

Trade & Culture

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HOW TO MAKE IT IN THE WORLD MARKET

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THAT WORKS**

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JAPAN

Pointers and Pitfalls in Pay Packages

by Thomas J. Nevins

Often, out of lack of knowledge, smaller foreign-capitalized firms in Japan make some big, unnecessary mistakes in the way they pay people. One common mistake concerns the bonus system. On average, Japanese industry pays 5.8 months of bonus (combining the winter portion usually paid in mid-

"Negotiate based on merits, standards, and shared interests."

December and the summer bonus usually paid in or around mid-June). Japanese firms do this for several reasons:

- the bonus amount is not calculated into the lump-sum

retirement benefit paid later by the corporation;

- it allows them to pursue a policy of flexible-performance pay, in that the amount can vary by employee depending on corporate performance;

- in exceptional cases where an employee is not contributing or is not particularly popular, it is possible to pay absolutely no bonus—which is a good way to get rid of a problem employee.

How should a foreign company handle the bonus? First, it should not make the mistake of stipulating, in the employee's offer-letter or employment contract, the exact number of months of bonus that will be paid. Nor should it state in the contract an annual income figure. Rather, the employer



should take the approach that the monthly cash compensation and/or combination of allowance will amount to X amount of yen. It should state, "Since we pay in principle X number of months of bonus, your total annual income should be approximately X yen. However, it may be more or less, since there is a performance range on the company bonus."

Likewise, the employer should make sure that it does not stipulate in the Rules of Employment the number of months of bonus that are payable. If you do so, Article 11 of the Labor Standards Law will bind you, and it will become impossible to set up a performance range on the bonus.

If an employee quits, hopefully your firm's practice is such that it will not be necessary to pay retirement benefits for his first three years of service. While this is the most widespread practice in major firms, in smaller Japanese firms there is often no voluntary retirement benefit paid within the first five years of service. Since there is an open labor market between foreign-capitalized firms, and it is rather easy for an employee to get an equally good job in another foreign firm, many employers experience more turnover than they would desire. Ironically, in most Japanese firms there is a significant discount between involuntary and voluntary retirement. The rule of thumb is that, for example, within the first ten years of service, if someone quits the firm, only 50% or less of the retirement benefit would be

payable. The payable ratio would only rise slowly, often in increments of perhaps 5%, for each additional five or so years of service.

It is better for firms to put precious resources into cash compensation to attract good people than to, in effect, subsidize a good employee's departure—perhaps to go and work at a competitor. In any case, most employees never get details on your Rules of Employment or retirement benefits before they agree to join your firm. Strategic compensation policies dictate that benefits, which by definition apply equally to all employees—whether top performers or problem people—should be constrained, and the company should be able to draw in mid-career hires with attractive cash compensation.

If a company has the resources to handle generously both sides of the equation—cash compensation and

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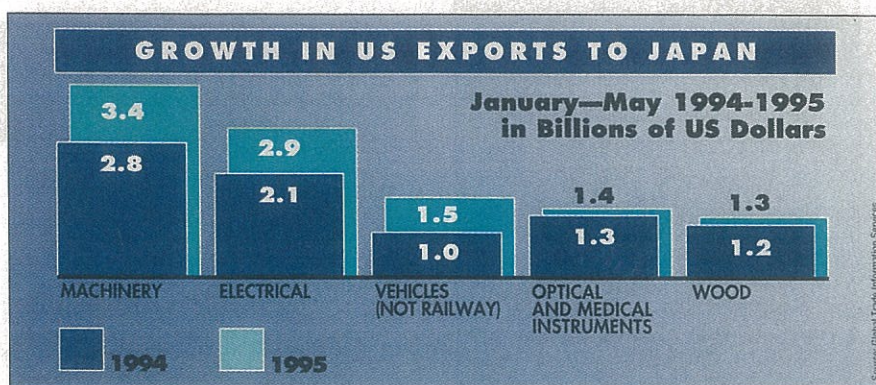
bonuses—all the better. However, in my experience, many firms give up on the marketplace because they don't have the right people in place. Too often, their employees were managed and motivated improperly—by the wrong system of rewards.

Should a company get involved with such Japanese-style allowances as housing, family, meal, or positional allowances? Most multinationals prefer a more simplified compensation package. One allowance that really cannot be avoided—given its institutionalized status—is the *tsukin-teate*, the commuting allowance.

In negotiating a good package, avoid a pattern of positional bargaining. Instead, opt for a principled negotiation based on merits, objective standards, and shared interests. Don't forget to ask why an individual wants something that he is stubbornly holding out for.

BUSINESS BRIEFS

NEC Corp.'s recent investment of US\$170 million in **Packard Bell Electronics** gives the Japanese computer and communications giant a 19.99% ownership share in Packard Bell, which is the US's largest suppli-



er of personal computers used at home. Packard Bell is a privately owned firm that is based in Sacramento, California. . . . Damage sustained from the great earthquake in Kobe port has been calculated at about one trillion yen—or US\$11.76 billion. **Although 64% of the port's 201 shipping routes had reopened by mid-1995**, the total volume of containers at the port had dropped by nearly 50% from the previous year. . . . The rapid expansion of markets in nearby China, South Korea, and Russia is encouraging the ports on Japan's "other" coast—the Sea of Japan—to make more serious efforts to lure business. **The city of Niigata, for example, has actively courted Chinese cities to get them to export**

their soybeans to Niigata, rather than to ports on the much more important—but more distant—Pacific coast. Despite the quality of the infrastructure along the Sea of Japan, only about 1% of Japan's annual total of seaborne imports and exports passes through such facilities (which include Sakai, Maizuru, Tsuruga, Naoetsu, Sakata, and Otaru). One reason for the poor showing is that **the cities along the Sea of Japan are far less industrialized than those along the Pacific**, making it much harder for shippers to leave Japan with a full complement of manufacturing goods.

TRADE EVENTS

February 21-24, 1996:

MacWorld/Tokyo, Tokyo, Japan. In the US, contact: tel (1) 415.243.0505.

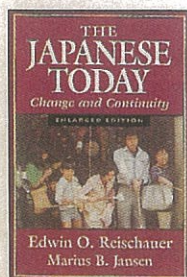
February 28-Mar. 1, 1996: JAPAN

GLASS plus METAL, Tokyo, Japan. Glass manufacturing, processing, and materials. In Japan, contact: tel (81) 3.3359.0894; fax (81) 3.3359.9328.

JAPAN BOOK REVIEW:

The Japanese Today: Change and Continuity Enlarged Edition

by Edwin O. Reischauer
and Marius B. Jansen



Cambridge, Massachusetts: The Belknap Press of Harvard University Press, 1995. 459 pages, paperback. US\$14.95. To order, in the US, tel (1) 617.495.2577 or (1) 800.448.2242.

When it was first published nearly a decade ago, *The Japanese Today* was considered one of the best primers on Japanese history and culture. It is still a classic of particular use for those preparing to do business in that country for the first time. While some sections of this new edition are virtually identical to those of the earlier volume, others have been expanded to reflect the events of the past ten years. The authors concentrate on the Japanese people—their society, political system, style of business organization, and their increasingly crucial relationships with the rest of the world. A particularly fascinating new section concerns the position of women and the accession of Akihito, the emperor in the new "Heisei" era.

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