

Geographies of Temporary Staffing Unit

Working Brief 15

Grounding the Temporary Staffing Industry: outlining the Japanese case study

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Introduction

With a population of over 127 million, the Japanese market has always held huge latent potential for the staffing industry, but until 1986 regulatory restrictions largely prohibited the use of temporary staff. However, the Worker Dispatch Law (or Temporary Staffing Services Law) of that year opened up a limited range of industries to temporary staffing, and a series of further stages of deregulation have followed. Over the last two decades, the global staffing industry has watched with keen interest the development of employment services in Japan under these changing regulatory circumstances, playing a key role in recent deregulation processes. This Working Brief aims to serve as a brief introduction to staffing in Japan. Working Brief 16 outlines the key regulatory changes that have facilitated the phenomenal recent growth of the Japanese market, and Working Brief 17 outlines the current presence of international staffing firms in Japan.

Japanese Staffing Market

The estimated value of the Japanese staffing market in 2004 ranges from \$22.5bn (CIETT, 2006) to \$23.9bn (Datamonitor, 2005). This represents huge growth from \$7.38bn in 1994 (Staffing Industry Analysts, 2003). The Japanese staffing market is now the third largest globally, after the US and UK, and constitutes the vast majority of the Asia Pacific staffing market (around 95%). The first employment services company to operate in Japan was Manpower which entered in 1966 offering secretarial services to other international firms. The regulatory changes in 1986 gave rise to both the formation of a large number of Japanese staffing agencies, and the entry of other global staffing firms. Table 1 shows the largest 20 temporary staffing agencies in Japan, by 2004 sales revenue. The seven largest firms in Japan account for around 51% of the total staffing

market (approximate market shares are: Staff Service, 15%; Tempstaff, 9%; Pasona, 8%; Adecco, 8%; Recruit Staffing 5%; Nichii Gakkan, 3% and Manpower 3%), and of these top seven, only two are not of Japanese origin. The remainder of the staffing market is composed of a range of mid-sized Japanese and foreign owned firms, and a plethora of small enterprises. Other international staffing firms present in the market include Vedior, Kelly Services, Hudson, Robert Walters and Michael Page (see Working Brief 17). Table 1 clearly shows that firm revenues tail off rapidly down the rankings. The Japanese staffing market structure lies between the concentrated markets of France and the Netherlands, and the highly fragmented markets of the US and UK.

In addition, the twenty largest staffing agencies in Japan are a mix of specialist and generalist firms. While many firms, in particular the top seven companies, offer generalised 'traditional' staffing across many sectors, Table 1 also includes *ukeoi*. This is a distinctly Japanese solution to employment flexibility whereby contingent labour is sourced and placed by a staffing agency that is a subsidiary of a larger corporation, for example, Matsushita or Mitsubishi. These firms function to serve the employment demands of their mother organisation, but are required by law to have at least one other client (usually generating revenues of below 5%). These *ukeoi* are increasingly being sold to the larger staffing agencies as large corporations look to outsource these activities. For an overview of the regulation of the Japanese staffing industry see Working Brief 16.

While Table 1 provides an insight into the largest players in the Japanese staffing industry, this brief will also outline the rapid increase in the numbers of temporary staff. In contrast to many other staffing markets, data on the size, structure and volume of placements is available through Japanese government departments. The Japanese Ministry of Health, Labour and Welfare states that 12,721 enterprises were 'dispatching workers' (the preferred terminology for temporary staffing in Japan) in 2004. This figure compares to 10,370 in 2003. Of these enterprises, only 4.6% were businesses generating revenue of over ¥ 1 bn (\$9.72m). In this respect, the fragmented structure of the Japanese staffing market is comparable to that of the UK. However, in many other respects the Japanese market is distinctly different to any other, and the numbers of temporary staff are huge. Government figures show that the number of dispatch workers has risen threefold from 855,330 in 1997 to 2,266,044 in 2004.

