

The Temporary Staffing Industry — A Growth Industry in an Era of Increasing Labor Mobility

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Introduction

The temporary staffing market is undergoing vigorous growth. Due to the changing labor market and workers' increasingly diverse values and employment needs, non-regular employment has progressed to the point that temporary staff workers have become as important to companies as part-time and contract workers.

For companies, advantages include corporate streamlining through the reduction of fixed labor costs, and having a ready supply of skilled labor for starting up new operations, accommodating seasonal fluctuations in business, and so forth.

Along with the transformation of the lifetime employment system, companies are moving toward more diversity in hiring strategies, types of employment, and work styles (flexibility in workplaces and work hours), while a social consensus is forming to eliminate age discrimination and mandatory retirement. Despite the temporary labor, the temporary staffing industry has developed methods for personnel evaluation and matching of individual competencies with company needs. In addition to this capability to coordinate labor demand and supply, the industry's system of recruiting and training human resources is expected to significantly impact the labor market in the future.

In this paper, we examine the status of the temporary staffing industry following the revision of the industry law in 1999, and identify trends in this fast growing industry while referring to the findings of the Council for Regulatory Reform.

1. Temporary Staffing Services as a Growth Industry

According to a report by the Ministry of Health, Labor and Welfare (*Report and Statistical Survey of Manpower Dispatching Businesses*), temporary staffing firms posted revenues of 1.4605 trillion yen in fiscal 1999, and employed approximately 1.07 million temporary staff workers (adjusted for 7-hour workday).

Another survey (*Special Labor Force Survey*) found that there were 450,000 temporary staff employees as of February 2001 (an increase of 120,000 from the previous year), comprising 0.9 percent of the total workforce (excluding executives). Although the proportion of women is overwhelming, the number of men has been growing noticeably (Figure 1).

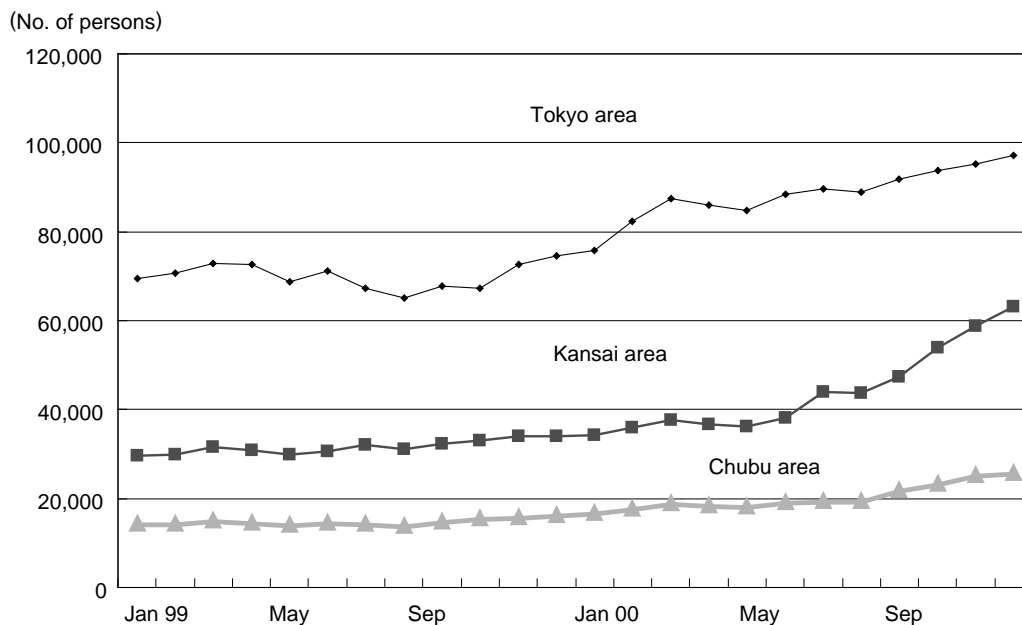
Figure 1 Number of Temporary Staffing Employees

	Total		Men		Women	
Aug. 1999	280,000	(0.6%)	60,000	(0.2%)	210,000	(1.0%)
Feb. 2000	330,000	(0.7%)	90,000	(0.3%)	250,000	(1.2%)
Aug. 2000	380,000	(0.8%)	90,000	(0.3%)	300,000	(1.5%)
Feb. 2001	450,000	(0.9%)	110,000	(0.3%)	340,000	(1.5%)

Note: Number in parentheses shows the ratio to total workforce (excluding executives).
 Source: Ministry of Public Management, Home Affairs, Post and Telecommunications, *Special Labor Force Survey*.

