

A Measure for Raising Productivity

By Noboru Hatakeyama

BPO Stands for “Business Process Outsourcing”. I have chosen to discuss this subject simply because I think the reasons for BPO not being used extensively in Japan may have something to do with its stagnant economy of almost a quarter of a century. BPO is outsourcing of the non-core business of a company (BPO customer) to another company (BPO supplier). By realizing a division of labor both on the side of the BPO customer and supplier, BPO not only plays a big role for private corporations but also provides great benefits to a country as a whole. That is to say, through concentration on core business alone, the efficiency of the BPO customer will be enhanced, while the BPO supplier can enjoy economies of scale by getting similar orders from other customers who are also looking for an opportunity to make use of BPO.

However, Japan's usage of BPO is far behind other developed countries. For example, the global market share of Japan's BPO was roughly calculated to be only a little bit less than 2% in 2011, while that of its GDP was 8.4%. Needless to say, BPO is used more in developed countries than developing countries. The global share of the BPO usage of a developed country should be higher than that of the GDP of the country. This shows clearly that Japan's BPO usage ratio is not commensurate with the size of its economy.

Due to its declining population, Japan cannot expand its economy unless productivity improves. The amount of any country's nominal economy is equal to its population multiplied by real per capita GDP, adjusted for inflation. The inflation rate should be deemed to be determined by external factors. If you inflame inflation just for the sake of achieving higher nominal economic growth, you will suffer the bitter retaliation of malicious inflation. Therefore, if we try to expand the amount of Japan's nominal economy, what we should do is to enhance our real per capita GDP, which is our productivity.

There are two ways to enhance productivity. The first is to shift resources from low productivity areas to high productivity areas. The second is to raise the productivity of each participant in the Japanese economy, by exposing it to foreign competition, for example. Increasing the usage of BPO is one of the measures for raising productivity because it enhances efficiency and enables us to enjoy economies of scale. Nevertheless, let me elaborate on why BPO usage is low in Japan.

First, there is a tendency in Japan to regard job security as more important than cost reduction. BPO customers in Japan deem the most important factor in selecting a BPO supplier is for it to be a

company related to them. I am afraid that BPO customers in Japan may be thinking BPO suppliers are just an expansion of their own workplace.

Secondly, due to the immobility of workers in Japan, workers “released” from the non-core business of a company thanks to BPO cannot be used fully in its core business. On the other hand, even if they don't have anywhere to go, they are not fired or laid off in Japan. This has been the way Japan's economy has operated for a long time. In other words, the incentive to make use of BPO is not too strong in Japan.

Thirdly, the know-how on doing anything in Japanese companies belongs to each individual employee in Japan. Therefore there are no descriptive manuals.

The fundamental reason for know-how residing with individuals and for there not being manuals in Japan may be attributed to the fact that there is no job change due to the lifetime employment system. Once you are employed by a company, in principle you do not have to change the company you work for until you reach retirement age. Therefore it is extremely difficult to carve out a certain chunk of the business process in Japan for the purpose of outsourcing it. Due to a lack of standardized manuals for non-core business, there is even a risk of mistakenly including a part of the core business in the category for outsourcing.

The lack of job descriptions leads to the lack of objective evaluation of each job. Therefore, in budget cutting, a uniform across-the-board proposal would be made, such as a 10% cut for every sector, without an evaluation of the qualitative differences.

Finally, let me suggest some measures to cope with this situation.

1. Find out the most appropriate balance between cost reduction and job security.
2. Assuming that the lifetime employment system may not continue in the future, be ready to introduce a job description system.
3. Abolish the uniform across-the-board budget reduction system. Instead, introduce an evaluation system based on the achievement of each program.

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