business models, and integrate Acer's IT products and services to target the corporate account market.
IT Products Business	Develop and manage Acer's brand name IT products and services.
e-Enabling Services	Develop and manage Acer's MegaMicro e-Enabling services, marketing, sales and after-sales services.
Channel Business	Market and service multiple brands of IT products through non-Acer branded channels.
Greater China Operations	Sales and market Acer's brand name IT products and services in Greater China.
International Operations	Market Acer's brand name IT products and services in the international markets.
Legal	Draft and review contracts; provide legal consulting services and manage Acer's IP-related rights, including without limitation the patent, trademark, licensing and copyright rights.

<sup>15</sup> Ibid.

<b>Division</b>	<b>Main functions</b>
General Affairs	Manage the public administration, safety and service related issues.
Finance & Accounting	Financial planning, investment management, set and monitor budgets, accounting issues; cash flow, credit and cost control.
Human Resources	Develop and manage human resources including recruitment, training, administration, career development, compensation and welfare, and staff relationship.
Branding	Promote Acer's brand name products through marketing communications, public relations and advertising.
Information Technology	Plan and integrate sales, accounting, inventory and asset information. Maintain Acer's internet and intranet infrastructure.

## 1.7.2. Management

### **J.T. Wang** **Chairman and CEO**

As Chairman and CEO of Acer Inc., J.T. Wang's role and challenge is to ensure the global competitiveness of the Acer brand. Since December 2000 Wang has led Acer to focus on core and profitable business.

Wang initiated a New Channel Business Model, which, according to the company, was essential for the company's turnaround and growth. The model encourages partners and suppliers to join Acer in its formula of supply-chain management and allows Acer to outsource from top-tier vendors and partners. In so doing, Acer claims to have built an efficient supply chain that provides customers with competitively priced and fresh technologies.

Acer's year 2005 financial targets were: consolidated revenues of US\$ 9 billion for 35 percent year-on-year growth; profit after tax of US\$ 229 million; and operating income of US \$190 million for 67 percent year-on-year growth. In 2004, Acer was the world number-five ranking vendor for total PCs. In both the 2004 fourth quarter and full year, Acer became the number-three PC and number-one notebook brand in EMEA (Europe, Middle East, Africa) and Western Europe. Acer has set its goal to become a world top-three PC vendor within the next three years.<sup>16</sup>

### **Gianfranco Lanci** **President of Acer Inc.**

According to Acer, Gianfranco Lanci's promotion to the position of President of Acer Inc. in 2004 reflects the company's recognition for his "outstanding performance in the European market", including his management style and successful channel-business model, "which may now extend to the Acer group worldwide." Lanci joined Acer as Managing Director of Acer Italy in 1997, following Acer's acquisition of Texas Instruments' (TI) notebook division, and immediately began consolidating the channel and partner-relations at all levels. In 2000, Lanci became President of Acer Europe and began building up a strong European organisation. On becoming President of Acer EMEA in 2002, Lanci introduced a channel-business model that turned in high profits all across Europe, as well as the Middle Eastern and African markets.

In 2003, Lanci was appointed President of Acer's International Operations Business Group, allowing him to involve directly in the Americas markets. The designation confirmed Acer's acknowledgement

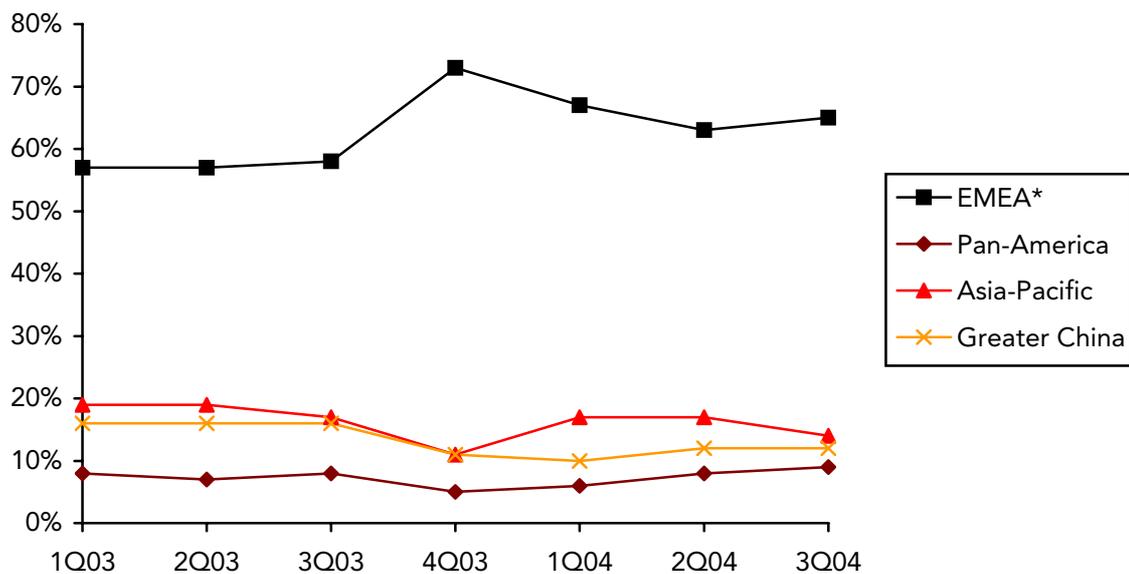
<sup>16</sup> Acer website <[http://global.acer.com/about/biographical\\_jt.htm](http://global.acer.com/about/biographical_jt.htm)> (9 April 2005).

of channel management and marketing activities, and for the role he had played for Acer's success in EMEA.

Lanci's record of results includes growing Acer EMEA's 2004 revenues by 63 percent year-on-year, and accounting for nearly 70 percent of the IT product business' total revenue. In the 2004 full year and fourth quarter, Acer became the number-one notebook and number-three PC brand across both EMEA and Western Europe. EMEA is now the most profitable market for Acer.<sup>17</sup>

## 1.8. Geographical markets

Percentage of total IT product revenues, from the 1<sup>st</sup> quarter of 2003 to the 3<sup>rd</sup> quarter of 2004<sup>18</sup>



\* EMEA stands for Europe, Middle East and Africa.

## 1.9. Strategy

### 1.9.1. Strengths

Acer's notebook PC market share in Europe increased to 18.2 percent in the third quarter of 2004, vs. 11.4 percent in the third quarter of 2003.

The fact that clone / regional brands are losing more market share than global OEMs supports the idea that Acer has increased its cost competitiveness versus companies that have higher Euro-based cost contents. Local European brands should be at a disadvantage against Acer because of their largely Euro-based operating expenses (about 10 percent of sales).

HP lost a larger share to Acer likely due to its higher operating overheads in Europe. Furthermore, HP's volume may be negatively affected by Ingram Micro's strengthened support for Acer brand products (both Acer and HP use Ingram Micro to distribute their products in Europe).

<sup>17</sup> Acer website <[http://global.acer.com/about/biographical\\_gf.htm](http://global.acer.com/about/biographical_gf.htm)> (8 April 2005).

<sup>18</sup> Deutsche Bank, Global Equity Research: Acer. (December 2004).

Largely driven by strong notebook sales in Europe, Acer's global PC market share and ranking improved to 3.6 percent and number five in the third quarter of 2004, respectively, versus 3.0 percent and number seven in the third quarter of 2003, based on estimates from the International Data Group (IDC).<sup>19</sup>

### **1.9.2. Vulnerabilities**

Acer's high Euro-based sales ratio (about 65 percent of sales are from Europe), and high NT\$ and US\$ cost contents make the company structurally advantageous from a strong Euro trend. A strong Euro would inflate Acer's top line and enhance its cost competitiveness versus other higher Euro cost-content competitors. As a result, some analysts believe that the recent strong Euro appreciation may have inflated Acer's market share momentum and profitability.

According to analysts from the Deutsche Bank, Acer may not have the cost advantage in non-European markets: measured by its supply chain's lower total operating margin and weak performance in home markets Taiwan and China. As a result, the company may face challenges in balancing its market-share and profitability objectives in non-European markets.

