

Geographies of Temporary Staffing Unit *Working Brief 16*

The Japanese Staffing Market: Industry Practices and Regulatory Change

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March 2006*

Introduction

As discussed in Working Brief 15, the last two decades in Japan have witnessed significant changes in the regulation of the labour market. In particular, the deregulation of job placement and temporary staffing has aimed to make the Japanese labour market more flexible and responsive to business needs. This Working Brief outlines the different forms of employment types in Japan and the chronology of labour market deregulation to-date. The impact of this deregulation will also be outlined.

Employment Types in Japan and Labour Market Deregulation

Employment laws in Japan have traditionally allowed two methods of labour force reduction by businesses. The first, 'shukko', involves moving the employee to a subsidiary of the firm, but the employment relation remains with the original company. The second, 'tenseki' involves the worker transferring completely to a subsidiary and working under different employment conditions. Under both systems, the employee remains within the boundaries of the original firm. In addition to this, part-time workers and subcontracting relationships are also used to offer internal flexibility within companies (see Table 1). During economic stagnation in the 1990's, companies have found it difficult to reduce their headcounts and so began to demand greater flexibility in the labour market and a diversification of employment conditions. One government response has been the gradual relaxing of temporary staffing regulations.

Table 1: Japanese employment types

Employment type	Japanese term	Notes
Part-time	Paato	A popular form of utilising external personnel
Contract	Keiyuku and Shokutaku	Employment over a fixed duration
Outplacement	Risuyara Shien Jigyo	Often used when restructuring support business
Subcontracting	Ukeoi	Two types of ukeoi: 1. Kôgai Ukeoi: off-plant within keiretsu 2. Kônai Ukeoi: on-plant – workers sent to user company under their own managers Difficult to distinguish from worker dispatch
Post 1964		
Full-time	Job placement	Introduction of fee-based job placement services by private companies
Post 1986:		
Temporary	Haken	Two types of employment: 1. Jôyô Gata: ‘employment type’ – the employee is employed by the staffing agency and sent on dispatch 2. Tôroku Gata: ‘registered type’ – the worker is only employed when on dispatch Only possible following the Temporary Staffing Services Law

The Worker Dispatch Law of 1986 allowed for two types of firms to operate in the temporary staffing space:

1. ‘Ippan’ – general temporary staffing. This requires permission from the Ministry of Labour. Only this type of firm can use both ‘employment type’ (jôyô gata) and ‘registered type’ (tôroku gata).
2. ‘Tokuei’ – special employment type. This type of enterprise can only ‘use employment type’ contracts and can operate under less scrutiny from the Ministry of Labour.

According to Ministry of Health, Labour and Welfare, in 2004 there were 6,794 enterprises operating general temporary staffing (53% of total), compared to 5,927 special worker dispatch firms. The majority of assignment lengths are for under three months (65.1%) and between three and six months (21.9%).

The deregulation of staffing in Japan has been gradual, with Amendments to the Temporary Staffing Services Law and Employment Stability Law occurring in a series of stages (see Table 2). The initial 1986 law was limited to a small number of types of work (such as secretarial and office support workers). However, given the size of the Japanese economy, this still created a large market for staffing agencies and there was an explosion in the number of firm start-ups and

international firm entry (see Working Brief 17). Ten years later, the number of types of employment opened to worker dispatch has risen to 26.

Table 2: Chronology of Laws relating to staffing

Year	Law(s)	Details
1947	Enactment of Employment Stability Law	Established public employment agencies, based on view that job placement services are principally the role of the govt.
1964	Amendment to Provisions of Employment Stability Law	Deregulated applicable jobs and introduced fee-based job placement services by private companies
1986	Enactment of Temporary Staffing Services Law	Accepted 13 types of work for temporary staffing due to increased demand for such services
	Amendment to Temporary Staffing Services Law	Accepted three more types of work for temporary staffing services
1996	Amendment to Temporary Staffing Services Law	Accepted 10 more types for temporary staffing (raising total to 26)
1997	Amendment to Provisions of Employment Stability Law	Liberalised market entry by private companies offering fee-based job placement services
1999	Amendment to Employment Stability Law	Liberalised the types of work eligible for temporary staffing and occupations for job placement
	Amendment to Temporary Staffing Services Law	Clarified types of work not eligible for temporary staffing (5) or job placement (2)
2000	Amendment to Employment Stability Law Amendment to Temporary Staffing Services Law	Lifted prohibition on temporary staffing in cases in which personnel are expected to become permanent employees
2004	Amendment to Employment Stability Law	Simplified approval/notification procedures for service providers
	Amendment to Temporary Staffing Services Law	Permitted temporary staffing in manufacturing field, and in medical field in cases in which personnel are expected to become permanent employees

