2. Case Study of Taroichi Electronics Thailand: A Strategic Challenge towards China-Japan Conflict and Wage Increase

By Nussara Meesen

1. Introduction

Taroichi Electronics Thailand is a medium-size enterprise manufacturing drums for photocopiers and printers. It is operated in the supply chain of a Japanese multinational company. This case is about how Taroichi has to manage its business in the on-going conflict between China and Japan over an island in the Pacific Ocean. Internally, the company had to deal with the national minimum wage increase, to avoid reoccurrence of bitter experiences of worker protest in the previous year. This is a real situation of a Japanese national company in Thailand.

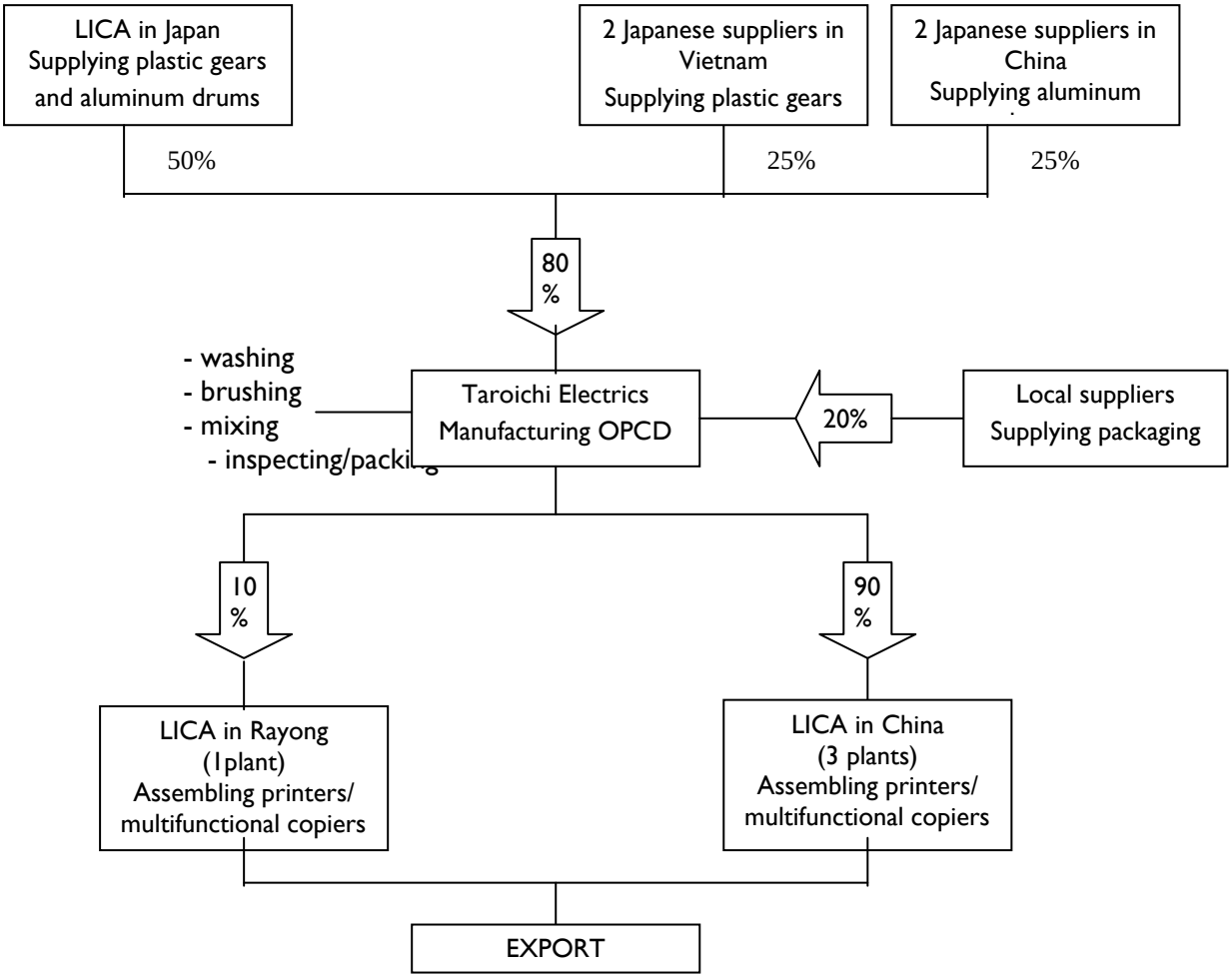
2. Taroichi in the Global Supply Chain

Taroichi Electronics is a subsidiary of LICA, a Japanese conglomerate manufacturer of photocopier, multifunctional printer, and office imaging equipment based in Tokyo. Established in 1995, Taroichi was initially a Thai-Japanese joint venture company supplying photo conductor drums to its sole customer, LICA. The company had a very good performance, so LICA decided to take over Taroichi in 2005 in order to enhance its supply capacity and safe operational cost. Taroichi then become part of the giant company's global network together with 230 other branches and 100,000 employees worldwide. Taroichi was located in the Northern Industrial Estate, Lamphun province and employed 244 employees in total.

An organic photo conductor drum (OPCD) is an essential component that makes projection be functioning inside a printer and multi-functional copier. It is the only specialty of Taroichi business made during the past two decades. Paiboon Madee, Thai senior management who was one of the company's decision makers and in charge of production and planning, passionately spoke of the product.

> "We call it 'organic' because it is a living thing (laugh)! (The drum) can generate electric charge when it collides with a gleam. It is composed of pigment and rasin--these two chemicals, when they are mixed, may or may not react in a certain situation, like heat or light, so they may be 'dead' too. Therefore, we put the 'organic' in front of the term," he explained.

Taroichi imported aluminum drums and gears to manufacture an OPCD. Half of these two main raw materials were supplied by LICA headquarters in Japan, and the second half came from two Japanese suppliers in China and two others in Vietnam. The company purchased packages and other factory supplies from local sources. The finished components were supplied to four LICA factories for assembly, three in China and one in Rayong province in the eastern part of Thailand.



