

## Geographies of Temporary Staffing Unit *Working Brief 17*

### **The Japanese Staffing Market: International Firm Presence and Embeddedness**

*Neil M. Coe, Jennifer Johns & Kevin Ward*  
*March 2006*

#### ***Introduction***

The progressive deregulation of the Japanese staffing industry since 1986 (see Working Brief 16) has resulted in significant and profound changes in the labour market and in the nature of employee and employer relationships. The number of firms supplying contingent labour within the Japanese economy has rapidly increased, particularly since the opening of the market to 26 work categories in 1996. As outlined in Working Brief 15, the largest firms in the market at present include both Japanese-owned and international firms. This Working Brief aims to outline how international staffing firms have entered the Japanese staffing market, their impact, and the degree to which they have adapted to suit the particularities of the Japanese market and society.

#### ***Charting the entry of foreign staffing firms in Japan***

The first staffing agency to begin operations in Japan was Manpower in 1966 who began offering secretarial and translating services to international firms operating in Japan. The numbers of placements remained low, and operated beyond the gaze of regulators. A small number of executive search companies from the US and Europe also entered Japan during the 1980s to service existing international clients in this market. This brief focuses on the entry of the global staffing agencies to Japan, and Table 1 outlines the date and nature of entry by those of the Top 20 agencies (see Working Brief 8) present in Japan.

**Table 1: Global staffing agency entry to Japanese staffing market**

| <b>Firm</b>                      | <b>Firm Origin</b> | <b>Date</b>    | <b>Mode of Entry/Growth</b> | <b>Notes</b>  | <b>Current Brand</b> |
|----------------------------------|--------------------|----------------|-----------------------------|---|----------------------|
| <b>Adecco</b><br>(Adia pre-1996) | Switzerland        | 1985           | Greenfield                  | Temporary staffing  | Adecco               |
|                                  |                    | 1990/1         | Acquisition                 | Acquired a company with ¥ 2 bn sales  | Adecco               |
|                                  |                    | May 1999       | Acquisition                 | Acquired 100% of Career Staff (Japan) with sales in 1998 of \$450m. General temporary staffing                            | Adecco               |
|                                  |                    | 2004           | Greenfield                  | Establishment of contracting subsidiary   | Adecco               |
| <b>Kelly Services</b>            | US                 | May 2002       | Alliance                    | Business alliance with Nisso Corporation to provide outsourcing services  | Nisso                |
|                                  |                    | November 2002  | Alliance                    | Business alliance with Tempstaff (Japan) to provide general temporary staffing  | Tempstaff            |
|                                  |                    | February 2005  | Acquisition                 | Acquired under 5% of Tempstaff for \$18m  | Tempstaff            |
|                                  |                    | September 2005 | Joint venture               | Joint venture with Tempstaff and Sony Corp. to service Sony Corp. Level of investment undisclosed                         | Tempstaff Kelly Inc  |
| <b>Manpower</b>                  | US                 | 1966           | Greenfield                  | Established temporary staffing  | Manpower             |
|                                  |                    | 2001           | Acquisition                 | Acquired shares in Mates (Japan). Level of investment undisclosed   | Mates                |
| Right Management Consultants     | US                 | 2004           | Greenfield                  | Established contracting subsidiary  | Skill Partner        |
|                                  |                    | 1994           | Greenfield                  | Entered market offering outplacement services   | Right Japan          |
|                                  |                    | March 1999     | Acquisition                 | Acquired 20% of Way Station (Japan), a career transition consulting company. This share was raised to 51% in October 2000 | Right Japan          |
|                                  |                    | January 2004   | Acquisition                 | Manpower acquired Right Management Consultants  |                      |

|  |                              |  |  |  |  |
|--|------------------------------|--|--|--|--|
| <b>Michael Page</b><br>Morgan and Banks<br>TMP Worldwide | UK<br>Australia<br>US        | Early 2001<br>1995<br>January 1999   | Greenfield<br>Acquisition<br>Acquisition | Established specialist financial staffing<br>Acquired The Wright Company<br>Acquired Morgan and Banks. Established monster.com online job board. In 2002 TMP Worldwide split into two – Hudson and Monster.com. TMP Japan (including monster.com in Japan) sold to Audax Group in June 2005. | Michael Page<br>n/a<br><b>Hudson</b> Global<br>Resources |
| MRI (part of <b>CDI Corp.</b> )                          | US                           | March 2004   | Franchise                                | Franchise agreement established with Fujistaff for search and recruitment services   | Fujistaff/MRI Japan                                      |
| <b>Robert Half</b>                                       | US                           | September 2001   | Greenfield                               | Established consulting and auditing operations   | Protiviti  |
| <b>Robert Walters</b>                                    | UK                           | January 2000<br>March 2006   | Greenfield<br>Greenfield                 | Permanent placement activities established<br>Introduction of temporary staffing services  | Robert Walters<br>Robert Walters                         |
| <b>Vedior</b> (Select pre-November 1999)                 | Netherlands<br>(UK pre-1999) | 1999   | Joint venture                            | Established Fairplace Consulting Japan. Joint venture between Select, Fairplace and Staff Service. Investment levels undisclosed   | Fairplace Consulting                                     |
|  |                              | 1999   | Acquisition                              | Acquired shares in Panache (IT staffing). Level undisclosed and disposed in October 2003   | Panache  |
|  |                              | 1999   | Acquisition                              | Acquired 51% share in Niscom (IT staffing). Sold back to management in 2004 for €128m (\$174m)   | Niscom   |
|  |                              | September 2003   | Acquisition                              | Acquired shares in SuperNurse (medical staffing). Level undisclosed  | SuperNurse   |
|  |                              | February 2005  | Joint venture                            | Vedior Career established as joint venture with Staff Service (Japan) to provide permanent placement services  | Vedior Career  |
| October 2005   | Joint venture                | Vedior Contec established as joint venture with Frontier Construction (Japan) to provide construction recruitment services | Vedior Contec                            |  |  |

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Source: Company annual reports, websites and interview material. Note that firms names in bold identify those of the Top 20 ranked in Working Brief 1.

