

# The Role, Scale and Responsibilities of the Human Resource Industry

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## 1. Job-searching and the ‘Human Resource Industry’

How does a typical Japanese businessperson react when his/her company declares bankruptcy, or when one is the recipient of labor shedding resulting from restructuring measures undertaken by the company? What does a worker do when he/she gives up a job he/she has become tired of? Whatever the situation, it is necessary to find a new job to earn a living.

If the person is well-known or notably competent in a certain field, he/she will be head-hunted and offered a job soon after leaving their old one, without slipping into the unemployment pool. In other cases, the previous employer makes arrangements to help their former employees find work, or family, relatives and friends help the person find new employment. If the worker is about to reach mandatory retirement age, the company may allow him/her to stay on if the firm is doing well. This may take the form of being dispatched on loan to a different company where, thanks to the extra wages paid by the latter, one can enjoy their remaining working life before retirement without worrying about a big drop in wages.

People fortunate enough to successfully switch jobs without becoming unemployed do not make use of services provided by so-called “human resource industry” or public agencies. In fact, according to the *Survey on Employment Trends* published by the Ministry of Health, Labour and Welfare, a surprisingly large number of people made the transition to different jobs in the manner described above, accounting for about 30 percent of hiring overall. However, this article will concentrate on those who fall outside this category and must rely on services, either private or public, in their search for re-employment. To explain the services provided by “human resource industry” and other relevant organizations involved in the various stages of job searching, the following section takes up the case of a businessperson who has been restructured and is looking for a new job.

### **1.1 Re-employment Services**

In recent years, an increasing number of firms — in particular, large ones — provide outplacement services (services assisting in re-employment) for their employees who are subject to labor shedding measures. Career advisors or consultants from a company providing advice or consultation concerning re-employment visit the firm and provide the workers in question with information on how to go about seeking re-employment, together with detailed advice on how to review their career to date. Although some outplacement services actively help the person find new jobs, quite a few simply provide the applicant with a desk to sit at (i.e., a place to go after being let go), and only provide guidance on how to write a curriculum vitae and prepare other documents, leaving the most important stage of the re-employment process — actually looking for a job — to the worker. In these cases, assistance is only provided for job searching activities, and does not include the actual offer of a new job. It is much more difficult to take the next steps, particularly for middle-aged and elderly job seekers.

### **1.2 Employment Insurance and Public Job Placement Services**

The first thing an unemployed worker can do to protect his/her livelihood is to apply for unemployment benefits. Most workers, excluding the self-employed and some others, pay into the employment insurance scheme, and thus are eligible to receive unemployment benefits after visiting Public Employment Security Offices (PESOs). To receive unemployment benefits, one must register as a job seeker, since only those who want to work can receive benefits. Having secured funds to cover immediate living expenses, the person embarks actively on job-searching activities.

Next, the job seeker must face another reality. If he/she can find an advertisement announcing a job that matches his/her preference, things are going well (much better if the person is actually offered the job). But under recession conditions, this rarely occurs. Usually PESOs are inundated with unemployed workers seeking benefits, so most of the time and energy of the PESOs workers are, inevitably, devoted to job seekers. In a tight labor market, PESOs are filled with firms looking for workers, whereas when

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the market is slack, it is job seekers that overwhelm the offices. PESOs managers understand that they need job vacancies in hand; they cannot ignore a crowd of jobless people. But, the recent series of administrative reforms makes it difficult to increase the number of workers in these offices, which in turn has led to a certain laxity in gathering job vacancy information.

If appropriate job vacancies are not available at PESOs, job seekers need to investigate different sources, since they are not likely to get a job offer if they do not apply to many companies.

### **1.3 Services Providing Job Advertisements and Information**

This subhead immediately calls to mind classified advertisements that appear in newspapers. It is common for a worker who is still employed and who cannot receive unemployment benefits to use newspaper classified advertisements first.

The Sunday editions of major newspapers carry many advertisements. A person can browse job ads, ascertain wage levels in the job category he/she is interested in, and compare the various working conditions of different companies. If there is a job which meets his/her preference, that person can contact the firm via telephone or other means. After sending a curriculum vitae and fulfilling other procedures, it is possible to be called in for an interview. In addition to newspapers, newspaper inserts and job information magazines are also useful. These publications are divided by industry or job type, and are important tools in learning what jobs are available in one's field. These must be checked consistently over the medium and long term. In recent years, many corporations are using the Internet to publicize their job openings. Using Internet search engines, one can freely access websites specializing in job advertisements, or search an individual company's website for recruitment information. The job seeker can pick and choose a number of companies which offer posts matching his/her preference, apply for them, and make appointments for interviews.