Acer's expansion into new markets could dilute its profit margins and increase its risk profile as the company does not appear to have cost competitiveness in non-European markets, e.g. Acer's US business can potentially remain unprofitable if the company pursues a below-cost pricing strategy to gain market share.<sup>20</sup>

### **1.9.3. Outlook**

Acer's performance in its home markets, Taiwan and China, has been weak in 2004. The company's overall supply chain generates lower operating margin (3.5 percent in 3Q04) versus the supply chains of competitors Asustek (8.8 percent) and Dell (11.2 percent), and is on par with HP's. The Deutsche Bank forecasts the New Taiwanese Dollar to appreciate against the US\$ in 2005. Analysts think that these factors have negative implications for Acer's expansion into non-European markets.

The Deutsche Bank expects Acer's market share expansion to decelerate in 2005-06, after its success in Europe in 2003 and 2004. They also expect that Acer's non-European market expansion will slow down after an initial ramp, as the company may not have the cost advantage to sustain an uptrend.<sup>21</sup>

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<sup>19</sup> Deutsche Bank, Global Equity Research: Acer. (December 2004).

<sup>20</sup> Ibid.

<sup>21</sup> Ibid.

## 2. Acer's supply chain and Corporate Social Responsibility

### 2.1. Supply chain, outsourcing and sales

In the last five years, Acer has transformed itself from a manufacturer into a company that focuses on global marketing of brand-name, PC-related products and services. Acer's management considers the manufacturing sector to be of little value. The founder of the company, Stan Shih, has pointed out that in the new economy, manufacturing must find ways to provide customers with Original Design Manufacturing (ODM) and global logistics services so as to increase added value.<sup>22</sup>

The "New Channel Business Model" is not only crucial to Acer's success today, but will also be, according to Acer, the company's foundation in the global arena in the future. Acer will strive to extend its New Channel Business Model and work together with global distributors and resellers to compete head-to-head with direct-model leader Dell.

In practice, the implementation of this business model means that Acer is shifting from being a manufacturer to a pure brand company that markets and distributes its products, while leaving the actual production process in the hands of contract manufacturers. Acer's channel business model comprises a wide net of sales services, in contrast with the direct sales approach of market leader Dell. Acer sales representatives and resellers are considered "key long-term business partners."<sup>23</sup> Analysts and stock brokers argue that this channel business model is not necessarily more cost competitive than the direct business model Dell uses.

Acer's supply chain management strategy can perhaps best be characterized as a strategy of "vertical disintegration."<sup>24</sup> In the recent past, Acer sold majority stakes in both Wistron and BenQ. These companies were main providers of manufacturing services in Acer's supply chains. By selling its majority stake in these companies, Acer clearly demonstrates that it intends to "disintegrate" its supply chains and focus on branding and marketing.

The strategy of vertical disintegration is quite visible in Acer's corporate structure. In the charts on the next page, one will note that Acer retains ownership of companies related to the distribution of brand-name IT products and chooses to maintain control over companies involved in Research and Development (charts A and B). Shares in Electronic Manufacturing Services (EMS) companies, on the other hand, are being sold off gradually, although in most of these companies Acer is still powerful enough to influence decision-making (chart C). The charts have been simplified and can only reflect part of Acer's ever-changing corporate network.<sup>25</sup>

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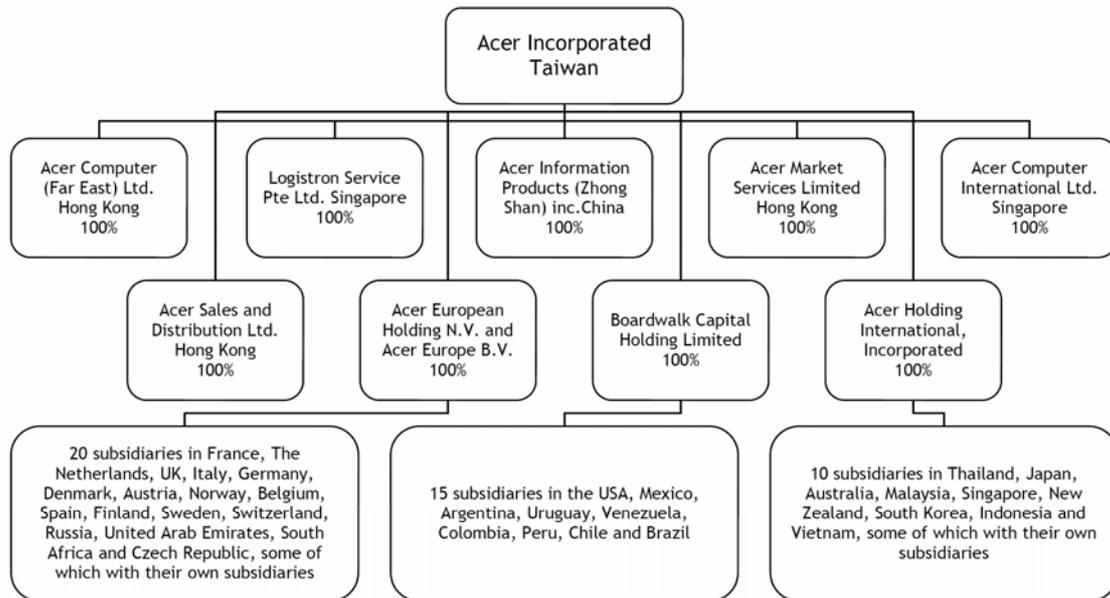
<sup>22</sup> Acer's Stan Shih: Empowering Technology - Making Your Life Easier (news release), <<http://global.acer.com/about/news.asp?id=6388>> (9 April 2005).

<sup>23</sup> S. Burke, Acer Launches New Channel Business Model, *CRN*, 24 November 2003, <[www.crn.com/sections/breakingnews/dailyarchives.jhtml?articleId=18824356](http://www.crn.com/sections/breakingnews/dailyarchives.jhtml?articleId=18824356)> (10 April 2005)

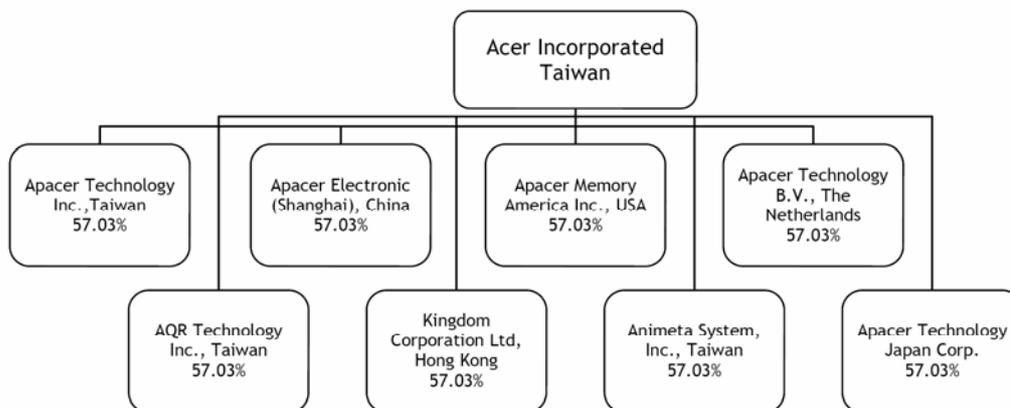
<sup>24</sup> For more information on this subject, read Jeffrey T. Macher, Vertical Disintegration and Process Innovation in Semiconductor Manufacturing: Foundries vs. Integrated Producers, <<http://emertech.wharton.upenn.edu/OldTechConfPapers/macher.pdf>> (9 April 2005).

<sup>25</sup> All information has been taken from Acer's 2003 annual report.

