

Personnel Staffing Agencies Adapt to the Changing Corporate Employment Environment

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1. The Growing Temporary Staffing Market

(1) A New Labor Supply System

Since the enactment of the Temporary Personnel Placement Agency Law in July 1986, the staffing industry has rapidly developed into a new type of system for the supply of labor.

According to the Ministry of Labor, temporary staffing was a 1.2 trillion yen market in fiscal 1996, with 9,519 agency locations (including ordinary and designated staffing agencies).^{1,2} They carried a pool of 720,000 workers, 298,530 of whom were actually dispatched, filling 221,885 job positions. If these figures are indexed with 1987 as the base year of 100, the numbers for 1996 are as follows: agency locations 137.1, workers actually dispatched 208.3, and 258.7 for job positions filled.

Although three-fourths of the staffing agencies are designated agencies, ordinary agencies account for approximately 90 percent of temporary workers, and 77 percent of workers actually dispatched. Thus about one-half of all temporary staff workers are registered staff members of staffing agencies.

Staff workers account for 1.35 percent (FY 1996) of the nation's employees. By international comparison, this proportion is higher than in Germany (0.63 percent) and France (0.9 percent), countries where staffing is not limited in scope but strongly regulated nonetheless. On the other hand, Japan, despite being limited in scope, is comparable to the U.S. (1.49 percent) and England (1.8 percent),³ where the industry is virtually unregulated.

(2) Structure of Demand – Focus on Corporations

Most of the demand for temporary staff comes from corporations – large companies, second-tier companies, and those in the public sector. While demand spans across almost all industries, it is

particularly high in the finance, insurance, and broadcasting industries. Ordinary agencies primarily cater to the finance, insurance, manufacturing, and information services, while designated agencies carry staff as full-time employees, and mainly serve the information services industry. Moreover, there are great disparities by area, with demand particularly concentrated in major metropolitan areas.

(3) Demand Trends by Work Category

There are 26 categories of work that are open to staffing agencies (Table 1). The 1986 law established 16 categories; 10 new categories were added under an administrative order revision in December 1996.

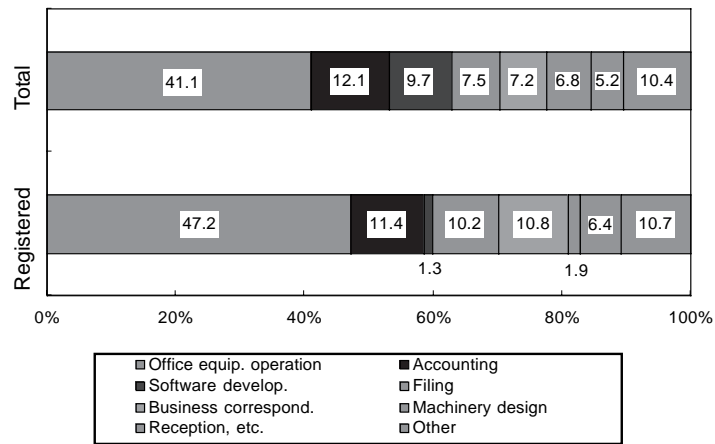
Looking at the number of staff workers dispatched by work category, office equipment operation accounts for 41.1%, followed by accounting (12.1%), software development (9.7%), and filing (7.5%). By revenue, ordinary agencies are highly concentrated in office work (78%), while designated agencies are concentrated in software development (37.9%), machinery design (23.5%), followed by office work (21.1%).

As for the ten new categories, while there has been growth in categories such as research & development and telemarketing, the overall level of activity is still relatively insignificant.

