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A WORD (OR TWO) TO THE WISE

Ever been asked to summarize fees and the situation in Japan's labor and executive search market?

Too many search firms, and tough competition, can make for some desperate, sometimes unscrupulous operators discounting at a level that drives others out of business. If it's not the typical up-market fee structure of two 1/3-retainer fees in the first two months, and the final 1/3 upon successful conclusion, modest commitment/retainer fees are certainly prevalent among established executive search firms of reputation. A major IT, high-tech specialist is paid on contingency, but at a fee that's 50% of the salary. A modest retainer fee for a finance industry specialist moved up from the typical 35% to 40% of annual income recently, although on big financial service placements it can be 25% of the salary or a fixed fee. A consensus is developing that we have to hold the line on fees to stay in business.

After the Employment Security Law was revised in 1997 to lower the bar to obtain the required recruiting industry license, the number of recruiting companies drastically increased. During 1993 to 1996 (the bubble burst, but not that many managers had lost their jobs yet, thinking to become a recruiter would be nice), the percentage increase from the previous year was almost nothing—0.04%. For three years after the new law was introduced, the increase was about 5% on average. In 2000 the percentage jumped to 25.4%, and since then it has stayed high at an annual average increase of 18.69% per year (2001-2007). In 2007, the number of recruiting offices was 15,453, and the increase from the previous year was 20.7%. My guess would be that the influx of baby boomers retiring from their companies had a lot to do with this.

Even though the new law became less strict, to open a business requires all applicants to comply with, for example:

- 1) Total minimum assets of more than ¥5 million, and cash/bank deposit of more than ¥1.5 million.
- 2) More than 20 sqm (215 sq ft) of office space.
- 3) A system to maintain privacy of personal information.
- 4) Annual reporting to the authorities of applicant numbers, job category of "applicants" (some executive search firms have to scout non-applicants), their employment status, fee level and number of placements.

"To keep running the company is much more difficult and a considerable number of companies closed," said the officer of the Tokyo Labor Department. Although there is no official data, they know this because "so many licensed operators don't come back for renewal of the license." The license is initially valid for three years, and renewable every five years. After the first three years, a firm must have a minimum of ¥3.5 million in assets/profits for that last fiscal year.

In the case of domestic jobs within Japan, in 2007, about 2,441,075 people applied to these 15,453 recruiting firms (a 42.3%



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increase), 2,177,882 positions were posted (a 27.9% increase), and 377,647 people found positions. This means only 17% of the applicants were placed by these private firms.

As for recruiting for overseas jobs, it is still on a small scale with 8,367 applicants, 6,652 positions, and 5,810 people finding jobs in 2007. However, this shows there is a higher percentage in placement (69% of applicants and 87% of positions) than there is on the domestic scene.

To get a license, attendance at a full-day seminar is required, along with considerable paperwork, and modest fees. About 300 people a sitting attend the seminar several times a year. The seminar instructors will actually say, "This business is not as easy as some of you think. Look to your left, look to your right; after one year, one of you won't be in this recruiting business."

As in any country, clients that may be tempted to hire an actively looking, inventory candidate sold by a recruiter at a low fee may find they have hired a problem. Clients also risk opening up their organizations and their staff to desperate recruiters who have no reputation to lose.