In 2000, the cumulative number of both long and short-term workers dispatched in the Tokyo area grew 26 percent to 1.06 million, topping the one-million mark for the first time. Market growth was widespread: the Kansai area grew 40 percent to 530,000 persons, while the Chubu area grew 38 percent to 240,000 persons (Figure 2).

Figure 2 Number of Dispatched Workers by Region



Note: For Tokyo area, shows number reported by 23 member companies in Tokyo, Kanagawa, Saitama, and Chiba prefectures. For Kansai area: 26 companies in Osaka, Kyoto, and Hyogo prefectures. For Chubu area: 15 companies in Aichi prefecture.
 Source: Temporary Work Services Association of Japan.

Moreover, the number of certified business establishments (general registration and staffing services) reached 5,227 in January 2001, and is expected to exceed 6,000 during the year.

A major behind this growth was the revision of the Manpower Dispatching Business Law, which deregulated the job fields subject to temporary staffing in December 1999, and lifted the ban on temporary-to-permanent staffing in December 2000, thereby encouraging new entries including job placement firms.

Figure 3 Revisions to the Manpower Dispatching Business Law

Date	Revision
Dec. 1996	10 new job fields such as R&D and project planning and drafting are added to the 16 job fields allowed for temporary staff work, bringing the total to 26.
Dec. 1999	Job field restrictions are liberalized in principle (creation of negative list).
	Excluding harbor transport, construction, security, medical, and manufacturing work, almost all job fields are opened to temporary work.
	Duration of temporary work in new job fields is limited to 1 year.
Dec. 2000	Ban is lifted on temporary-to-permanent employment, so that temporary workers can be permanently hired after temporary work contract expires.

Source: Compiled by *NLI Research Institute*.

(1) Job Field Deregulation and the 1-Year Rule

In the revised law, the former “positive list” of applicable job fields was replaced by a “negative list” that in principle lifted the ban on most job fields, resulting in a strong demand for skilled personnel in specialized areas such as sales, finance, medicine and IT. But in return for deregulating job fields other than in construction, private security, and medicine, a one-year limit has been applied on temporary staffing positions. Also, regulations have been reinforced regarding the protection of personal information and ban on interviews prior to placement.

(2) Temporary-to-Permanent Staffing — A Promising New Hiring Method

In the temporary-to-permanent staffing system, a temporary staff employee who has worked at a company for a prescribed duration can be directly hired by the company based on mutual agreement (Figure 4).

During the temporary staffing period, applicants can decide on the suitability of the company and position offered, while the company can monitor the person’s competence. Thus it is being eyed as a

promising method for hiring in the new graduate and old-aged labor markets.

For example, C. Itoh Trading Company, who accepted new graduates as temporary staff employees in April 2000, has approximately 740 group companies. Although small, less known group companies have difficulty attracting good personnel, the group's temporary staffing service firm, Career Plaza, was able to collectively recruit new graduates as temporary staff employees. In the first year, five of the ten temporary staff employees were hired as permanent employees by clients.

Moreover, in preparation for permanent hiring in April 2002, the firm collectively hired approximately 100 persons for 50 companies, and put in place temporary-to-permanent work contracts. In February 2000, Pasona also had approximately 3,000 persons registered for temporary-to-permanent staffing. As of May 2001, 100 persons were working, and over 30 persons had been hired permanently.

Compared to the increasingly perfunctory nature of job interviews in recent years, the temporary-to-permanent staffing system offers companies the merit of being able to make hiring decisions after watching prospective employees perform work. Small and mid-sized companies, who have limited job openings, can particularly benefit from the reduction in hiring risk.

On the other side, prospective employees have the opportunity to evaluate the company and position based on first hand knowledge. Moreover, when opportunities for permanent employment are limited and age limits are a further barrier, the system provides a better opportunity to approach the company.