Table 1 The Staffing Industry’s 26 Work Categories

16 Original Work Categories (July 1986)		10 Additional Work Categories (Dec. 1996)
Software development Machinery design Broadcast equipment operation Broadcast program production Office equipment operation Translation/interpretation/dictation Secretary Filing Research Accounting Writing business correspondence Demonstration Tour conductor Building cleaning Building facility oper./inspect./maint. Reception/information/parking/etc.	+	Preparing/editing books OA instruction Interior coordinator Advertising design Announcer R&D Project planning/proposal Telemarketing Sales engineer Broadcast program set building

Figure 1 Dispatched Staff Workers by Work Category



Source: Ministry of Labor

2. Business Cycles and Demand

(1) Dependence on Business Cycles

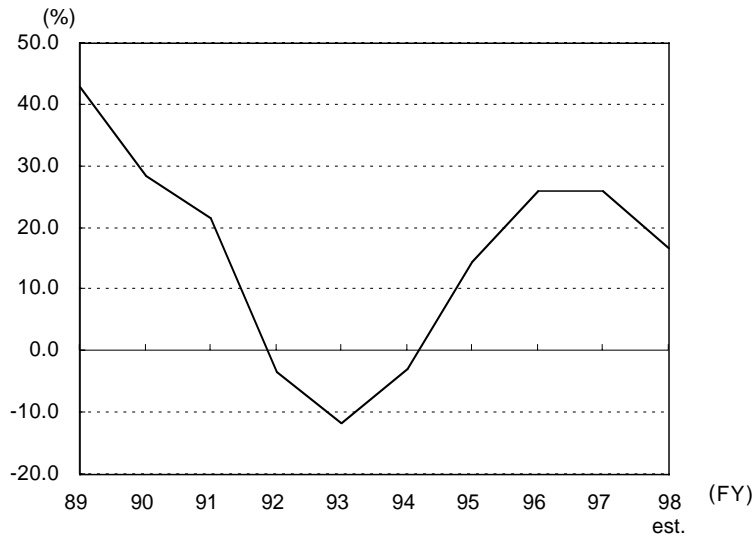
Since the primary clients of the staffing industry are companies, the industry had been regarded as especially susceptible to business cycles.

Indeed, during the bubble period, the industry saw revenue growth of 20-40 percent and more. But in the post-bubble recession, demand plummeted, causing revenue growth at major companies to turn negative from 1992 to 1994.

(2) Diminishing Cyclical Characteristic

However, in the past few years, the close correlation between industry demand and business cycles has practically disappeared. Despite the current recession, the staffing market is growing. Major companies saw revenue growth in excess of 20 percent in fiscal 1996 and 1997 (Figure 2).

Figure 2 Revenue Growth of Major Agencies



Source: *Nikkei Shimbun*

(3) Role as Employment Adjustment Valve

Due to these developments, the role of staffing has shifted from that of supplementing regular company employees, to serving as an employment adjustment valve that responds sensitively to business conditions.

As the recession persists and companies become more serious about cost cutting, they are changing their employment system by reducing their regular employees and curbing new graduate hiring. In a survey of companies that use staffing agencies (Ministry of Labor, 1997), the top reasons cited are “to quickly secure necessary staff” (47.5%) and “need specific expertise or technology” (28.6%). Compared to a survey done two years earlier, more companies cited “to reduce burden of managing employment,” “to limit the number of regular employees,” and “personnel cost is cheaper.”

(4) Increase in Registered Staff

There has been a remarkable increase in the number of registered staff members (Figure 3). Among the major general staffing agencies, approximately 90 percent of the registered staff are women, and the number of new staff members at some agencies has risen almost 40 percent year on year. The increase is particularly pronounced among persons in their late 20s, while in terms of work category, over 70 percent of registered staff were for OA equipment operation, filing