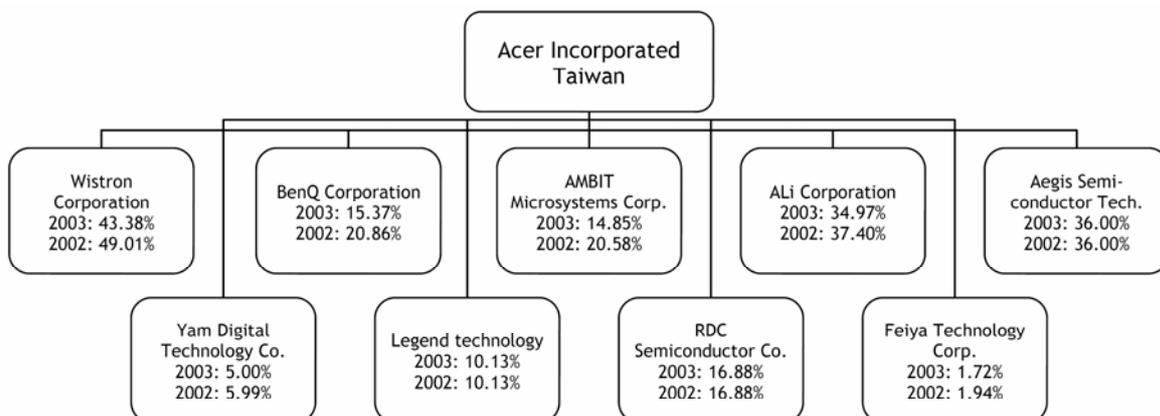
**A. Distribution, sale and maintenance of “Acer” brand name information technology products**