To some extent it is possible to look for work without ever leaving one's house. However, with the economy in a prolonged recession, which increases the number of unemployed people, such a job-searching strategy is unlikely to lead to successful appointments. Even if one finds an

appropriate job listing in the paper or on a website, in many cases the vacancy has already been filled, or the applicant is turned down during the documentary screening stage, and the potential applicant doesn't even have an opportunity to set up an interview. Under the current recession, a massive number of applications are flooding personnel management departments or other related departments of companies looking for new workers, though the responsible departments are themselves suffering labor shortages. It takes considerable time and effort to carefully examine the steady stream of CVs.

#### **1.4 Private Job Placement Businesses (Fee-charging)**

There are private fee-charging job placement companies (recruiting companies) that meet the needs of both job seekers and firms looking for new workers. Private job placement businesses are different from PESOs, and actively collect job information which is missing from or insufficient in the latter's offices. If job seeking workers visit the offices of such private firms that have consultants, register themselves on their list of job seekers, and receive their counseling services, they stand an extremely good chance of contacting possible future employers and obtaining interviews. For the companies recruiting new workers, considerable time and energy will be saved, since the consultants of the private job placement companies screen and make a list of potential candidates from a tremendous number of applicants. The successful matching rate becomes higher, in that placement agencies understand in advance the situation of both the companies looking for workers and the job-seeking workers. In addition, correct counseling often influences both the employers' and job seekers' opinions, resulting in a large number of unexpected successful matchings. This helps to fight against a tendency on the part of both the company and unemployed worker to unconsciously narrow the range of choice through bias and illusion, and thereby overlook unexpected sources of personnel (on the employer's end), and possible new fields or new work styles (on the employee's end).

As mentioned above, PESOs tend to place priority on handling job seekers, and spend less time on individual counseling due to the large number of people seeking their services. On the other hand, similar

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services in the private section rely on successful matches because this is where their money comes from. Therefore, counselors try particularly hard to find the right person for the right job. Consequently, the private sector is superior to the public sector in terms of organizing information about firms wanting new workers, a fact that job seekers should take full advantage of.

### **1.5 Manpower Supply Businesses (Worker Dispatching Businesses)**

Worker dispatching (manpower supply) businesses also provide similar services. The purpose of these businesses is the same as that of the job placement businesses in that they explore the labor market and register companies looking for workers, as well as job seekers, and aim at matching labor supply with demand. The difference is that, after matching, manpower supply companies hire the worker themselves and dispatch the worker to the firm which wish to use him/her.

However, since there are limits to the period that one can be dispatching for some categories (such as production lines in the manufacturing sector and sales operations), job seekers cannot expect stable employment in those sectors. In addition, even though recent deregulation measures have, in principle, increased the types of jobs at dispatched worker can take, an overwhelming majority of dispatching companies still deal mainly with clerical-type jobs involving knowledge of OA equipment and software engineering positions. This is because the current worker dispatching business has its roots in the contracting of workers who handled OA equipment and undertook other clerical jobs. Therefore, the working conditions that exist in the clerical and software fields affect to a certain extent the conditions of other types of work (e.g., the average wages of newly dispatched workers converge at the level of the largest group of workers, clerical workers). This suggests that dispatching will not become common among workers do not fall in this type of job category, in particular, middle-aged and elderly workers at the managerial level.

Nevertheless, the worker dispatching system provides a good opportunity for workers looking for jobs that correspond to their field. In addition, it is a perfect system for those who wish to minimize the period when they are unemployed and who want to begin working as soon as possible, rather than undergoing regular job hunting, which may lead to a

prolonged period of unemployment and a deterioration of their skills.

### **1.6 Vocational Training Programs in the Public and Private Sectors**

If, after using the services mentioned above, a worker still finds him/herself unemployed, they will need to improve their market value. Concrete solutions include acquiring new skills for new vocations via vocational training programs.