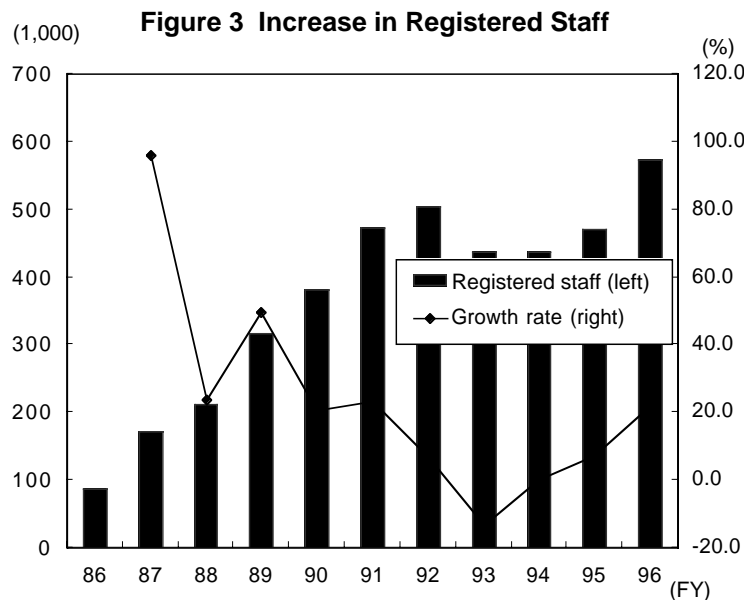
and the like.

For registered staff members, the advantages include: clear job descriptions and responsibilities, opportunity to use special skills, and control over work hours. Over half of the registered staff members cited these types of positive responses. However, the fact is that staffing often actually replaces women employees at companies that are undergoing streamlining and personnel cut-backs.

According to an MACA study, in the past five years the number of women employed as regular company employees has fallen by 200,000, while the number of women working as staff workers nearly doubled from 114,000 to 204,000. In addition, the unemployment rate among women aged 25 to 34 reached a record high of 7 percent (MACA, August and September 1998), and involuntary separations involving restructuring and business failures have risen as well.

According to a survey by *Nikkei Woman* magazine, 24.2 percent of female office workers who responded said they have been discretely encouraged to quit work. This suggests that the increase in women seeking work at staffing agencies may also be linked to the worsening employment environment.

In addition, in some cases women who quit working due to marriage or child birth have registered at staffing agencies to augment their husband's income.



Source: Ministry of Labor

(5) Enhancement of Market Supply

Some companies are cutting back not only women employees but new graduate hiring, and shifting to a more flexible personnel system by using staffing services as needed. While staffing agencies had limited their personnel to those with already acquired skills, some major staffing agencies have responded to this trend by starting to recruit both male and female new graduates.

Staffing agencies are also enhancing their personnel resources with strong growth in the registration and dispatching of specialized male personnel and elderly persons.

Thus the staffing industry is benefiting on both demand and supply fronts from the streamlining and recessionary measures pursued by large companies.

3. Sluggish Growth of Prices

(1) Price Components

Although prices used to rise during past demand expansion phases, they have failed to do so in recent years despite the demand expansion.

Prices vary considerably depending on work category, skill level, and area. Normally, approximately 70 to 80 percent of the invoiced amount is paid out as wages to the staff worker.

The other 20 to 30 percent goes to the staffing agency. Of this amount, 20 percent goes toward the staff worker's social insurance and other welfare costs and training costs. Then what remains after subtracting advertising and other operating costs is the profit to the agency. Thus, staffing is a low margin business even for the fastest growing agencies.

However, in general, since higher-priced work offers a greater profit margin, staffing agencies secure profits by balancing this work with work that is low margin but stable in demand.

(2) Factors Determining Price

Since the staffing business is a labor intensive one, wages account for a large part of revenue.

Normally, applicants will register with several staffing agencies, and when they choose a staff-

ing agency their first criterion is the wage level (63.7%, multiple response). In addition, in securing registered staff members, word of mouth is as important as commercial advertising. Thus staffing agencies seek to secure high quality personnel by paying better wages than their competitors.

However, in practice, the price is affected less by the wage level of staff workers than by trends among client companies and competitors. According to the survey mentioned earlier, client companies have contracts with an average of 3.1 staffing agencies. Moreover, the staffing business is difficult to differentiate by uniqueness and brand strength. As a result, prices tend to be equal among staffing agencies.

