

# **The Batam Electronics Factory Case Exercise** <sup>1</sup>

In the early 1990s a major computer manufacturing and services company headquartered in the United States began implementing a plan to build an electronic component assembly factory in Batam, Indonesia. These fully-assembled components would be shipped to a factory in the U.S where they would be a part of an electronic device sub-component. Those sub-components were then shipped to a manufacturing company in Japan where they became part of a complete electronic device used in computers.

## **This is the final stage of the plan: Startup (1<sup>st</sup> year of operation) and Operation.**

The previous stages of the plan included the business justification; the FDI analysis and plan; the factory plan and design; the capital plan; and the physical plant and logistics plan.

- The factory was situated on the Indonesian island of Batam, an old small island historically used by pirates who would rob passing ships and then retreat into the mountains of the island where they couldn't be found. The island is about 22 km across the bay from Singapore. While there is a small airport and city on the island, the mail access is by boat and water taxi. This factory is located in a very large industrial area at one end of the island.
- There were about 75 large factories in the industrial complex.
- The industrial complex includes factories owned and operated by global companies from numerous industrial countries.
- The common purpose of all of the companies was to take advantage of extremely low labor costs.

## **This case is about the treatment of the employees of the factory.**

- There were 350 assembly employees (They were full-time legal employees.).
- The assembly employees were all recruited and contracted for by an independent staffing company that provides staffing services for most of the companies in the complex.
- The recruiting process is for the recruiters to travel to cities and villages throughout Indonesia and effect contractual agreements with fathers or eldest brothers of impending / recent high school graduate girls. The agreement was for the girl to be transported to Batam and work and live there in the factory for a period of two years. The girls did not have any choice.
- There were 30 Production Supervisor employees. All of the supervisors were Indonesian men ranging in age from 25 to 50 years of age.
- There were 20 Management and Staff employees. These employees included American, Indonesian, Singapore, and Japanese professionals and administrative staff.
- The food service in the company cafeteria was provided by an external contractor. The menu, prices, schedules, etc. were specified by the company. Employees paid for their meals out of their pay.
- The dormitories where the assembly employees lived were part of each individual factory's' complex. Each room contained two to three bunk (two-level) beds along with enough room for a desk and several chests of drawers. Each room would house four to six girls. There was, on each floor, a central cooking area.

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<sup>1</sup> Boyd, H. Michael, PhD; Case created based on an actual factory on Batam; 2010

- The entire industrial complex was secured by barbed-wire fencing and security personnel.
- The industrial complex included a bazaar with shops and food stores along with entertainment and other resources for complex inhabitants.

**The issue being addressed is the treatment of the assembly workers in the factory.**

**The considerations:**

- They were all young Indonesian women, the majority from the area of Jakarta, Indonesia.
- The girls were all 18-year old teenage recent high school graduates.
- The girls had very little knowledge of self-hygiene or health. Their lifestyle was unhealthy and they practiced very poor hygiene.
- Most of the girls did not know how to cook. This resulted in unhealthy meals and poor nutrition.
- The employees were all paid weekly in cash. All of the girls sent most of their pay home to their fathers or eldest brothers. Some sent their entire pay home.
- Some of the girls became malnourished and weak.

**The business issues:**

- The factory had experienced a high defect rate – poor quality.
- The factory productivity was not improving as the startup stage progressed.
- Unhealthy employees would not be as productive as needed. Factory productivity could suffer.
- Hungry employees would not be as productive as needed; and would become unhealthy.
- Most of the other companies in the complex were against higher wages or any employee benefit that would add to the operating cost of their factory.
- Factories were interdependent inasmuch as they shared many services such as utilities, transportation, and staffing. The norm was to not create competition for these resources by differentiating. That insured that everyone got the lowest cost possible.
  - Fathers of recruits could contract for the factory that paid the highest wages, had the best environment, etc.
- Any action to improve employee welfare would increase per-unit cost which could cause the factory business goals to be negatively impacted.

**The Ethical and Moral Issues:**

- The owner and management of the factory is an American company. This company particularly prides itself on a very strong culture of employee welfare and care.
- These assembly workers were all teenage girls far away from their home for the first time in their lives.
- The behavior of the girls is entirely consistent with the culture, laws, and norms of Indonesia and their families.
- The company, by building the factory there, had tacitly agreed to abide by the norms of the 40-factory complex. There was a factory practices committee made up of all the companies owning / operating factories in the complex. The areas covered included staffing.
- The factory management feels responsible for the health of the girls.

## **The Resolution:**

- 1. Should the company allow the factory in Batam to take actions that would improve the health and welfare of the assembly workers?**
- 2. What are the positive results and negative results of either strategy (action or no action)?**
- 3. If the decision is to take action, what are some possible actions?**

**Each group will prepare its answers and present them (5 minute presentation)**