The Supply Chain – LICA printers & multifunctional copiers manufactured through Taroichi

Taroichi had been well doing in the existing supply chain. As a subsidiary that supplies products within LICA's supply chain, the company had LICA's assembly factories as firmed and stable customers, thus it had nothing to do with product marketing. It neither worried about competitors and new entrants because the R&D department at the headquarters would take care the research and technology development for substitute probably in the next two decades, according to Paiboon. Taroichi was actually in an advantageous position for being protected and supported by all means by LICA for its improvement. Therefore, Taroichi's roles were simply to make OPCD according to LICA's orders, striving for profits and complying with any of LICA's policies. Taroichi may have to manage its own suppliers, but everything was under the supervision of LICA. This included regular communications with suppliers on production planning, raw material delivery schedules, and yearly business contract review.

Taroichi's performance to date was also good. With eight production lines with day and night shifts operations, Taroich could produce 400,000 pieces of OPCD per month. The year earlier (2011) it was able to hit as many as 600,000 pieces/month, and the management was planning to increase two more production lines in the near future to maximize its capacity at 1,200,000 pieces of OPCD monthly. The company is on a steadily growing in recent years. Paiboon was also appreciated with LICA's continuous improvement policies

introduced to his company. This included the production control, 5-S management system (Sort, Set, Shine, Standardized and Sustain) as well as information technology system, transparency and internal audit control. LICA was "very systemic and organized," and focused very much on advanced machinery and innovation, according to Paiboon.

"We have to learn and adjust ourselves during the past ten years. Even now we haven't had reached half of the LICA's blood yet," he said.

2. LICA's Vision: CSR and Human Rights

LICA had a strong commitment to the society. In its mission statement, the company was committed to providing excellence to improve the quality of living. And the company's value statement appeared in the public domain said:

> "To be one global company, we must care about people, our profession, our society, and our planet. We must dedicate our winning spirit, innovation and teamwork to sharpen our customer-centric focus, and we also must commit to the highest standards of ethics and integrity."