**B. Research, development, manufacture and sale of integrated circuits and related products**

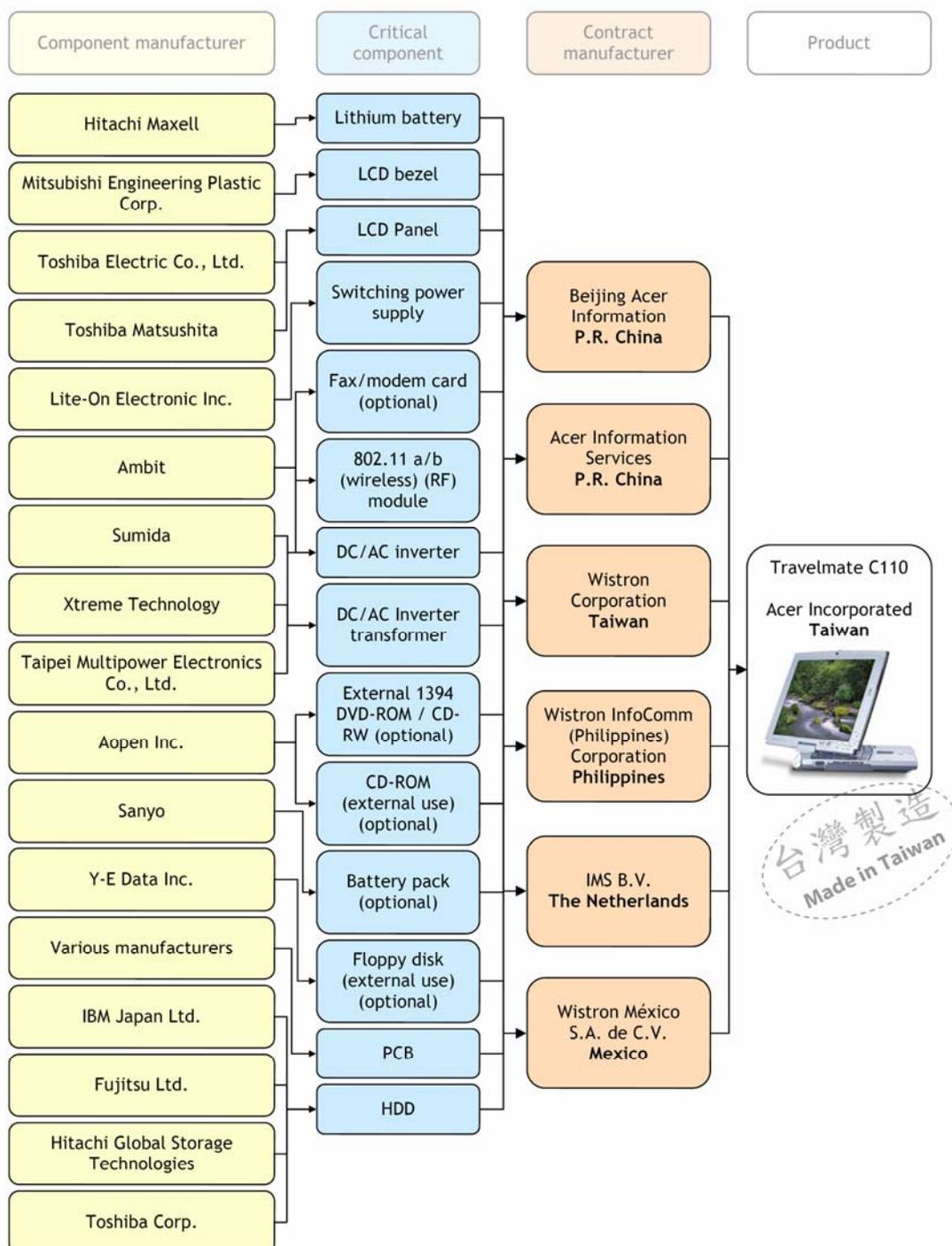


**C. Electronic Manufacturing Services (EMS) and Original Design Manufacturers (ODM)**

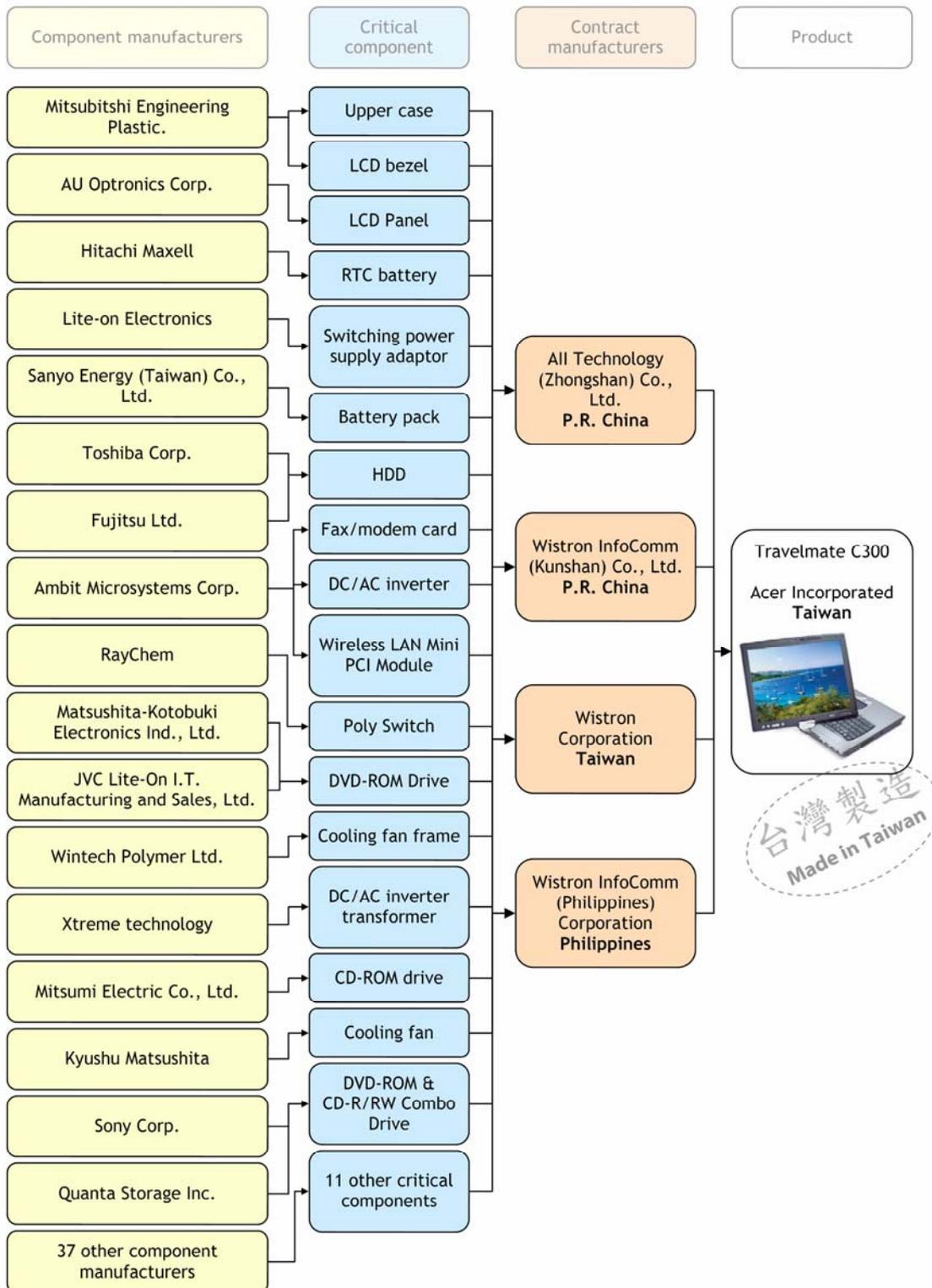


The vertical disintegration of Acer's supply chain becomes even more evident when analyzing the supply chain of specific Acer products. Components are sourced from many different component manufacturers, while assembly is carried out by a small group of selected contract manufacturers. In some cases, Acer holds a considerable stake in these contract manufacturers, although it almost never owns these companies. The selected contract manufacturers are allowed to manufacture final products for Acer. It does not matter whether a desktop computer or notebook is assembled in China, the Philippines or in the Netherlands. In the end, all Acer products are sold as "made in Taiwan". The following charts show the supply chains for two Acer notebooks: the Travelmate C110 and the Travelmate C300.

### Supply chain for the Travelmate C110



**Supply chain for the Travelmate C300**



These charts were composed with detailed information from Acer's CB test certificates.<sup>26</sup> The CB certificates of Acer's notebook computers reveal a complex web of suppliers. In most cases, one particular component can be provided by two or three different component manufacturers. A hard disk drive (HDD) for the Travelmate C300, for example, can be supplied by Toshiba or Fujitsu. This is necessary to guarantee continuous supply of critical components. If a supplier fails to provide a particular component just-in-time or on demand, the selected contract manufacturers can rely on other suppliers that are able to provide the same component. For some components, however, the contract manufacturers depend on a key supplier. If these components are out of stock, delays in delivery are likely to happen.

It is important to note that Acer actually depends on the performance of some of its competitors in the IT market. Many critical components in Acer's supply chain for notebook computers are provided by its key competitors. Fujitsu, a company that also engages in the production of notebooks, supplies the hard disks for the Travelmate C300 and the Travelmate C110. For the same notebooks, Sony provides the DVD-ROM. Sony also produces notebooks as an Original Equipment Manufacturer. Other key competitors for Acer Incorporated in the consumer electronics market are Toshiba, Hitachi, IBM and Matsushita.<sup>27</sup> All these companies provide components for Acer notebooks. This situation may be described as a sort of "entrepreneurial endogamy," as companies have no alternative but to engage in commercial relationships with their industrial peers (competitors), rather than to integrate essential parts of their supply chains. Large multinationals such as Sony and Toshiba can not be labelled as pure original equipment manufacturers (OEMs), because they also provide services that are typical of component manufacturers or electronics manufacturing services (EMS) companies. Acer is a different type of company because it neither manufactures technology products itself nor produces components for other OEMs.

At the other end of the supply chain, in sales, Acer engages in partnerships with key competitors as well. In New Zealand, for example, Acer appointed Fujitsu as a "Gold Channel Partner" in 2004.<sup>28</sup>

As a whole, Acer's supply chain and sales strategies can be characterised as indirect and very lean. Selling is done through distribution only and even large retailers are approached through the business channel, thus indirectly. Decision-making in the company can be very fast because there are few hierarchical levels.

According to analysts from the Deutsche Bank, Acer's combined supply-chain margin (Acer-brand, Wistron-ODM and Ingram Migram-distributor) of 3.5 percent is lower vs. 8.8 percent for Asustek's supply chain (Asustek-OEM, Synnex-distributor) but close to the 3.8 percent for HP's PC supply chain

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<sup>26</sup> The IECEE CB Scheme is an international system for acceptance of test reports dealing with the safety of electrical and electronic products. It is a multilateral agreement among participating countries and certification organisations. A manufacturer utilizing a CB test report issued by one of these organisations can obtain national certification in all other member countries of the CB Scheme. The Scheme is based on the use of international (IEC) Standards. If some members' national standards are not yet completely harmonized with IEC Standards, national differences are permitted if clearly declared to all other members. The CB Scheme utilizes CB Test Certificates to attest that product samples have successfully passed the appropriate tests and are in compliance with the requirements of the relevant IEC Standard and with the declared national differences of various member countries.

<sup>27</sup> <[www.hoovers.com](http://www.hoovers.com)> (10 April 2005).

<sup>28</sup> *Acer expands its corporate reach with Fujitsu*, news release, 31 May 2004, <<http://www.acer.co.nz/acnz/acnzweb.nsf/0/BC31D4A9BE906202CA256EA50009AF71?OpenDocument>> (10 April 2005).

(HP-brand, Quanta-ODM, Ingram Micro-distributor). Dell's overall supply chain (Dell brand + distributor, Quanta-ODM) generates an 11.2 percent operating margin due to its direct business model.

Assuming that a supply chain's total operating margin generally reflects its cost competitiveness, Acer's weaker position versus Asustek's and Dell's supply chains and its equal position vs. HP's supply chain suggests that Acer would be in a strong position to compete with other brands in pricing.<sup>29</sup> The Deutsche Bank believes, however, that without a clear pricing advantage, Acer could face difficulties capturing market share in non-European markets.<sup>30</sup>

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<sup>29</sup> Operating margin is a company's profitability after all operating costs have been paid. It is calculated by dividing cash flow by revenue and then multiplying by 100. The result is expressed as a percentage. Operating margin shows how profitable a company is before interest expenses on debt and depreciation costs have been deducted. Since accountants often manipulate depreciation and amortization costs on income statements, many analysts feel operating profit paints a truer picture of a company's profitability.

<sup>30</sup> Deutsche Bank, Global Equity Research: Acer. (December 2004).

## 2.2. Corporate social responsibility and sustainability

### 2.2.1. Policies regarding environmental issues

According to the company, Acer's global operation, spanning across Europe, Middle East, Africa, the Americas, Greater China and the Asia Pacific, is devoted to:

- Ensuring that its products and operations meet all applicable environmental regulatory requirements.
- Selecting technologies that minimize harmful, non-environmentally sensitive materials; conserve energy; and are recyclable.
- Saving energies, preventing pollution, minimizing and recycling discards in its daily operations.
- Promoting awareness of its environmental policy among employees and partners in our supply chain.
- Building an Environmental Management System (EMS) to continually monitor and improve activities.<sup>31</sup>

In 2005, Acer published its first environmental report, for which the company used the GRI guidelines.<sup>32</sup> In the foreword to this report, Acer president Gianfranco Lanci states, "Acer is committed to reduce and prevent negative environmental impacts, as well as promote a healthy workplace and living environment."<sup>33</sup>

All of Acer's tier-one suppliers have acquired ISO 14001 certification.<sup>34</sup> Acer states that it adheres to the EU Directive on the restriction of hazardous substances (RoHS) by prohibiting the use of lead, cadmium, mercury, hexavalent chromium and brominated flame retardants PBB and PBDE. As of January 1, 2006, all Acer products will comply with the RoHS Directive. As of August, 2005, according to the company, all Acer operations and products comply with the EU Directive on Waste Electrical & Electronic Equipment (WEEE).<sup>35</sup>

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<sup>31</sup> Acer company website, Global Environmental Policy, no date, <<http://global.acer.com/about/environmental.htm>> (28 July 2005).

<sup>32</sup> The Global Reporting Initiative (GRI) is a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines. These Guidelines are for voluntary use by organisations for reporting on the economic, environmental, and social dimensions of their activities, products, and services. The GRI incorporates participation of representatives from business, accountancy, investment, environmental, human rights, research and labour organisations from around the world. Started in 1997, GRI became independent in 2002, and is an official collaborating centre of the United Nations Environment Programme (UNEP) and works in cooperation with UN Secretary-General Kofi Annan's Global Compact. Cf. GRI website, GRI at a glance, no date, <<http://www.globalreporting.org/about/brief.asp>> (20 October 2005).