One function of temporary staff firms that has emerged recently is what might be described as a "hiring agent" for employers (including interviews, training, etc). Since temporary-to-permanent staffing involves personnel functions such as job matching and training and development, and can earn placement fees if successful, it represents a new job placement business that is competitive with other personnel agencies.

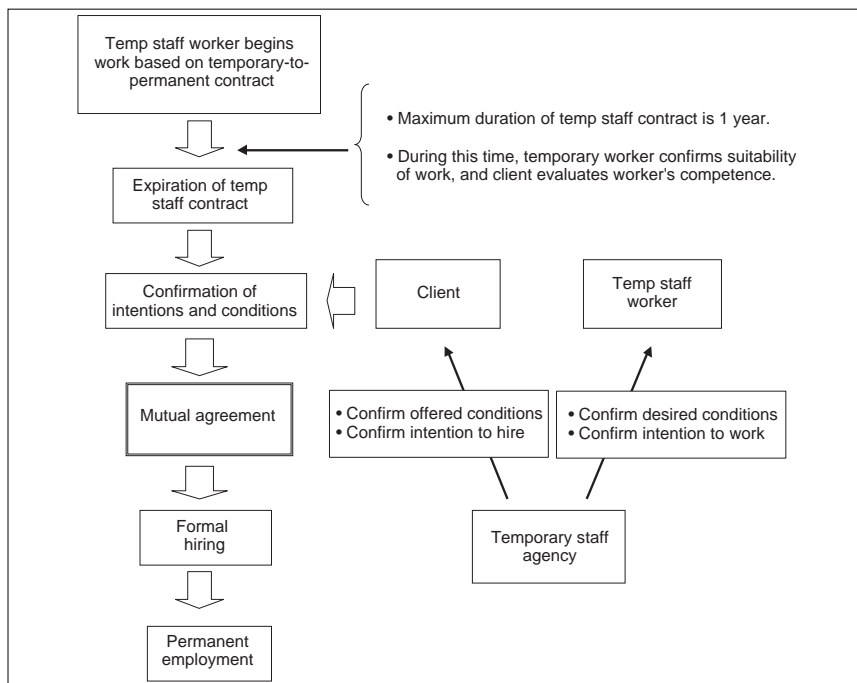
However, there are also times when either the worker or client decide not to proceed with permanent hiring after the contract has expired. In such cases, since specific reasons must be presented by the client, new problems are expected to arise.

New developments include outsourcing for the manufacturing sector in anticipation of further deregulation, diversification into the newly deregulated fields of sales force temporary staffing and sales division outsourcing, and training and development to meet the perennial labor shortage in finance and IT (Figure 5).

Meanwhile, there is a growing price gap in temporary staff rates between specialized job fields such as finance and pharmaceuticals, and general clerical fields such as office equipment operation. In the

Tokyo area, market rates for skilled temporary staff employees is 2,500 to 3,000 yen per hour for financial areas such as investment trusts and derivatives, 2,000 to 3,000 yen for IT-related technical support, and as much as 5,000 yen for software development.

Figure 4 Temporary-to-Permanent Staffing



Source: Compiled by NLI Research Institute.

Figure 5 New Developments in Temporary Staffing Services

New development	Description
Outsourcing of manufacturing staff (Manpower Japan Co.)	Entered staffing business for manufacturing sector. Set up subsidiary for manufacturing.
Babysitter (Tempstaff Co.)	In addition to providing residential babysitters, also manages corporate and public child care facilities.
Sales force staffing (Pasona Inc.)	Provides full sales staff to carriers at peak demand when long distance service was deregulated, and trains sales team leaders as well. Demand for sales staff is also growing among car dealers and IT companies.
Training of call center operators (Tempstaff Co.)	Combines Internet and classroom instruction to train novices to become certified to sell securities.
Sales division outsourcing (Backs Group Inc.)	Trains and provides sales support staff for cell phone sales outlets and discount stores.
Training of IT technicians (Tempstaff, with Intel)	Collaborates with manufacturer in training IT technicians.
Entry by certification schools (TAC)	Financial certifications school enters the temporary staffing business.
Project intermediation (Adecco Career Staff)	Due to shortage of registered employees in IT-related areas, began acting as project agent by accepting IT-related undertakings for outsourcing to individual proprietors.