The commitment resulted in LICA's policies on the treatment of workers with respect of human rights and ethical standards. The company became the second Japanese company to sign in 2002 the global initiatives United Nations Global Compact, a strategic policy platform for businesses to support fundamental principles in the areas of human rights, labour, environment and anti-corruption. A few years later LICA adopted the corporate's Charter of Corporate Social Responsibility and Code of Conduct so that its branches and suppliers comply with. The Code ranges from avoidance of use of any kind of forced labour and child labour, prohibition of discrimination, to having safety and hygienic working facilities.

It is observed, however, that LICA's compliance benchmarks are not higher than those existing in the laws of countries where LICA's units were operated. The global enterprise affirmed in its policies that it shall act in accordance with social ethics and in "full compliance with the law" in the local context, and LICA's position is demonstrated through its Code of Conduct. For example, under the provision of 'appropriate wage', suppliers are required to pay not less than the 'legal' minimum wage. For the hours of work, suppliers are required to regulate employee's working hours as well as holidays and vacations so as not to exceed the 'legal' ceiling, the Code said. In Thailand, employees are allowed to work as many as 84 hours per week, that are 48 hours during the regular working days in a week and 36 overtime hours during the working days and the rest day.[1] This means a Thai company could ask workers to perform overtime work as long as it does not exceed the legal limit.
But Paiboon argued that Taroichi had never experienced that as the production is operated in two shifts with only 2 overtime hours a day per shift, totally 60 hours per week. But if the orders are overloaded, the company may request workers to perform work during the holidays, he said.

3. Taroichi and Challenges in the Coming Years

Although things went smoothly as they seemed to, situations in the next one to two years might be a real testing for Taroichi to turn the policies into implementation, including CSR and human rights standards. Some emerging challenges put LICA top management and Paiboon on alert in their supply chain and internal affairs management.

3.1 Taroichi in the contentious China-Japan Conflict.

It was about the dispute over the Sensaku Islands. Locating in the southwest of Japan's Okinawa, which are closer to China, the islands were claimed ownership by Japan by maintaining its case dates back to the Sino-Japanese war of 1894-95. China, on the other hand, argued its ownership over the islands, known as Diaoyu in Chinese, which was reflected in travel records of the Ming and Qing dynasties dated back to the 14th century. Although the rival claims had made publicly known for quite sometime, it was not until September 2010 when a Chinese fishing trawler hit with the two Japanese coastguard patrol boats, and its crews and a captain were arrested and rammed into the coastguard vessels. The incident was followed by Chinese public anger as demonstrations took place in big cities like Beijing, Shanghai, and Hong Kong, which subsequently led to deteriorating situations This included an arrest of four expatriate employees of Fujita, the Japanese car component manufacturers in the northern Chinese province of Hebei, and a critical decision made by the Chinese government to suspend the export of rare earths to Japan.[2] The dispute over the islands became a time bomb, given the enormity of the stakes involved like National pride, a shifting balance of power and, most importantly, oil and gas deposits.

The circumstances caused the whole LICA management team and its respective branches to prepare strategies to the extent possible. One of the major decision-making was about the moving out of China.

> "Country risk is our keyword at this crucial point…it might be escalated. There is a tendency to move out of China, both the majority of production base and raw materials that we purchase," said Paiboon.

Ms Duangta, Chief of Personnel and Administration, added that the situation could not be underestimated. Recent stringent immigration procedures were a prominent sign of changes.

> "Before, we could apply for a visa to go to China without any (supporting) documents. But right now, this time, we must submit (to the embassy) purchased tickets, confirm places to stay with correct address of a company where we'll visit, and invitation letter…there are many more," Duangta said of the visa issuance process commissioned by the Chinese authority. Taroichi team needed to go and inspect some suppliers in China on a regular basis.
>
> "They (LICA management) paid a lot of attention on this and kept asking whether the visa's application is approved," she added.

LICA eventually convinced its Japanese suppliers in China to move to Thailand. Details of negotiation were not disclosed, but one positive indicator was that one supplier agreed to relocate from China to Ayudhaya province in the central region of Thailand, according to Paiboon. In the meantime, the core research and development team in Japan would alternatively look for potential local suppliers in Thailand to supply some raw materials such as plastic gears to Taroichi. On the production side, Taroichi started to develop some new OPCD models allocated from China, enabling to supply more volumes of drums to Rayong plant. At the Rayong plant, the production capacity would also be enhanced so as to gradually substitute those made in China, Paiboon said.