<sup>33</sup> Acer Inc., *Acer Corporate Environmental Report 2005* (2005), p. 3.

<sup>34</sup> ISO 14001 was released in 1996 with the intent that companies manage all of the activities, products and services that can significantly impact the environment. The Standard has three basic objectives of continuous improvement, regulatory compliance and pollution prevention. The standard is broken into 5 main sections: Environmental Policy, Planning, Implementation & Operation, Checking and Corrective Action, and Management Review. To implement an ISO 14001 conforming Environmental Management System (EMS), a company has to write and implement approximately 6 new procedures and modify approximately 9 existing procedures (Assuming the company is currently ISO 9000 or QS-9000 compliant).

<sup>35</sup> Acer Inc., *Acer Corporate Environmental Report 2005* (2005), p. 6.

All of Acer's suppliers must adhere to Acer green product specifications. Suppliers are required to comply with these specifications with regard to rules on energy conservation, ease of recycling, low toxicity, battery usage and packaging.

Acer is a partner of the EPA Energy Star program, through which companies and organisations aim to complete successful whole-building energy efficiency upgrades.

### **2.2.2. Policies regarding human rights and labour rights**

Acer does not have specific policies on CSR in the area of human and labour rights, nor does it have a code of conduct that mentions these themes. On its website, the only information available refers to environmental policies. However, some of the assertions in the environmental report Acer published recently indicate that Acer can also be held accountable for issues related to human and labour rights in its supply chain. The company states, "At Acer, we liken the relationships within the supply chain to those of a community [...]. Acer has nearly 100 suppliers, most of which are system suppliers and primary component suppliers. In terms of supply chain management, *Acer makes no distinction between itself and its suppliers*. Fostering a corporate culture that emphasizes creativity, Acer sets goals and lets suppliers propose the method of execution" (emphasis added).<sup>36</sup>

Acer does have a code of conduct for staff members. This code does not make any reference to human rights or labour rights issues.<sup>37</sup>

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<sup>36</sup> Acer Inc., *Acer Corporate Environmental Report 2005* (2005), p. 30.

<sup>37</sup> *Ibid.*, p. 40.

### 3. Labour issues in Acer's supply chain

#### 3.1. Acer's supply chain in the Philippines and China

In order to identify issues with regard to Acer's corporate social responsibility (CSR) in relation to its supply chain, SOMO commissioned field research studies in the Philippines and in China. These studies focus on important contract manufacturers in Acer's supply chain and were undertaken by researchers from the Philippine Resource Centre - Manila (PRC-Manila) and Monina Wong from Labour Action China (LAC).

In the Philippines, research was carried out on Wistron Infocomm Philippines Corporation. Wistron Infocomm is a subsidiary of Wistron Corp., a Taiwanese original design manufacturer. Acer Inc. is a key stockholder of Wistron Corporation. Before 2002, more than 50 percent of Wistron's shares were owned by Acer. Currently, Acer Inc. and its investment companies still hold 32.2 percent of Wistron's shares.<sup>38</sup> Acer's founder, Stan Shih, is a member of the Board of Directors of both Wistron and Acer. The relation between the two companies is obvious and is constantly emphasized in the media. In an article published in April, 2004, by the China Economic News Service, Stan Shih provided a growth projection for the "combined" sales of the "Pan-Acer Group, including three subgroups of Acer, Wistron, and BenQ."<sup>39</sup> This demonstrates that even though Acer is no longer a majority shareholder in Wistron and BenQ, the results of these companies are still included in the combined sales figures of the Pan-Acer Group. Acer's influence in Wistron's is apparent.

#### Relation between Acer Inc. and Wistron Infocomm Philippines Corporation<sup>40</sup>



Wistron produces desktop computers and notebook PCs for, among others, Acer, Hewlett Packard, Dell Computers, Gateway, Medion and IBM. It also manufactures game consoles for Microsoft.<sup>41</sup> Wistron's branch in the Philippines, Wistron Infocomm (formerly Acer Information Products Philippines), is one of the country's largest IT companies. The company produces desktops, notebooks, CPU and other components for Acer, HP, Dell and Gateway.

In China, field research covered four factories that supply Acer in the Zhongshan City Science and High-Tech Park and in the Foxconn Scientific Park in Shenzhen City. Both cities are in the Guangdong province. Two of the factories researched are located in the Acer Science Park in Zhongshan: Wistron and Aopen. Wistron produces computer and electronic game devices for a

<sup>38</sup> K.W.B. Chan et al., *Wistron Corp.: company report* (Investext, Citigroup, 2005).

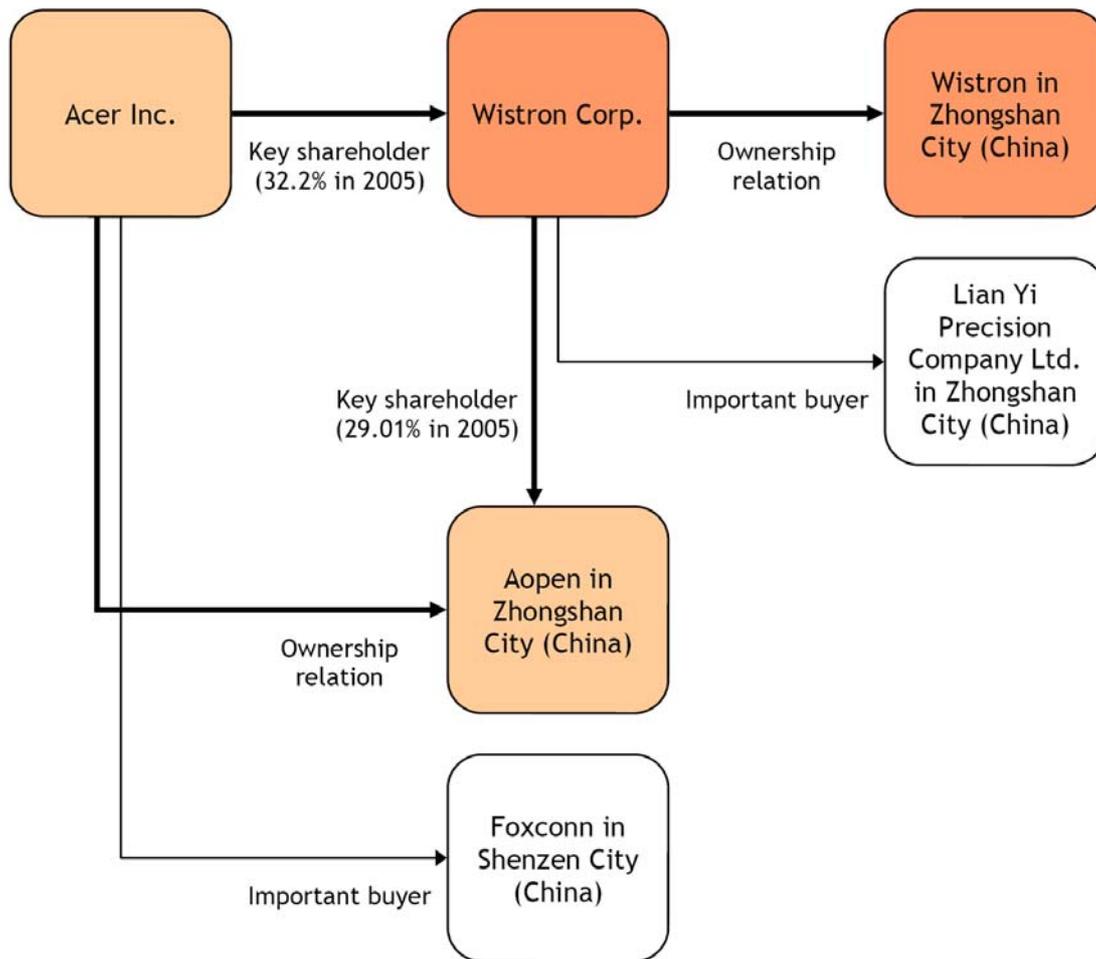
<sup>39</sup> CENS, *Pan-Acer Group aims to grab NT\$745 B. in overall revenue this year*, The Taiwan Economic News, 12 April 2004 <<http://news.cens.com/php/getnews.php?file=/news/2004/04/12/20040412011.htm&daily=1>> (28 October 2005).