The next global staffing agency to enter the market was Adecco in 1985, in anticipation of the introduction of the Temporary Staffing Services Law. The deregulation of the industry was a crucial turning point in the development of employment services in Japan, as for the first time *Japanese* companies, rather than just international firms present in Japan, began to note the advantages of utilising contingent labour and developing flexible labour forces. The role of staffing agencies in increasing awareness in Japanese firms of the advantages of utilising temporary staff has been significant, and it is in the mid-1980s that many of the large Japanese firms present in the market today – such as Tempstaff and Pasona – were founded. For a number of years the Japanese firms tended to service the domestic businesses, with international firms focusing on global companies with a presence in Japan. This situation has begun to change over recent years, however, particularly as legislation has opened up large sections of the workforce to temporary staffing. As the industry in Japan has evolved, societal attitudes to flexible forms of work have begun to change. However, the Japanese market still presents a challenge to international firms, greatly impacting on how they enter the market and operate subsequently.

### ***International Staffing Agencies: different methods of entry the Japanese market***

As shown in Table 1, international firms tend to enter the Japanese market through three different methods (or a combination of these forms):

1. *Greenfield* or 'organic': under this method international firms - such as Michael Page and Robert Walters- enter the market through establishing their own offices and then grow organically. Often the firms have entered the market at the request of existing international clients who wish to use their services in Japan. In cases such as that of Adecco, greenfield entry occurs with a view to subsequently making a large acquisition and therefore performs an information-gathering role.
2. *Acquisition*: many international firms have acquired Japanese-owned staffing businesses as a mode of entry. However, when compared to other staffing markets, the level of acquisition by international firms is relatively low. In the case of Japan, the majority of acquisitions and market consolidation has been conducted by Japanese firms. There are a series of cultural reasons for this related to the unique set of negotiation practices involved in purchasing a Japanese business.

3. *Alliances and joint ventures*: many international firms, such as Vedior and Kelly Services, have chosen to enter the Japanese market through joint ventures with domestic agencies, interlaced with small acquisitions of shares in those firms. These forms of collaboration with domestic firms are more common than in many other countries, reflecting the particular importance of local knowledge and expertise in this market.

The attraction of the Japanese staffing market to global firms is obvious – the market is huge, the margins are high, and many firms are highly profitable. This alone draws staffing firms to the market, and other international staffing agencies are looking to enter the market. In addition, a presence in Japan is often required by firms wishing to service clients across all the territories in which they are present, including Japan.

### ***The embeddedness of international staffing firms in Japan***

The particularities of the Japanese market are pronounced and are highly significant in the business context. This has greatly affected the nature of international firm participation in the staffing industry, in a number of ways. First, many firms find that it is essential to have collaborative relationships with domestic agencies, in an acknowledgement of the importance of acquiring local knowledge (and language skills). Understanding the labour laws and regulatory frameworks, in particular, can be difficult without the right expertise. Second, the firm may have to be organised differently compared to operations in other territories, particularly if both temporary and permanent placements are being made (see Working Brief 16).

Third, the day-to-day operation of the staffing is conducted in particular ways, as demanded by the cultural specificities of Japanese business and society. For example, the relationships between the worker being dispatched and the staffing agency is increasingly conducted using technologies such as mobile phones and computers, and the relationship between the staffing agency and the client operates on a much tighter response time than in markets such as the US and UK. Fourth, the staffing agencies may have to employ rather different marketing strategies in Japan as strong branding and recognition are very important. In addition, staffing firms in Japan tend to develop specific brands for each of their different specialisms. While this does not radically differ from many other staffing markets, the Japanese firms are themselves split into separate business subsidiaries to operate these brands. This form of firm organisation is unusual in the staffing industry context, and can influence the organisation of international firms if they seek to adapt their firm structures according to Japanese client expectations. In short, there are a large number of ways in which international firms have to operate differently in the Japanese market. This

demands time and effort, but the current growth and high margins in the market can provide financial rewards.

### ***Conclusion***

The importance of Japan in the global staffing industry is set to increase. Current interest in the market is due to the rapid growth and profitability of the Japanese market, which is attracting increasing levels of investment from abroad. The industry is also set to consolidate further as domestic firms continue to acquire their smaller competitors. It is likely that other international agencies may attempt to enter the market in the future, but the cultural barriers to entry are significant, and dissuade some attracted agencies. For international staffing firms to have successful businesses in Japan is it essential for them to adapt to the cultural specificities of the market and to strongly embed themselves in Japan.

**For more information about this working brief, please contact:  
Jennifer Johns ([j.johns@liverpool.ac.uk](mailto:j.johns@liverpool.ac.uk))**

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