Paiboon foresaw both advantages and disadvantages for this strategic move. For him, the advantages were quite obvious.

> "The closer to Thailand, the better," he said, referring to a supplier's plan of moving from China to Ayudhaya province, only 600 kilometer far from Lamphun. "It'll be beneficial to us in terms of production lead-time. And since it takes us only one day to go to Rayong, we can supply our products to our customer [Rayong plant] better and service faster," he said.

Paiboon added this was in line with LICA's internal policy that aimed to shorten the transportation distance for cost-effective logistics management.

Although everything seemed to proceed along the plan, transformation took time. The supplier's actual relocation, for example, would not come into effect until the next few years, although the decision of leaving China was made long before Ayudhaya and several industrial complexes in the province were hard hit by the massive floodings in 2011. This caused Paiboon be concerned that should the Sensaku Islands dispute lead to worsen the situation, it would certainly affect not only the company, but also a living of workers.

> "Sooner or later, the LICA policy is there. But if the war breaks out today or tomorrow, we [LICA—writer] need to close down factories in China. Who shall we [Taroichi – writer] supply our products to?," he asked, adding "We don't exports items in the name of Thais, but Japanese. The company's name is obviously Japanese."

As the nationality mattered, Taroichi would bear the most negative impact. The fact that the company relied on both import from and export to China meant a lot for the business operations. Production and export could be abrupt, and it would be hard for the company to find new customers in time, Paiboon said.

3.2 Increase of Legal Minimum Wage

The year 2013 would be a tough year for not only Taroichi, but also other small and medium enterprises. This is because the Thai government decided to go ahead with the populist policy for the increase of national minimum wage to 300 Baht per day (about USD10/day) nationwide effective from 1 January onwards. The policy would raise Thailand the average minimum wage by 40% compared to the wage floors in 2011.

Workers in Lamphun province where Taroichi was located, would benefit significantly as their minimum wages would be raised to 300 Baht from 236 Baht in 2011.

Province	2011 (Bht/day)	2012 (Bht/day)	2013 (Bht/day)	% increase
Bangkok	215	300	300	28.3%
Rayong	189	264	300	37%
Lamphun	169	236	300	43.6%

The 300 Baht-minimum wage hike, which would be remained in effect through 2015, was expected to bridge income gap, generate purchasing power and improve quality of living, particularly for low income and unskilled workers in formal production sectors. The policy, however, had triggered fierce criticism in business circles for an increase of operational cost. Taweekit Chaturacharoenkhun, the vice chairman of the Federation of Thai Industries predicted that five to ten percent of Thailand's smaller labour intensive businesses might be unable to tolerate the new wage policy and subsequently forced to close down the first quarter of 2013 due to the sharp rise in labour cost.[3] A study conducted by Thailand Development Research Institute(TDRI) also indicated earlier that the minimum wage

increase would affect employment reduction in SMEs with no more than 100 workers. It said employment in SMEs would drop significantly from 81% to 70% as a result of the government's 40% minimum wage increase policy.[4]

The Thai government had launched several measures to relieve the impact of the wage hike, by providing tax incentive measures and loans to enhance SME's competency. But Paiboon said he was not interested in obtaining those assistances because his company had already benefited from the government's existing investment promotion schemes of import and export tariff exemption for its location in the Northern Industrial Estate. Rather, in regards with the impact of new wage policy, Paiboon was concerned how to strike a balance of the wage increase between daily-wage workers and salary-based employees.

At Taroichi, out of 244 employees in total, 67.2 percent or 164 of them were daily-wage operators. The rest were monthly-based salary employees, who were production supervisors, administrative staff and high-level management. The two groups of employees were permanently employed, but the difference was that daily-wage production operators were those whose wages were paid on the 26-day basis. And no work no pay rules were applied when workers were absent or took days off. Monthly-based salary employees were those with salary calculated in lum sum on the 30-day basis, including the paid rest days.