<sup>40</sup> K.W.B. Chan et al., *Wistron Corp.: company report* (Investext, Citigroup, 2005).

<sup>41</sup> CENS Taipei, February 4, 2004.

number of buyers, including Acer. Aopen is a subsidiary of Acer and supplies central processing units (CPUs) exclusively to Acer. The third company located within the same industrial park, Lian Yi Precision Company Ltd., provides plastic semi-finished products to Acer and Wistron. The fourth company, Foxconn, is located in the Foxconn Scientific Park in Shenzhen City in the Guangdong province. Foxconn is a large Taiwanese multinational ODM company that supplies motherboards, enclosures, coolers, barebone systems, card readers and wireless cards to various buyers, including Acer, Philips<sup>42</sup>, Lenovo, Dell, HP, Apple, Sony and Nokia. Foxconn's factory in Shenzhen has about 70,000 employees, of whom 85 percent (about 60,000) are migrants and 50,000 are women.<sup>43</sup>

**Relations between Acer Inc. and researched factories in China<sup>44</sup>**



<sup>42</sup> Philips decided to end its relationship with Foxconn in Shenzhen City in the second quarter of 2005, because Foxconn “does not fulfil Philips’ requirements”. Philips has started the process of phasing Foxconn in Shenzhen out of its supply chain. Source: H. de Bruin, Senior Vice-President, Head of Corporate Sustainability Office, Philips, e-mail 8 December 2005; P. van Heck, Senior Sustainability Officer, Corporate Sustainability Office, Philips, e-mail 9 December 2005.

<sup>43</sup> L. Kaiming and D. Xin, *Day and night at the factory: working conditions of temporary workers in the factories of Nokia and its suppliers in southern China* (Shenzhen, China: Institute of Contemporary Observation, 2005), p. 15.

<sup>44</sup> Reed Elsevier Inc., *Directory of corporate affiliations, international company, Aopen Inc.* (12 October 2005); Aopen website, “Corporate”, no date, <<http://global.aopen.com.tw/company/>> (31 October 2005); Thomson Financial, *Thomson Extel Card Database, Aopen Inc.* (3 September 2005); Acer kicks off sale of its first Foxconn-made desktops, says report, *EMS now*, 13 March 2003, <[www.emsnow.com/newsarchives/archivedetails.cfm?ID=919](http://www.emsnow.com/newsarchives/archivedetails.cfm?ID=919)> (31 October 2005).

### 3.2. International standards on labour rights

Research teams in both the Philippines and in China used national laws and international CSR standards as a reference to identify social and labour issues in Acer's supply chain. The following standards, guidelines and frameworks are considered to be particularly relevant in the context of the research project:

- The Universal Declaration of Human Rights<sup>45</sup>
- The UN Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights<sup>46</sup>
- The Conventions of the International Labour Organisation (ILO)<sup>47</sup>
- The OECD Guidelines for Multinational Enterprises<sup>48</sup>
- The CSR Frame of Reference from the Dutch CSR Platform<sup>49</sup>

The Conventions of the International Labour Organisation (ILO) are most specific in defining corporate behaviour regarding employment. The ILO has issued almost 200 conventions on working conditions. Eight of these ILO conventions specify the four fundamental labour rights. These four labour standards are:

- Freedom of association and collective bargaining (ILO conventions 87, 98 and 135)
- No forced labour (ILO conventions 29 and 105)
- No child labour (ILO conventions 138 and 182)
- No discrimination, for example with reference to the sexes (ILO conventions 100 and 111)

The Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy extends the ILO conventions, listing corporate responsibilities with regard to labour issues and also including a number of additional labour standards falling under the specific responsibility of corporations:

- The right to security of employment (Tripartite Declaration, Art. 24-28)
- A living wage that covers basic needs (ILO conventions 26 and 131)
- Healthy and safe working conditions (ILO convention 115)
- Compliance with the maximum number of working hours (48 + 12) (ILO convention 1)

The findings of the field research studies in the Philippines and in China, taking into account the abovementioned international standards, are described in the following paragraphs.

<sup>45</sup> Cf. UN website, Universal Declaration of Human Rights, no date, <[www.unhcr.ch/udhr/lang/eng.htm](http://www.unhcr.ch/udhr/lang/eng.htm)> (31 October 2005).

<sup>46</sup> Cf. UN website, Norms on the responsibilities of transnational corporations and other business enterprises with regard to human rights, 26 August 2003, <[www.unhcr.ch/huridocda/huridoca.nsf/\(Symbol\)/E.CN.4.Sub.2.2003.12.Rev.2.En?Opendocument](http://www.unhcr.ch/huridocda/huridoca.nsf/(Symbol)/E.CN.4.Sub.2.2003.12.Rev.2.En?Opendocument)> (31 October 2005).

<sup>47</sup> Cf. ILO website, ILOLEX, no date, <[www.ilo.org/ilolex/english/convdisp1.htm](http://www.ilo.org/ilolex/english/convdisp1.htm)> (31 October 2005).

<sup>48</sup> Cf. OECD website, Text of the OECD Guidelines for Multinational Enterprises, no date, <[www.oecd.org/document/28/0,2340,en\\_2649\\_34889\\_2397532\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/28/0,2340,en_2649_34889_2397532_1_1_1_1,00.html)> (31 October 2005).

<sup>49</sup> Cf. Coalition of Dutch CSOs & Trade Unions actively promoting CSR, CSR Frame of Reference, July 2003, <[www.mvo-platform.nl/mvotekst/CSR%20frame%20of%20reference.pdf](http://www.mvo-platform.nl/mvotekst/CSR%20frame%20of%20reference.pdf)> (31 October 2005).

### 3.3. Excessive working hours

The research team from the Philippine Resource Centre found that more than 30 percent of the workers at Wistron Infocomm have to work 72 hours weekly. Six days a week, they work 12 hours per day. They are regularly forced to do overtime during their days-off due to fluctuations of raw material supply. Workers who live faraway from the factory often are unable to go home between shifts. They are forced to stay with relatives or friends who live nearby.<sup>50</sup>

According to the Philippine Labour Code, the normal hours of any employee shall not exceed eight hours a day. Exceptions can be made in “emergency cases,” in which employers may require any employee to do overtime work. At Wistron Infocomm, there are no emergency cases: overtime seems to be structural. Wistron Infocomm in the Philippines clearly does not act in compliance with ILO convention 1, which states that working hours shall not exceed 48 per week plus 12 hours of overtime.

In China, workers at Aopen and Wistron in Zhongshan City work in two shifts of eight hours a day in the low season and the hours a day in the peak season. Workers at Foxconn in Shenzhen City work 12 hours a day in two shifts. The amount of working hours at Lian Yi in Zhongshan varies between departments. Workers in the colour coating department work on two shifts of ten hours a day, while assembly line workers work eight to 12 hours a day and sometimes overnight in the peak season. Workers here have to work roughly 60 to 100 overtime hours a month. Aopen and Winstron workers are entitled to more rest days. They have at least two to three days-off a month in the peak season, while in the low season they have one day-off per week. Foxconn and Lian Yi workers seldom have a day-off in the peak season. This is worse at Foxconn. Workers complain that they have no day-off at all for months and that they have to work even during statutory holidays in the peak season. They are off only when there is an electricity shortage or when they are waiting for raw materials and parts supply. In terms of the number of working hours and rest days, only Aopen and Winstron comply with the national labour law which require at least one day-off per week for workers.<sup>51</sup> Still, none of the researched factories in China seem to abide by ILO convention 1 during the peak season.

### 3.4. Wages and compensation for overtime work

The Philippine Resource Centre found that Wistron Infocomm does not pay the legally mandated compensation for overtime. Instead, overtime pay is computed based on the regular hourly rate. This is not in accordance with the Philippine Labour Code, which states that “every employee shall be paid a night shift differential of not less than ten percent of his/her regular wage” and that “work may be performed beyond eight hours a day, provided that the employee is paid for the overtime work an additional compensation equivalent to his/her regular wage plus at least 25 percent thereof.”<sup>52</sup>

<sup>50</sup> Philippine Resource Centre – Manila & SOMO, *Corporate Social Responsibility Behaviour of multinational corporations in the global information and communication technology supply chain in the Philippines* (Manila: April 2005), p. 43.