Source: JETRO, Ministry of Health, Labour and Welfare

The 1999 law is seen as particularly significant to the staffing industry when government regulations change from a 'positive' list of work types allowed, to a smaller 'negative' list of types prohibited. For many firms this reflected a shift in attitudes to staffing whereby particular industries were protected, but the economy as a whole was open to flexible forms of employment. This was followed in December 2000 with a lifting of the ban on temporary-to-permanent (or 'temp-to-perm') employment, so that temporary workers were then able to be permanently hired after their contract expired. This has encouraged individuals to work on temporary contracts with a view to securing permanent work. Current regulations affecting the staffing industry in Japan take three forms:

1. *Staffing firm establishment* – notification to the Ministry of Health, Labour and Welfare is required for ‘special employment type’ firms. Approval is required for ‘general’ temporary staffing services, and fee-based job placement services.
2. *Work restrictions* – harbour transport, construction, security and medical work are prohibited from temporary staffing and job placement. Temporary staffing for future full-time employees is now allowed in the medical field.
3. *Work duration* – restrictions apply on the length of dispatch allowed in all work categories, with the exception of the 26 work types included in the 1999 law amendment.

In addition, firms offering both permanent placement and temporary staffing are subject to restrictions on their business operations. Information on candidates cannot be stored in shared databases, and the two divisions must be housed in distinctly separate spaces in offices.

Impacts of Regulatory Change on the Staffing Market

The deregulation of employment laws in Japan has allowed a large, and profitable, industry to emerge and evolve. Given the traditional structure of employment, and nature of relationships between the individual and the firm, the economic and societal changes resulting from labour market deregulation have been pronounced and warrant greater attention that allowed in this brief. However, there are a series of impacts on the business of staffing that will be outlined.

First, the growth in the number staffing firms has been huge. The number of dispatch workers in Japan has risen from 855,330 in 1997 to 2,266,044 in 2004, now forming a significant proportion of the working population. Second, the market has seen the emergence of a number of very large Japanese staffing firms, such as Staff Service, Tempstaff, Pasona and Recruit Staffing, as well as the entry of some of the global staffing agencies such as Manpower and Adecco (see Working Brief 10). These firms have played a role in demanding and formulating the regulation of the industry.

Third, the industry has evolved under the particularities of the Japanese economy and competition cultures. Margins in the industry remain high, around 30% in temporary staffing and 40% in permanent placement. This has served to encourage investment by foreign firms in the Japanese market. Fourth, there has emerged a uniquely Japanese model of staffing business that has evolved according to the specific economic and cultural particularities of the country. For example, different staffing specialisms in Japanese firms tend to be contained within small subsidiaries rather than company divisions, and the processes of candidate selection and placement are highly culturally specific. Foreign firms entering the Japanese market have had to

alter their business models to meet regulatory demands around interviewing candidates and office structures.

Conclusion

The deregulation of the labour market in Japan has occurred incrementally, and as a result of business demand and economic necessity. Specifically, the Japanese government was persuaded by political pressure, and the activities of a number of firms working illegally by offering contingent labour services since 1966, to investigate possible forms of regulation. This process resulted in the 1986 Worker Dispatch Law and represents an example of the Japanese government needed to conform to neo-liberal policy orthodoxy. Current issues regarding regulation tend to relate to the length of contract, and there is call from within the staffing industry (voiced through the Japanese Staffing Services Association) to lift restrictions on the length of contract in all work types. In conclusion, the regulatory changes have allowed the staffing industry to emerge and grow, and has resulted in the beginning of a fundamental shift in attitudes to work in Japan.

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