(3) Backdrop to Pricing Softness

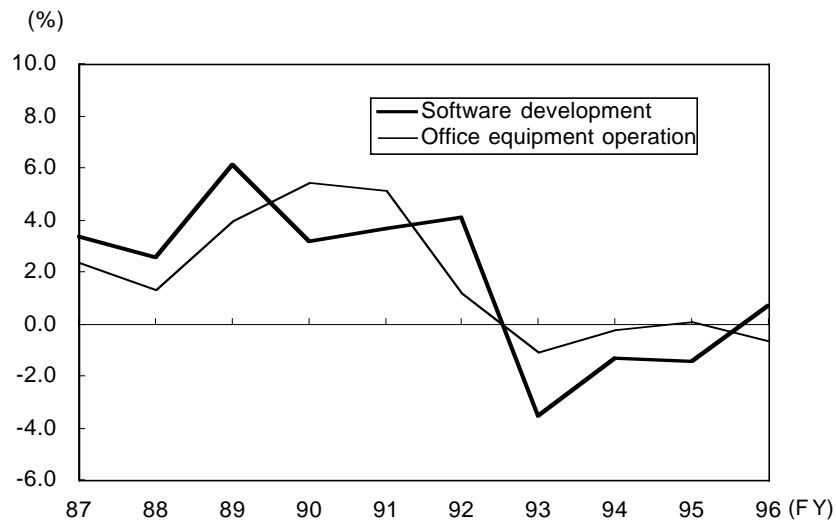
The reasons for sluggishness in prices can be summarized as follows: (1) since client companies are striving to cut operating costs, it is difficult to raise staffing rates; (2) intense competition among agencies who are concentrated in large cities makes it difficult to deviate from the market price; and (3) while demand is good, there is not yet a seller's market due to the shortage of jobs. While demand for staffing is far less tied to the business cycle than before, prices are still strongly affected by the recession's effect on employment reforms and cost cutting programs at companies.

On the other hand, considering present economic conditions, the present price level may be adequate – margins are low but demand is growing, wages are flat but registered staff members are increasing, and wages in other businesses are declining.

(4) Growing Price Disparities by Work Category

Presently, there are labor shortages for highly skilled workers, particularly in work categories that require great expertise such as finance, network technology, and software development. While prices in these categories are holding firm, prices are less firm in the most crowded category of OA clerical work, for which 70 percent of staff workers are registered. Here, demand may be stable but there is a strong perception of a personnel surplus (Figure 4).

Figure 4 Year on Year Increase in Prices by Work Category



Source: Ministry of Labor

In addition, as corporate information networks continue to grow and more workers have a personal computer for their exclusive use, OA operation will become very common. This type of work will require constant upgrading and its price is not likely to increase by much.

Thus there will be growing disparities in prices between general work and highly specialized work.

4. Future Demand

(1) Change in Corporate Employment Stance

The future of demand trends depends largely on what changes occur in corporate employment practices.

Presently, due partly to a temporary pause in restructuring in the corporate sector, demand has weakened slightly. Revenue growth estimates for fiscal 1998 have been revised downward from the anticipated 16.7 percent growth rate among major agencies. However, because of the prolonged recession, client companies have not changed their stance toward reducing personnel and implementing more flexible personnel systems. Staffing demand is thus expected to remain firm for the time being.

In addition, considering that personnel management has already changed greatly with regard to traditional practices such as lifetime employment and seniority based pay, companies are unlikely to increase personnel significantly once the economy recovers. They have also become more aware of the advantages of staffing services, such as defraying the risk of directly employing personnel, and being able to secure expertise without massive investment in training. Thus we predict that companies will continue to actively use staffing services as a means of responding flexibly to changes in the business environment, and maintaining competitiveness.