<sup>51</sup> M. Wong, *The ICT hardware sector in China and corporate social responsibility issues: with case studies on the supply chain of Fujitsu-Siemens Computers and Acer Inc.* (Hong Kong: Labour Action China, 2005), p. 14-15.

<sup>52</sup> Philippine Resource Centre – Manila & SOMO, *Corporate Social Responsibility Behaviour of multinational corporations in the global information and communication technology supply chain in the Philippines* (Manila: April 2005), p. 44.

In China, Aopen and Wistron in Zhongshan pay production workers RMB 480 a month (about € 50), which is in compliance with the legal minimum of the city. At times when there is no work, the monthly income of the workers is deducted on an hourly and daily basis.

Workers at Foxconn in Shenzhen City receive a monthly basis wage of RMB 450 – 480 (€ 47 - € 50) after a probation period of three months. At Lian Yi in Zhongshan, the basis daily wage ranges from RMB 13 (€ 1.36) to 15 (€ 1,57) for an eight-hour working day, which is not in accordance with the legal minimum wage of RMB 21 (€ 2.19) a day. All four of the Chinese companies researched pay overtime compensations of 150, 200 and 300 percent respectively on weekdays, during the weekend and on statutory holidays. Considering the fact that Lian Yi does not pay the legal minimum wage, the overtime compensation at this company is also lower than required. Instead, Lian Yi provides its workers with a series of subsidies, such as RMB 6 (€ 0.63) per day for food and bonuses of RMB 40 – 100 per month for workers with specific skills.<sup>53</sup>

Aopen and Wistron in Zhongshan and Foxconn in Shenzhen City offer minimum wage protection for production line workers during the low season. Aopen and Wistron provide a food subsidy of RMB 225 (€ 23.50) a month to be used by workers to sustain their survival. In spite of this contribution, workers complain that it is not enough when work is scarce in the low season. Workers at Lian Yi complain that they receive an unsustainable wage of only RMB 200 – 300 (€ 20.90 - € 31.30) a month in the low season.<sup>54</sup>

In all cases, both in the Philippines and in China, wages are hardly enough to provide an adequate standard of living, “with a view to progressive improvement”, as stated in the UN Norms on the responsibilities of transnational corporations and other business enterprises with regard to human rights.<sup>55</sup> ILO Conventions 26 and 131 also refer to the right of workers to a living wage.

### 3.5. Health and safety issues

A considerable number of the workers at Wistron Infocomm in the Philippines has to work 12 hours a day. This deprives them of necessary rest. Wistron Infocomm keeps a three-bedroom clinic inside the premises. In the clinic, full-time doctors and nurses and a dentist on call 24 hours a day look after the health needs of the company’s workforce. In compliance with national law, Wistron Infocomm grants workers a month of paid sick leave every year. For serious cases, the company grants paid extended medical leaves.<sup>56</sup>

In China, exposure to chemical dust and welding smoke is a common problem for assembly workers in all factories researched. Workers at the Surface Mount Technology (SMT)<sup>57</sup> section at Aopen in

<sup>53</sup> M. Wong, *The ICT hardware sector in China and corporate social responsibility issues: with case studies on the supply chain of Fujitsu-Siemens Computers and Acer Inc.* (Hong Kong: Labour Action China, 2005), p. 14.

<sup>54</sup> Ibid.

<sup>55</sup> Cf. UN website, Norms on the responsibilities of transnational corporations and other business enterprises with regard to human rights, 26 August 2003, <[www.unhchr.ch/huridocda/huridoca.nsf/\(Symbol\)/E.CN.4.Sub.2.2003.12.Rev.2.En?Opendocument](http://www.unhchr.ch/huridocda/huridoca.nsf/(Symbol)/E.CN.4.Sub.2.2003.12.Rev.2.En?Opendocument)> (31 October 2005), chapter D. Rights of Workers, § 8.

<sup>56</sup> Philippine Resource Centre – Manila & SOMO, *Corporate Social Responsibility Behaviour of multinational corporations in the global information and communication technology supply chain in the Philippines* (Manila: April 2005), p. 45.

<sup>57</sup> Surface mount technology (SMT) is a method for constructing electronic circuits in which the components are mounted directly onto the surface of printed circuit boards (PCBs). Electronic devices so made are called

Zhongshan City have to put a chemical coating on CPU boards before automatic assembly. Due to poor ventilation, they suffer from skin allergy and respiration problems.<sup>58</sup> In addition, they suffer from the noise produced by the automatic assembly machines.

The problem of exposure to chemicals is also found at the colour coating department at Lian Yi in Zhongshan. Workers there have to work in air-conditioned rooms with poor ventilation and complain about dizziness, feeling weak and loss of appetite. After ten hours of work, they frequently feel the urge to vomit. Workers at the trimming department of Lian Yi are also exposed to chemicals. Their work is to flatten plastic boards with a heat press. They report similar problems, such as feeling dizzy and having skin allergies.<sup>59</sup>

Eye irritation and deterioration of eyesight is another common health problem in the CPU assembly and testing process. Workers with eye problems at Aopen are transferred to another department after having worked at a particular department for one year. In none of the four factories researched are regular and specific body checks for occupational diseases provided.<sup>60</sup>

As attested by the findings of the HKCIC, companies in Acer's supply chain in China fail to guarantee healthy and safe working conditions to their workers, in accordance with ILO convention 115.

### 3.6. Freedom of association and the right to collective bargaining

Union organizers in the Philippines and all workers interviewed at Wistron Infocomm assert that there is no union in the company. Company officials state that they respect the right of workers to form their union. Union organizers, however, claim that their attempts to organize a union in the company were opposed by officials. In their initial contacts with the company, company officials asked them to desist from further organizing activities.<sup>61</sup> This indicates that there is no freedom of association at Wistron Infocomm, which constitutes a violation of ILO conventions 87, 98 and 135.

In China, there is only one, state-controlled union. The All China Federation of Trade Unions (ACFTU) is the only trade union recognised in the country. It exercises a legal and heavily-protected monopoly over all subsidiary union organisations and trade union activities. It remains under the control of the Communist Party, which appoints its officials. This means that, by law, there is no possibility of forming truly independent unions in China, which compromises workers' freedom of association.<sup>62</sup> Therefore, workers cannot assert their rights through a representative organisation.

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surface-mount devices or SMDs. In the industry it has largely replaced the previous construction method of fitting components with wire leads into holes in the circuit board (also called through-hole technology).

<sup>58</sup> M. Wong, *The ICT hardware sector in China and corporate social responsibility issues: with case studies on the supply chain of Fujitsu-Siemens Computers and Acer Inc.* (Hong Kong: Labour Action China, 2005), p. 15.

<sup>59</sup> Ibid.

<sup>60</sup> Ibid., p. 16.

<sup>61</sup> Philippine Resource Centre – Manila & SOMO, *Corporate Social Responsibility Behaviour of multinational corporations in the global information and communication technology supply chain in the Philippines* (Manila: April 2005), p. 42.

<sup>62</sup> Fair Labour Association, *Annual Public Report*, "Freedom of Association in China", 2004 <<http://www.fairlabor.org/2004report/freedom/china.html>> (5 December 2005).

### 3.7. Women's rights

About 75 to 80 percent of the workers at Wistron Infocomm in the Philippines are women. They have to work overnight, even though this is not allowed by national law. The Philippine Labour Code states: "No woman, regardless of age, shall be employed or permitted or suffered to work, with or without compensation: paragraph (a) – In any industrial undertaking or branch thereof between ten o'clock at night and six o'clock in the morning of the following day."<sup>63</sup> Exemptions can be made if the nature of the work requires "the manual skill and dexterity" of women workers and the same cannot be performed with equal efficiency by male workers.<sup>64</sup> It is unlikely that the work at Wistron Infocomm cannot be carried out with equal efficiency by male workers.