Source: Compiled by NLI Research Institute.

2. Cross-Border Temporary Staffing Services to Fulfill IT Needs

The strong demand for technicians in the IT field has stimulated staffing services that transcend national borders. These services recruit technicians by building networks in countries with top class technicians such as India and China, bring them to Japan, and dispatch them as staffing employees to clients.

Spurred by the year 2000 problem, the trend to bring IT related personnel to Japan grew full-fledged three years ago. Staffing firms have taken measures to solve the numerous problems associated with receiving foreign technicians, including training in the Japanese language and business practices prior to arrival, setting up dormitories, and otherwise trying to improve the work environment.

Tempstaff plans to start up a staffing business by the end of the year that sends Japanese IT engineers to Silicon Valley. It is a personnel development program that anticipates the future needs of Japanese companies; the engineers will study advanced technologies not readily available in Japan, and upon returning, be dispatched or placed in Japanese companies. For example, with the Linux operating system capturing a 32 percent share in the U.S. personal computer market, there is an anticipated demand for IT technicians to use Linux and Java software.

Figure 6 Cross-Border Staffing Services to Recruit IT Personnel

Company	Description
Just Competent Human Service Co.	Conducts placement tests in China through local temporary staffing organization. Successful applicants with inadequate Japanese language ability are trained in language program developed with Tokyo Shoka Gakuin.
Pasona Tech	Set up training site for IT technicians in Xi'an, Shanxi Sheng, China. Recruits local university graduates and experienced workers, and dispatches approximately 100 persons per year as contract employees.
Recruit Staffing Co.	Began temporary staffing service of Chinese technicians to Japanese companies in collaboration with a hi-tech corporate group financed by Beijing University in China.
Profecio Inc	Began temporary staffing service of Indian technicians in collaboration with Indian software developer Patini Computer Systems (PCS). Dispatched 50 employees to 15 clients in first year, and aims to increase to 150 employees in 3 years.
Manpower Japan Co.	Will begin dispatching foreign IT engineers from India and elsewhere to Japan in January 2002. Aims to dispatch 100-150 employees in first year.

Source: Compiled by NLI Research Institute.

3. Diversifying Needs of Temporary Staff Employees Regarding Work

We next examine the work attitudes of persons who have chosen to become temporary staff employees. In a 1999 survey by the Ministry of Health, Labor and Welfare (*Survey of the Diversification of Types of Employment*), when temporary staff employees were asked whether they valued quality of life more than work, 43.7 percent of men and 37.5 percent of women chose quality of life, while only 25.0 percent of men and 1.2 percent of women valued work.

As for the reason for choosing the present form of employment, responses reveal a diversity of attitudes and motivations. While the most common response was that no companies offered employment as regular employees (29.1 percent), other responses included not wanting to be bound by the company (26.8 percent), being able to utilize a certification or specialized skill (25.7 percent), being able to enjoy home life or other activities (21.9 percent), and wanting more income (19.8 percent).

On the other hand, temporary staff employees have a strong desire to improve skills and competencies. The proportion wanting to improve occupational competence was 77.4 percent, equivalent to the level among regular employees, and higher than among other non-regular employees including contract and part-time employees (Figure 7).

Figure 7 Desire to Develop Occupational Competence

Type of employment	Total (%)	Want to improve competence	Don't want to improve competence	No answer
Regular	100.0	80.1	19.5	0.4
Non-regular	100.0	52.7	46.5	0.8
Contract	100.0	69.7	29.2	1.1
Temporary hire	100.0	67.7	32.1	0.2
Brief part-time	100.0	44.0	55.0	1.0
Other part-time	100.0	55.3	44.2	0.6
On loan	100.0	74.7	23.6	1.7
Temporary staff	100.0	77.4	22.4	0.2
Other	100.0	47.7	51.4	0.8

Source: Ministry of Health, Labor and Welfare, *1999 Comprehensive Survey on the Diversification of Forms of Employment*.

4. Aggressive Stance Toward Adopting IT

Nowadays, clients frequently place collective orders to be filled by multiple staffing firms, while temporary staff employees often register with several staffing firms. It is a rapidly changing and competitive industry, where securing and retaining good temporary staff employees is a difficult task. Staffing firms are faced with the critical issues of improving coverage rates with respect to orders from clients,

and enhancing job matching capabilities between the client's needs competence of temporary staffing employees.