However, if the recession persists for much longer, it is also possible that companies will go one step further at the organizational level and outsource entire departments. Outsourcing that puts staff workers out of work would obviously negatively impact staffing demand. Some major agencies have already begun services that include outsourcing. In response to such changes in corporate employment practices, staffing agencies will need to search for new personnel business opportunities.

(2) Deregulation of Work Categories

The scheduled revision of the Temporary Personnel Placement Agency Law in July 1999 is expected to lift the restriction on work categories in principle (a negative list will list categories not permitted).⁴ This deregulatory measure should have an expansionary effect on the staffing market.

With the liberalization, expectations are particularly high for marketing and sales positions, and some major agencies have already begun training and development. However, since the staffing market must expand by balancing supply and demand, the market is not likely to grow in one big leap. Growth will require that on the demand side, companies raise their staffing awareness toward new jobs and male staff workers, and on the supply side, that the large pool of 20 to 30-year-old men move into the staffing business.

The revised law is expected to also contain a one-year time limit on working at the same job. If a company retains staffing services for the same job for more than one year, it is obligated to make an effort to provide employment. In addition, companies that retain staff workers for over one year may be warned and their names posted by the Ministry of Labor.⁵

Presently, the time limit is three years (annual renewals up to three years). In practice, there are many cases of staff workers working at the same client company for over three years. In the survey mentioned earlier, 29.8 percent of staff workers said that they have worked at the same

job for over five years. On the other hand, when client companies were asked whether they have hired their staff workers, 90 percent responded no or rarely.

Theoretically, staff workers are intended to fill a temporary position. However, since this has not always occurred in practice, the effectiveness of the new time limit remains to be seen.

In addition, liberalization could also intensify competition. Existing staffing agencies may find new opportunities from the lifting of restrictions, while companies that have operated in the personnel business on a subcontracting basis may enter the business as full-fledged competitors.

(3) Price Levels

Liberalization will have a negative impact on prices. As the scope of work categories expands, prices in current work categories are expected to decline.

With prices already considered barely high enough, the industry now faces the problem of having to enroll staff workers into the mandatory social insurance program. Staff workers are required to enroll in welfare pension insurance and health insurance after two months of employment, and the staff worker and staffing agency must each bear half of the cost. Thus far, enrollment has not made much headway because of complicated procedures that staff workers are subjected to as non-full-time employees, as well as the burden of payment. In a 1997 survey, the Board of Audit found enrollment to be below 50 percent, and urged the industry to improve enrollment while also ordering it to pay over 3 billion yen for two year's worth of delinquent payments. Although staffing agencies are working to improve enrollment, payment burdens will increasingly impact the industry's already low margins in the future.

There are three ways to improve the industry's low margins: (1) raise prices and pass the cost on to clients; (2) lower wages and pass the cost on to staff workers; and (3) reduce operating costs by improving efficiency and productivity. However, under present conditions, client companies are not likely to bear the increased cost, and paying lower wages will only reduce the quality of staff workers.

Thus agencies will need to strive for greater efficiency while securing contracts, expanding business in higher margin specialized work, and securing the necessary high quality personnel. In addition, they will need to find ways to maintain current price levels.

(4) Growing Demand for Expertise

Increasing job mobility and deregulation will accelerate the growing demand for specialized personnel.

Since the basic resource of staffing agencies is people, agencies need to secure and develop people with expertise and skills. Presently, in response to strong demand for expertise in financial areas and information systems, major agencies have set up specialized departments.

There are also movements to attract personnel by enhancing non-pay benefits such as employee welfare and services. In addition, it will be necessary to create an environment where registered staff members can improve their own skills. Many agencies have already actively begun creating such an environment by organizing training and development seminars and establishing tie-ups with schools. These developments will not only help secure new registered staff members, but retain current registered staff members and improve their qualifications. In addition, it could also boost their long-term competitiveness by attracting client companies.