The government, municipal bodies and other entities in the public sector offer a wide range of training programs, most of which are free. At the same time, schools and private firms offer, on a commercial basis, professional training courses aimed at, for example, those wishing to obtain certifications. In recent years, moreover, universities have opened their graduate courses to “mature students,” or established institutions specializing in re-employment assistance. These services, of course, are available both to those seeking work, as well as to those currently employed who wish to prepare for an uncertain future.

## **2. Market Size and Profit Structure of the Human Resource Industry**

Among the businesses considered above, the employment insurance and public job placement services are public services. Similarly, a majority of the vocational training programs are conducted by the government and local public bodies, or carried out in the framework of the job allocation services of schools; relatively few private companies engage in this field. Thus, among the services mentioned above, there are four areas in which private firms engage: services assisting in re-employment; services providing job advertisements and information; fee-charging job placement businesses; and worker dispatching businesses.

Until 1999 the government regulated private-sector human resource businesses. Establishing the Employment Security Law in accordance with International Labour Organization conventions, the government imposed restrictions on private businesses, and constructed a nationwide network of PESOs. However, with the number of unemployed increasing due to the prolonged recession, and the government’s worsening financial situation

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resulting from a drop in tax revenue, the administration was gradually impelled to push for reforms, and things have begun to change. People started to voice concern that PESOs were not sufficient to cope with the increasing number of unemployed workers, and called for utilization of the private sector. To deal with this, the government in 1999 made substantial revisions of relevant laws (the Employment Security Law and the Worker Dispatching Law), deregulating the entry of private firms into the personnel business, which had in principle been restricted.

The deregulating measures aroused great expectations that private firms would become active in the personnel business. The amount of attention paid to businesses related to human resources, a new industry in Japan, is undoubtedly related to the implementation of such deregulation measures.

Next we should take a look at the size of the human resource business market. Data concerning sales in each human resource company are available in official publications released by the Ministry of Health, Labour and Welfare which systematically checks the data; surveys and estimates conducted by industry organizations, and other sources. The following table provides a breakdown of sales for the industry as a whole, and for the type of service.

As shown in the table, the current worth of the “human resource industry” comes to approximately ¥2.3575 trillion. Of the major categories, the worker dispatching business is outstanding in market size, but this is attributable to the fact that its sales include wages paid to dispatched workers. Since the profit structures vary among the different services, it is difficult to evaluate their actual size. In this sense, too, it is necessary to take into account the different outlooks of the services, and systematically review the information.

Table 1. Market Size of the Human Resource Industry\*

All figures are approximate

Type of service	Market size	Major business fields
Classified advertisements	¥576 billion	①Job information magazines (¥360 billion) ②Newspaper insertss (¥150 billion) ③Classified ads in newspapers and magazines (¥36.5 billion)
Job placement	¥109.5 billion	①Placement service (¥50.5 billion) ②Short-term placement service (¥37 billion) ③Outplacement (¥22 billion)
Worker dispatching	¥1.6720 trillion	①Registration-type (¥1.2847 trillion) ②Special-type (¥387 billion)
Total	¥2.3575 trillion	

\* Based on Table 2-2 in “Proposals for Vitalizing the Service Industry Involved in the Labor Market” (March 2002) by a study group devoted to that purpose.

## 2.1 Classified Advertisements

The size of the classified advertisement market, approximately ¥576 billion, represents the sum of the results of surveys and estimates concerning industry associations and other organizations involved in the human resource business. The table shows that job advertisement magazines account for some 60 percent, approximately ¥360 billion (FY 2000), of the job advertisement market as a whole, followed by newspaper inserts, 25 percent or approximately ¥150 billion (the results of estimates concerning industry associations and other organizations). On the other hand, according to data released by Dentsu Inc. (“Advertising Cost in Japan in Fiscal 2000,” Dentsu Inc.), “classified advertisements in newspapers and magazines,” stood at approximately ¥36.5 billion (newspaper advertisements totalled some ¥35.5 billion, and magazine ads some ¥1 billion), accounting for less than 10 percent of the market as a whole.



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Despite these figures, it is actually extremely difficult to compute market size by adding together the revenues of companies in the job advertisement business.