To gain a competitive edge in speed and cost reduction, staffing firms are aggressively adopting IT.

(1) Using the Internet for Registration and Job Matching

The Internet is used for registration and scheduling of job interviews for temporary staff employees. Applicants provide their work history, desired type of work, qualifications and skills, and then schedule a place and time for a job interview. At some firms, this channel accounts for half of all new registrants.

The job matching process has also been automated with systems that rank candidates by suitability based on data on individual preferences, ability and work. At some firms, the job information bank includes not only basic data such as location and work hours, but qualitative data on the work environment and even supervisors' characteristics. Further improvements in job matching accuracy and efficiency are expected.

(2) Using the Internet for Training

With the emphasis on e-Learning, there has also been vigorous activity in web based training (WBT). It enables temporary staff employees to upgrade their skills by taking classes at home on subjects such as IT, accounting, economics, or marketing. The Tempstaff Web Academy is expanding its range of students by collaborating with leading e-commerce firms such as 7dream.com. By recruiting students through various channels, and providing job information to course graduates in line with their skill level, it aims to build a large pool of registered staff (*Nikkei Joho Strategy*, March 2001).

5. Conclusion — Regulatory Reform of Temporary Staffing Services

Deregulation of the labor market can be categorized into those concerning the internal labor market (work contract duration and the free working hours system), and the external labor market (fee-charging and non-fee-charging job placement agencies, and temporary staffing services).

In an interim report, the Council for Regulatory Reform recently proposed the direction of reforms concerning medical care, welfare, child care, education, environment, urban renewal, and human resources (labor).

Recognizing the diversity of work styles, the council proposed to abolish the one-year rule for tempo-

rary work, and partially lift the ban on manufacturing work under certain conditions. On the other hand, the Japanese Trade Union Confederation (Rengo) has taken a conservative stance that calls for a review of temporary staff contracts and conditions regarding the protection of workers.

In an era of increasing labor mobility and rising unemployment rates, the temporary staff service industry has become a key component of the labor market, and is expected to play a growing role in increasing labor mobility without causing unemployment.

In the future, companies need to increasingly recognize the diversity and efficacy of temporary staff employees, while the government must improve the social security system. As for the temporary staff services industry, issues include the qualitative enhancement of temporary staff employees and human resources involved in temporary staff services, and the enhancement of grievance and consultation procedures to resolve individual disputes in the external labor market.

Figure 8 Reform Measures on Human Resources Proposed by the Council for Regulatory Reform

<p>1. Regulatory reform to promote labor mobility</p> <p>① Enhancement of competence development program (FY 2002 budget measure)</p> <p>② Fundamental deregulation of job placement agencies</p> <ul style="list-style-type: none"> • Lift ban on fee collection from job seekers, and abolish guidance on maximum fee charged to prospective employers (during FY 2001) • Deregulate non-fee charging job placement business (review moved forward) <p>③ Deregulation and non-discrimination in recruitment and hiring (fall 2001)</p>
<p>2. Regulatory reform to diversify types of employment</p> <p>① Expansion of temporary staffing</p> <ul style="list-style-type: none"> • Revise Manpower Dispatching Business Law to include manufacturing (review moved forward) • Ban on client's actions aimed at choosing specific temp staff employee (review moved forward) • Expand applicable job fields beyond 26 (during 2001) <p>② Expansion of contract duration</p> <ul style="list-style-type: none"> • Expand maximum contract duration to 5 years (review imminent) • Measure to expand scope of specialist categories (during 2001) <p>③ Expansion of free working hours system</p> <ul style="list-style-type: none"> • Expand specialist-type free working hours system categories (during FY 2001), and deregulate planning-type categories (review moved forward)
<p>3. Reforms to accommodate new image of worker</p> <p>① Revision of Labor Standards Law, etc. (review to begin soon)</p> <ul style="list-style-type: none"> • Review laws, including whether to draft dismissal standards and rules <p>② Improvement of social insurance system, etc. (review to begin soon)</p> <ul style="list-style-type: none"> • Accommodate diversification in types of employment by expanding coverage of employment, pension and health insurance to part-time and temporary staff employees.

Source: Council for Regulatory Reform