Since almost all work categories will become accessible, it is also possible that prices will be determined not by the type of job so much as by the individual staff worker's ability. Instead of whether the individual is competent at a task, they will be evaluated based on the kind of work they can do, and prices will be determined according to the individual's unique abilities and competence.

While agencies set minimum wages, there are some that do not set maximum levels and will pay high wages if warranted. Client companies are also increasingly seeing the cost-effectiveness of using high quality staff workers. These factors point to greater wage disparities in the future.

(5) Polarization

The staffing industry is expected to move toward two opposite poles. The major staffing agencies are predicted to expand outside of staffing and become comprehensive personnel services. On the other hand, due to the strong demand for specialists, there will also be an increase in staffing agencies that specialize in some particular field.

More than a decade after a legal framework was established, the industry appears headed toward its first reorganization. There are already personnel businesses forming within corporate groups and mergers taking place among major players (Table 2).

Until now, the staffing industry has for the most part passively responded to the demands of the corporate community, and been at the whim of changes in corporate employment and personnel policies. In addition, the performance of staffing agencies has at times suffered because staff members were not qualified for an opening, or turned down openings they found unappealing.

In the future, in addition to responding to new needs brought about by liberalization, staffing agencies will need to be more active in creating demand by proposing new businesses, engaging in consulting work, and so forth. In addition, they must be more active in attracting and developing registered staff members who are highly competent.

Staffing agencies must stand between staff workers and client companies as coordinators, ensuring a timely supply of labor while at the same time striving to maintain and protect the employment environment of staff workers.

Table 2 Reorganization in the Personnel Business Market

Company	Recent developments
Adego Japan (Tokyo)	Formed business alliance with out placement co. in U.S. Started re-employment support service.
Itochu (Tokyo)	Improved personnel mobility by merging Able Staff, a temp staff agency, and Career Planning Center, a employment agency.
Intelligence (Tokyo)	Began salary accounting service through business alliance with Economic (Tokyo), an accounting service outsourcer. Responding to corporate outsourcing demand.
People Staff (Nagoya)	Changed name from "Woman Staff" after expanding to outsourcing and male staffing.
Gakusei Engokai (Tokyo)	Established a personnel referral division to strengthen referral business. Also absorbed temp staff subsidiary, and seeks to expand business by using recruitment data.
Career Staff (Tokyo)	Acquired Japan Manpower as subsidiary. Promoting integration of business, and bolstering comprehensive business strength.
Kobe Steel (Kobe)	Merged temp staff and referral companies. Strengthening prsonnel business in response to deregulation.
Serviceware Corporation (Tokyo)	Acquired temp staff agency Japan Quality Staff, thereby adding 4,000 staff workers and expanding its information services division.
Temp Staff (Tokyo)	Set up a subsidiary for outplacement.
Nissho Iwai (Tokyo)	Reorganized temp staff business by merging together 2 temp staff subsidiaries and 1 job referral subsidiary. Personnel operations were transferred from from Nissho Iwai. Offers general services.
Pasona (Tokyo)	Spun off PC engineer staffing division to form Pasona Tech. Along with Pasona Soft, handles everything from training to dispatching of engineers.
Recruit Group (Tokyo)	Merged 2 personnel referral companies in group to form Recruit Ablic.

Source: Compiled by NLI Research Institute.

Notes

1. Ordinary staffing agencies are those other than designated staffing agencies. They mainly have a pool of registered staff members. Licensing is required.
2. In designated staffing agencies, all staff members are full-time employees. Reporting is required.
3. Foreign statistics are from the Japan Legal Association for Labor, "Opinion Paper on Revision of the Staffing Business System." Germany and U.S. statistics are for 1995, and France and U.K. statistics are for 1991.
4. The negative list is scheduled to contain port transport work, construction work, private security work. For the time being, manufacturing work will be excluded.
5. The present 26 work categories are scheduled to retain the time limit of annual renewals up to three years.