A precedent case in April 2012 when minimum wage was officially raised from 169 to 236 Baht per day made Taroichi think seriously how to prevent the incident from reoccurring in the coming year. In 2012, he recalled, a number of supervisors, with support of their subordinates, went on a sit-in protest demanding wage difference of minimum wage increase be equally paid to them on the calculation of 30 days according to their wage structure. To ensure their voices were heard, protesters put pressure on the factory management by not working during the overtime hours and sitting idly on the production floor waiting for responses from the management. According to the Thai Labour Protection Act, employers cannot oblige employees to do overtime work.

> "They were aware of their rights, and they also knew their duty that they had to work from eight to five. OT [overtime work] is not obligatory--so, there were gaps of two (overtime) hours. But we lost a lot of work in progress," Duangta recalled.

Paiboon said the management had to cease some production lines as a result. The company must also informed customers to postpone deadlines of goods delivery, or go for air shipment. As for the wage issues, apart from raising wages of daily-wage production operators as required by law, the management resolved by reiterating that they would increase wage of 20, 15, 10, and 5 percent respectively to monthly salary-based employees, depending on their positions and salary base. Those who had high salary would have less wage increase than those with lower salary, according to Duangta.

After a week-long protest, the workers eventually went along with the management's stance as they probably had no much choices, said Duangta. They could have learnt from experiences of several factories in the Estate. Some factories was able to pay a flat-rate wage increase for all employees, but others were finally collapsed as a result of the government's minimum wage increase policy. But factories that could economically survive might not want to recruit more new workers because the wage increase did not always result in more productivity. "The logic is employers pay more, but they gain the same production output," Duangta said.

But Taroichi had a lesson learned from the 2012 incident. This time they would take more into account on employees who were actually affected by the wage hike.

> "For a group of people who are in the middle range and do not earn much, we have to see how to satisfy them and adjust their salary to be not less than workers whose wages are raised too closed to theirs," explained Duangta.

The wage payment accounted 25 to 30 of the total investment cost. This excludes prices of raw materials and other stuffs to be increased in light of the wage hike. But in the long run, Paiboon believed the management could find the way out to reduce the labour cost. One of the resolutions was to convert the appearance machines used for drums inspection at the finishing process into the automation system which would require no workers to operate. By doing so, the number of employees could be decreased from 244 to as low as 200 employees, according to Paiboon.

> "We are in the trial period of testing the (automation appearance) machine. It is perhaps by 2014 we would know whether it functions well. Otherwise, it can decrease as many as 20 operators per shift, so there would remain 200 over all," he said.

It remained to be seen how Taroichi would maintain a sound balance between the technology innovation and its people in the future.

END NOTES

[1] Ministerial Regulation No.2 and No.3 issued under the Labour Protection Act B.E.2541 (1998), states all type of work shall have normal working hours of not more than 8 hours a day, and overtime working hours shall not exceed 36 hours per week in aggregate. This includes OT hours in the normal working days and overtime working hours on holidays.

In practice, the law can be interpreted as;

6 Normal working days x 8 hours/day = 48
6 Normal working days x 4 OT hours/day = 24
1 Rest day x 8 hours/day + 4 OT hours = 12
Total = 84 hours/week

[2] Joyman Lee, Sensaku/Diaoyu Islands of Conflict
http://www.historytoday.com/joyman-lee/senkakudiaoyu-islands-conflict

[3] Smaller Thai Industries soon to be shaken by Minimum wage requirement. January 2, 2013
http://www.nationmultimedia.com/national/Smaller-Thai-industries-soon-to-be-shaken-by-minim-30197116.html

[4] Will SMEs avoid minimum wages?
http://www.bangkokpost.com/learning/learning-from-news/288274/will-smes-avoid-new-minimum-wages