Table 1: Top 20 Temporary Staffing Agencies in Japan, 2004

Sales Rank	Company	HQ	Parent company	Sales Figure	2004 gross sales (¥ millions)	2004 gross sales (US\$ millions)*	% growth on 2003 sales
1	Staff Service	Tokyo		O	326,132	3,142	29.0
2	Tempstaff	Tokyo		O F	201,200	1,938	17.2
3	Pasona	Tokyo		O	179,156	1,726	14.1
4	Adecco	Tokyo	Adecco (Switzerland)	F	177,500	1,710	14.5
5	Recruit Staffing ¹	Tokyo	Recruit	O	107,026	1,031	-
6	Nichii Gakkan	Tokyo			104,314	1,005	7.9
7	Manpower Japan	Tokyo	Manpower (US)	O	92,600	892	5.2
8	Fuji Staff	Tokyo		O F	39,318	379	11.5
9	Intelligence	Tokyo		O	33,582	324	13.2
10	Human Solocia	Tokyo		O	31,044	299	15.5
11	Tokyo Marine Nichido Carrier Service	Tokyo	Tokyo Marine Nichido		26,705	257	20.0
12	Matsushita Excelling Staff	Tokyo	Matsushita Electric Co.		25,170	243	40.9
13	People Staff ²	Aichi		O	24,359	235	20.5
14	Avantice Staff	Tokyo	Maruboni		22,675	218	15.1
15	Mates	Tokyo	Mitsubishi Corp.	O	22,197	214	-2.6
16	Human Trust	Tokyo		O	18,070	174	15.8
17	Caplan	Tokyo	C. Itoh & Co.	O	13,883	134	11.4
18	Allo business mates	Osaka	Matsushita Electric Works		13,735	132	28.0
19	Niscom ³	Tokyo			13,434	129	11.5
20	Diamond Staff Service	Tokyo	Tokyo MitsubishiBank		12,797	123	14.3

Source: Adapted from BJF (2005) Report on 'Talent Dispatch Company gross sales ranking'. Translated from the Japanese. Available from: <http://www.jinzaibf.co.jp/toukei.html>

Some firm sales figures include activities beyond traditional 'temporary staffing'. O=Outsourcing; F = Franchise operations

¹Includes Orifa Service sales until April 2004. ²Sales figures include internal dispatch, but excludes IT business. ³Includes Varnish COM, new IT dispatch subsidiary formed in 2005.

*Uses December 2004 average monthly exchange rate of 1 US\$ = ¥ 103.80. US Dollar figures rounded to nearest million.

Change Dynamics in Japan

The 2004 lifting of restrictions on staffing for manufacturing and medical services and on the lengths of staffing contracts for the initially deregulated occupational fields has accelerated growth of the staffing industry in Japan. When this is combined with the move of large employers away from lifetime employment and broader societal changes in attitudes to work, continued strong growth of the staffing market seems likely; Datamonitor anticipates the market reaching \$25.6 billion in size by 2009. Moreover, there is still room for further deregulation of the industry as contracts are limited to one year in duration (an outline of the current regulation of staffing in Japan is provided in Working Brief 16). Therefore, future growth is expected in this market.

Staffing firms in Japan currently enjoy high margins and profitability, particularly when compared to more mature markets such as the UK and the US. When combined with industry deregulation and changing working norms, this makes the Japanese staffing market attractive for investment. The numbers of international firms present in the market is increasing year on year, and a period of firm consolidation is anticipated by many in the industry. Given that Japan is now one of the largest staffing markets globally, there is relatively few of the top 20 global staffing firms present (see Working Brief 17), especially when compared to other large markets such as France. An increase in international firm presence will impact upon competition in the market. However, the particularities of the Japanese market are pronounced and require a high level of adaptation by international firms in their business practices and models.

Conclusion

The Japanese staffing market has witnessed a period of rapid growth over the last two decades. While a number of firms had previously been offering contingent labour services under the guise of subcontracting, the 1986 Worker Dispatch Law presented a key event in the development of temporary staffing. This Law offered a legitimization of the activities of temporary staffing firms, giving rise to a substantial and continuing growth in customers and 'temps'. Japanese staffing firms like Staff Service, Tempstaff and Pasona have grown greatly in size and have come to dominate the market. In addition, the number of international firms operating in this market has increased. Staffing firms placed over 2 million temps in 2004, forming an unprecedented level of non-standard form of work in Japan. The particularities of the Japanese market when placed in comparison with other large staffing markets such as the UK, France and US are pronounced and will be further examined in Working Briefs 16 and 17. The Japanese market has still further

potential for growth, particularly related to the more recent opening of manufacturing sectors, and the proposed extension to the lengths of contracts.

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