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<sup>63</sup> Labour Code of the Philippines, Book Three, conditions of employment, Title III, working conditions for special groups of employees, chapter I, employment of women, art. 130, no date, <<http://www.chanrobles.com/legal4labor2.htm#BOOK%20III>> (15 November 2005).

<sup>64</sup> Ibid., paragraph (e).

## 4. Summary of findings

With regard to Acer's policies on Corporate Social Responsibility (CSR), one easily notes that there is an enormous asymmetry between Acer's policies concerning the environment and those concerning social conditions. Acer has no corporate code of conduct, nor does the company specify principles regarding the rights of the workers in its supply chain. In its corporate environmental report 2005, Acer states that it likens the relationships within the supply chain to those of a community and that Acer makes no distinction between itself and its suppliers.<sup>65</sup> If this is true, Acer should take responsibility for the labour issues (mentioned in chapter 3) in its supply chain and endeavour to improve the harsh working conditions in supplying factories in China and the Philippines.

The findings of field research projects undertaken in the Philippines and China reveal several labour issues in the supply chain of Acer Inc. in the Philippines and China. Research was carried out at one supplier in the Philippines and four suppliers in China. Serious problems were identified at all five suppliers.

### **Excessive working hours**

Due to demands for high production levels during the peak season and flexibility, workers at companies in Acer's supply chain often work excessively. At Wistron Infocomm, in the Philippines, a considerable number of the workers has to work 72 hours a week. The company fails to comply with the Philippine Labour Code, which states that the normal hours of any employee shall not exceed eight hours a day. In China, the situation seems to be even worse. At Foxconn in Shenzhen City, workers complain that they have not had a single day-off for months. Astonishingly, Foxconn does not even abide by the loose Chinese labour law, which requires that workers should have at least one day-off per week. Foxconn in Shenzhen City also produces for other OEMs such as Dell, HP, Apple, Lenovo, Sony, Philips (see footnote 42 in this report) and Nokia.<sup>66</sup>

### **Wages and compensation for overtime work**

Since most workers at the companies researched do overtime, compensation should be paid. At Wistron Infocomm in the Philippines, remunerations for overtime are not paid in accordance with the Philippine Labour Code, as workers do not receive additional compensation for overtime. In China, Lian Yi, a supplier of Acer Inc. in Zhongshan City, pays daily wages under the legal minimum wage of RMB 21 (€ 2,19) a day. The overtime compensation at this company is also lower than required by law. Although wages in the electronics sector are relatively high compared to other sectors, it should be stressed that the wages of most workers at the companies researched are insufficient to cover expenses for food, let alone rent, transport, clothing and education. Neither in the Philippines nor in China are wages high enough to provide an adequate standard of living.

### **Health and safety**

Workers in the electronics sector often have to work with hazardous and toxic materials and substances without proper protection or health and safety measures. Workers at the companies researched in China are exposed to chemical dust and welding smoke. Other reported health problems are skin allergies, respiration problems, noise hazards, dizziness, loss of appetite and nausea. These problems are mainly provoked by the lack of protection for workers and defective ventilation in workplaces. Eye irritation and deterioration of eyesight is another common health

<sup>65</sup> Acer Inc., *Acer Corporate Environmental Report 2005* (2005), p. 30.

<sup>66</sup> M. Wong, *The ICT hardware sector in China and corporate social responsibility issues: with case studies on the supply chain of Fujitsu-Siemens Computers and Acer Inc.* (Hong Kong: Labour Action China, 2005).

problem at the Chinese companies. In none of the four factories researched in China are specific body checks for occupational diseases provided on a regular basis.

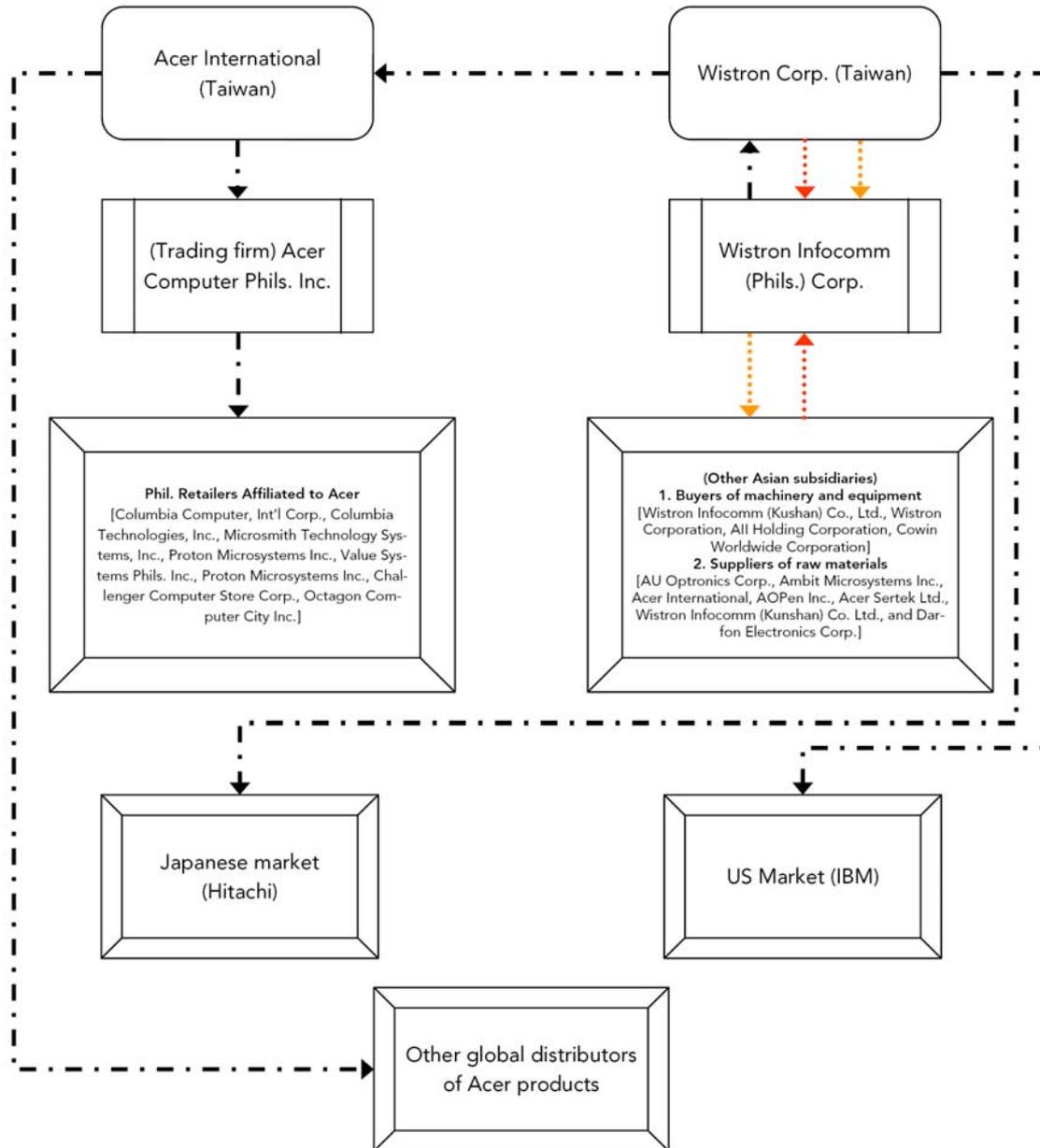
***Freedom of association and the right to collective bargaining***

At Wistron Infocomm in the Philippines, officials thwart attempts to organise a union in the company by intimidating workers. In China, by law there is no possibility of forming truly independent unions, which compromises workers' freedom of association. For that reason, there are no independent unions in the companies researched in China.

***Other issues***

Female workers at Wistron Infocomm in the Philippines have to work overnight, which is not allowed according to the Philippine Labour Code.

**Annex 1: Structure of the Wistron supply chain in the Philippines**



Legend:

- . - > Flow of finished computer products
- .....> Flow of raw materials
- .....> Flow of equipment and machinery

**Source:** Wistron Infocomm (Phils.) Financial Statement; Acer Computers Phils. Inc. Financial Statement; Computer Weekly, April 12, 2004, and interview with Wistron's management.