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APPENDIX

Exhibit 1

The Company's basic information

Legal Personality	Limited company
Ownership	100% owned by LICA
Authorized share capital	107 million Baht
No. of Employees / male -female	Total: 244 / male: 99, female: 145
Type of workforce	Production operators: 193 Supervisors: 27, group leaders: 13 Management: 6 Thais, 5 Japanese
Hours of work:	2 operation shifts: Day shift: 8 am-8 pm, night shift: 8 pm-8 am Rest day: Sunday
Basic welfares	- Medical allowance of 6,000 Baht/year - Attendance bonus 200-600 Baht/person/month - Extra allowance for overtime work at 10 Baht/day - Monthly gasoline allowance of 1.80 Baht/kilometer at the maximum of 60 kilometers -Free rice with two dishes of food at lunch

Exhibit 2

Financial Statement of Taroichi Electric (Thailand)
As of 31 March 2012, 2011 and 2010

	Baht		
	2012	2011	2010
Asset			
Current Asset			
Cash and cash equivalent	73,021,365.79	69,458,028.60	49,087,456.17
Account receivable-relevant business	55,515,810.19	37,571,962.66	32,620,512.32
-other business	905,457.96	3,449,677.00	7,747,518.60
Other receivable-charges paid in advance	571,820.57	766,765.19	
Goods in process	83,564,127.22	66,245,175.16	53,961,047.45
Other current assets	1,931,795.55	1,474,285.65	1,489,462.01
Total current assets	215,510,377.28	178,965,894.26	144,906,005.55
Fixed Asset			
Long-term investment-Bank deposits	4,717,636.42	4,674,419.72	4,651,395.32
Buildings and equipment-net	151,988,369.83	63,957,689.74	74,576,479.63
Other fixed assets	578,694.00	614,645.50	520,145.50
Total fixed assets	157,284,700.25	69,246,754.96	79,748,020.45
Total assets	372,795,077.53	248,212,649.22	224,654,026.00
Liability			
Current liability			
Accounts payable-relevant business	115,891,916.19	45,876,076.84	33,291,935.27
-Other business	12,061,890.48	22,179,090.75	29,400,461.56
Other accounts			
Accrued expenses	2,464,875.14	1,655,723.12	
Others	18,786,558.19	10,252,613.66	
Long-term debt to be paid in one year	621,814.6	604,281.39	586,716.48
Liability to be paid in one year	254,666.64		
Accounts and short-term debt from relevant business	203,439,306.16	171,596,107.71	161,005,118.61
Other current liabilities	471,852.11	360,476.71	3,094,943.40
Total current liabilities	353,938,879.51	252,514,364.18	227,379,175.32
Fixed liability			
Long-term loan	100,587.11	713,040.73	1,317,443.34
Obligations under capital leases	298,210.48		
Total fixed liabilities	398,797.59	713,040.73	1,317,443.34
Total liabilities	354,337,677.10	253,227,404.91	228,696,618.66
Proportion of shareholders			

Share capital			
Authorized share capitals			
107,000 shares, worth 1,000.00 Baht each in 2012			
100,000 shares, worth 1,000.00 Baht each in 2011, and			
100,000 shares, worth 1,000.00 Baht each in 2010			
	107,000,000.00	100,000,000.00	100,000,000.00
Proporrtion of shareholders			
Share capital			
Authorized share capitals			
107,000 shares, worth 1,000.00 Baht each in 2012			
100,000 shares, worth 1,000.00 Baht each in 2011, and			
100,000 shares, worth 1,000.00 Baht each in 2010			
	107,000,000.00	100,000,000.00	100,000,000.00
Sold and fully paid shares			
107,000 shares, worth 1,000.00 Baht each in 2012			
100,000 shares, worth 1,000.00 Baht each in 2011, and			
100,000 shares, worth 1,000.00 Baht each in 2010			
	107,000,000.00	100,000,000.00	100,000,000.00
Deficits	-88,542,599.57	-105,014,755.69	-104,042,592.66
Total proportion of shareholders (capital deficiency)	18,457,400.43	-5,014,755.69	-4,042,592.66
Total liabilities and proportion of shareholders	372,795,077.53	248,212,649.22	224,654,026.00

Exhibit 3
Profit and Loss Statement of Taroichi Electric (Thailand)
As of 31 March 2012, 2011 and 2010

