Decision Making in the Global Economy
Information Barn (IB) in Japan

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Main Objective:
- Consider all relevant factors in evaluating the cost effectiveness of sending part of production (Software Developers) of Information Barn to Japan, rather than keeping this sector of production in the United States.
Basic Needs of InfoBarn

- Software Developer I
  - Researched and analyzes product design.
  - Performs on-site client work.
  - Reports to the Software Development Manager.
  - Requires 18 months to 3 years experience.

Basic Overview of Relevant Factors in Japan

- US and Japan have similar:
  - Industrial labor relations climate
  - Economic strengths globally
  - High standards of business ethics

Labor Market Concepts Used

- Demographics
- Hourly Compensation
- Wage / Salary Rate
- Cost of Labor
- Labor Force, Employment and Unemployment
- Productivity and Unit Labor Cost
- Measuring Productivity
Demographics
• Japan
  – Juveniles (0-14): 1.43 million (12%)
  – Working population (15-64): 8.5 million (71.4%)
  – Aged population (65+): 1.98 million (16.6%)
  – Net population growth: +68,000

Hourly Compensation
• Defining Hourly Compensation
  – Hourly direct pay
  – Employer social insurance expenditures and other labor taxes

Wage/Salary Rate
• United States
  – Base salary $53,294
  – Bonuses $1,175
  – Social Security $4,167
  – 401k/403b $1,972
  – Disability $1,329
  – Healthcare $5,390
  – Pension $1,765
  – Time Off $5,950
  – Total $75,041
• Japan
  – Base salary $53,294
  – Bonuses $1,175
  – Time off $5,950
  – Total $60,419.00
Cost of Labor

• Advantages
  - Age
  - Less cost per hour
    - ($1=107.59 yen)
  - Growth in Economy
  - Low Overhead cost
  - Low family and medical insurance

• Disadvantage
  - Decrease productivity level in the United States
  - Training
  - Work Permits
  - Limited hours available to work

Labor Force, Employment, and Unemployment

• Labor Force Participation
  - Japan has a lower age requirement
• Japan, recorded higher employment growth than the U.S.
• U.S - Rate of Unemployment is 6.9%
• Japan – Rate of Unemployment is 4.7%

Productivity and Unit Labor Costs

• Increase in productivity is 11% - in Japan and 9.7% in the United States.
• U.S. companies are investing more in foreign workforces to save money
• United States
  - will reduce their cost for production
  - Increase job availability in Japan
• Increase in domestic economy
Measuring Productivity

- Japan is higher than United States
  - experience
  - occupations
  - Productivity
  - Education

Cost and Quality of the Labor Supply

- The cost of offshoring to Japan is just slightly cheaper than the cost of keeping InfoBarn within the US.
  - The cost does not reflect a strong significance.
- The quality of the Japanese labor supply is similar to the US.
- Wide disparities and inconsistencies with quality of labor in Japan vs. more standardization in the US.

Industrial Relations Climate of Japan

- Collective Bargaining
  - No nationwide or regional labor-management negotiating processes to determine working conditions for employees
Trade union organizations have a three-level structure

- Enterprise unions
- Industrial federations
- National centers- (main three: Japanese Trade Union Confederation, National Confederation of Trade Union, & National Trade Union Council)

Shunto (spring wage negotiations)

Issues for maintenance of employment
- Reducing working hours
- Work sharing schemes
- Extension of retirement age limits
- Eradicating unpaid overtime work
- Improvement in working conditions for part-time workers

Shunto (cont.)

Issues of pay raises
- Amending the regular pay increase scheme
- Company specific wage determination
- Performance-base pay
- Shifting from seniority-based wage systems from a medium- to long term viewpoint
  - More merit-based wage systems
Overall Organization

- There has been a small but steady decline in trade union organization over the past few years
- Shifting from collective industrial relations to more individual

Formal Constraints on the Use of Labor

- Legal Working Hours
- Overtime
- Protection of Female Workers
- Labor and Social Insurance Systems
- Dismissal and Termination Standards

Legal Working Hours

- 40 Hour Work Week Standard
- Mandatory Rest/Breaks
- Mandatory Paid Vacation
- National Holidays
**Overtime: Three Conditions**

- Work beyond the legal working hours
- Work on a holiday or scheduled rest day
- Work late at night

**Protection of Female Workers**

- Maternity Leave
  - 6 weeks before birth
  - 8 weeks after birth
- Child Care Break
  - 30 minutes twice daily
- Monthly Leave
  - Once a month

**Labor and social insurance systems**

1) Workers’ Accident Compensation Insurance
2) Employment Insurance
3) Health Insurance and Nursing Care Insurance
4) Employee’s Pension Insurance
**Dismissal/Termination**
- Ordinary Dismissal
- Summary Disciplinary Dismissal
- Adjustment Dismissal
- Restrictions on Dismissal
  - Injury Leave
  - Maternity Leave

**Assumptions Made:**
- Individuals (Companies) are rational
- Information is perfect and costless
- More is better
- People know their tradeoffs

**Cultural Differences that Impede Production**
- House, work, and school are all a formalized culture in Japan
- Males must socialize far beyond the workplace to get ahead
- Highly organized, ritualized way of doing business outside the workplace.
- High ranking executive females would not be taken seriously
### Cultural History of Japan vs. US

<table>
<thead>
<tr>
<th>Japan</th>
<th>USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Culture based on isolationism</td>
<td>Culture based on globalization</td>
</tr>
<tr>
<td>Zero diversity as a value</td>
<td>Strong diversity as a value</td>
</tr>
<tr>
<td>Deep tradition of caste and warrior classes</td>
<td>Deep tradition of “The land of opportunity”</td>
</tr>
<tr>
<td>Refusal to trade until 1870 by Com. Perry.</td>
<td>Risk taking as a value for advancement.</td>
</tr>
</tbody>
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### Cultural Differences that Facilitate Production

- Culture is based on technology and can aide InfoBarn in technological advancement.
- Strong Japanese Values Include:
  - Lifetime employment
  - Number grades in compensation
  - Promotion by seniority

### Advantages

- Culturally, the Japanese has very strong work ethic with a working expectation of 14 – 16 hour work days vs. the US 8 hour work days.
- Technologically, Japan can offer the greatest innovations and advancements to a US company by way of networking and communicating.
Disadvantages

• Economically, Japan is the second strongest economy in the world after the US.
• There is a slight decrease in labor cost using Japan, but not as significant as other countries can provide.
• Industrially, labor relations are fundamentally similar to the US with slight structural differences.
• Culturally, the country is rigid and formal in business acumen, does not accept outside races or women as real business partners, operates on alternative work hours compared to the US, and believes in seniority based pay vs. the US method of merit based pay. Wide disparity for the quality of labor vs. the US.

Other Disadvantages

• Japanese are relatively adverse to American companies and products entering their country initially.
• Loyalty to a company is a large, Japanese value.  
  – Creating a place in the Japanese labor market and establishing loyalty may take a very long time.
  – (i.e. McDonalds, Pepsi-Cola, etc.)

Conclusion

• The disadvantages of relocating to Japan outweigh the advantages of relocating to Japan.
• Overall decision is to NOT offshore to Japan for Info Barn.
SOURCES

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Japan Demographics. Japan Culture. 17 Apr. 2005

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