	Baht		
	2012	2011	2010
Revenues			
Sale of finished products	513,135,829.98	454,820,144.20	326,601,022.87
Other income			
Earnings from exchange rates		10,356,717.30	16,073,382.84
Others	851,813.80	942,254.73	1,180,120.51
Total revenue	513,987,643.78	466,119,116.23	343,854,508.22
Expenses			
Cost of sale of finished products	459,682,831.21	437,551,426.09	279,923,143.05
Selling expense	8,378,592.68	6,949,492.56	3,498,788.82
Administrative expense	26,366,291.46	21,858,147.66	24,516,832.35
Loss from exchange rates	2,030,055.36		
Total expenses	496,457,770.71	466,359,066.31	307,938,764.22
Gains (losses) before finance costs	17,529,873.07	-239,950.08	35,915,744.00

Finance costs	1,057,716.95	732,212.95	2,339,247.17
Net profit (loss)	16,472,156.12	-972,163.03	33,576,496.83
Basic earnings per share	154.79	9.72	335.76

Source: Department of Business Development, Ministry of Commerce

Exhibit4

UN GLOBAL Compact	
1 Human Rights (The Universal Declaration of Human Rights-UDHR)	1. Businesses should support and respect the protection of internationally proclaimed human rights
	2. Make sure that they are not complicit in human rights abuses
2 Labour (The International Labour Organization's Declaration on Fundamental Principles and Rights at Work)	3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
	4. The elimination of all forms of forced and compulsory labour
	5. The effective abolition of child labour
	6. The elimination of discrimination in respect of employment and occupation
3 Environment (The Rio Declaration on Environment and Development)	7. Businesses should support a precautionary approach to environmental challenges
	8. Undertake initiatives to promote greater environmental responsibility
	9. Encourage the development and diffusion of environmentally friendly technologies
4 Anti-Corruption (The United Nations Convention Against Corruption)	10. Businesses should work against corruption in all its forms, including extortion and bribery.

Source: The United Nations Global Compact
http://www.unglobalcompact.org/aboutthegc/thetenprinciples/index.html

Exhibit 5
LICA's Codes of Conducts

The Respect for human rights

1) Prohibit forced labor
Suppliers are required to employ all employees on a voluntary basis, and not to practice forced labor.

2) Prohibit inhumane treatment and infringements of human rights
Suppliers are required to prohibit harsh and inhumane treatment such as maltreatment and/or harassment and to respect human rights of employees.

3) Prohibit child labor
Suppliers are required not to employ children who are under the minimum labor age and not to assign such jobs.

4) Prohibit discrimination
Suppliers are required to prohibit discrimination during the process of job offering and hiring, and to work toward the equal opportunity and fairness of treatment.

5) Pay appropriate wages
Suppliers are required to pay the legal minimum wage or more, and not to practice unfair wage deduction as a means of disciplinary action.

6) Regulate working hours
Suppliers are required to regulate employee's working hours/holidays/vacations so as not to exceed the legal ceiling.

7) Apply safety measures for equipment and instruments
Suppliers are requested to apply appropriate safety measures for equipment and instruments used in their company.

8) Promote safe activities in the workplace
Suppliers are requested to evaluate their own safety risks and to ensure safety in the workplace with appropriate designs, techniques, and control methods.

9) Promote hygiene in the workplace

Suppliers are requested to be aware of the conditions in the workplace related to biological and chemical harm, noise, and odor, that are harmful to health, and to take appropriate measures.

10) Apply appropriate measures for occupational injuries and illnesses
Suppliers are requested to be aware of the situation of occupational injuries and illnesses in the workplace, and to take appropriate measures.

11) Properly manage disasters and accidents
Suppliers are requested to prepare emergency response measures for possible disasters and accidents in order to protect human lives, and to inform people in the workplace.

12) Be careful about physically demanding work
Suppliers are requested to define physically demanding work, and to control it appropriately to prevent injury and illness.

13) Promote safety and hygiene in all company facilities
Suppliers are requested to maintain appropriate safety and hygiene in all employee living facilities provided by the company (e.g., dormitory, canteen, restroom.)

14) Promote health maintenance programs for employees
Suppliers are requested to provide appropriate health maintenance programs for all employees.