One example concerns small and medium-sized printing companies that are engaged in printing inserts for newspapers. They seldom post this revenue — received as part of their “job advertisement business” — separately. On the other hand, where job advertisements in newspapers are concerned, it is quite common for outsourcing companies (service agencies) to be responsible for the entire process, from the collection of information, guidance (confirmation of supply and demand in the labor market, adjustment of supply and demand), to page design. Hence, a difficulty arises in gauging the sales accumulated by newspaper companies for job advertisements, much less sales which exclude outsourcing expenses. (For example, when a newspaper company entrusts the publishing of an advertisement to an agency there is the possibility of that income being counted twice: as sales for the section responsible, and as sales at the advertising agency.) On the other hand, job-advertising businesses on the Internet are still very new, and it is difficult also for companies to construct a billing system, making it impossible not only to monitor their sales, but to clarify the profit structure.

Thanks to surveys and estimates by industry associations and other organizations, a great deal of data concerning the job advertisement market is available. But it is still necessary to analyze and understand the structure of the industry.

## **2.2 Job Placement Services**

Table 1 shows that the market size of job placement services is approximately ¥109.5 billion. Looking at a breakdown, revenue for “placement services,” in which the agents arrange the recruitment of engineers, workers at the managerial level, and other types of white-collar workers, stood at approximately ¥50.5 billion, while “short-term placement service,” sales totalled about ¥37 billion. Short-term placement services refer to an arrangement whereby agents arrange the recruitment of workers who wish to have short-term, periodic jobs such as catering; sales at supermarkets and other retail shops; and housekeeping (also referred to as

“maids,” however, live-in housekeepers are not common in Japan). The figures are the actual values for FY2000 reported by business establishments to the responsible PESOs authorized by the government. On the other hand, the market size of the service assisting re-employment (outplacement service) was approximately ¥22 billion, according to an estimate for FY2000 made by industry organizations.

Although the figures for job placement service sales are somewhat low, the total profit margin is high, most of it being the gross margin (gross profit on sales) as costs for printing and book-binding in the classified advertisement service, or for wages to dispatched workers in the worker dispatching service, do not occur in this field. According to data concerning placement service agencies, a large proportion, about 60 percent (ratio of labor costs to sales), of sales is spent on personnel expenses. The other major expenses for these agencies include the cost of advertising for job seekers (about 15%), rental expenses (about 10%), and so on.

The profit structure of job placement services is slightly different depending on the service. There are three types of job placement services: (1) business establishments which search for personnel when requested to do so by a company looking for new workers (searching-type placement); (2) business establishments which collect a wide range of registered job seekers and job vacancies, and match both sides (registration-type placement); and (3) businesses which offer training to assist in job switching when requested to do so by job seekers, and then explore vacant posts to find jobs for the job seekers (outplacement-type placement). Most placement services and short-term placement services are of the registration-type. These firms utilize computer systems and therefore their ratio of labor costs to sales is low, which means their placement charges are also inexpensive. In the registration-type, the general “outplacement service” agencies deal largely with businesspeople at large companies, who do not frequently switch jobs. (That is, a Japanese employment practice still exists in that there are few who change their jobs dozens of times during their working lives. In other words, there are not many opportunities to reap payment from job switching individuals.) On the other hand, the “short-term placement service” agencies have more

frequent opportunities to receive payment because they make workers available each time labor demand arises (such as caterers for a party or a ceremony at a hotel). Since the number of requests for each worker is large (the same worker can be requested many times within a year), and the number of workers used at one time is also large, the placement charges are lower than those commonly demanded by general placement services. On the other hand, most search-type placement services are concerned with white-collar workers with high incomes. Since the service involves counseling at the request of the firm and is customized for individual cases, the ratio of labor costs to sales is inevitably high and placement charges accordingly are also somewhat high.

The search-type and registration-type service agencies, as they stand, receive payment from companies which hire workers introduced to them by the agency (most of the agencies charge the companies after a successful recruitment). On the other hand, the clients of outplacement-type agencies usually are companies which are shedding their workforce. The outplacement company is hired to find workers who have been restructured new employment. Thus service agencies in this category charge the client companies a fee for conducting re-employment assistance training programs for each worker who needs to find a job. In this business, the service directly involving job placement activities occurs after the training programs (i.e., contingent services). In many cases, because most of the job seeking workers are middle-aged and elderly and the labor market for such workers is tight, the agencies offer job placement services “in practice, free of charge.” In other words, while the outplacement-type businesses formally belong among job placement businesses, their sales profits rely substantially on the fees they receive for providing training courses. (In practice, this is identical to the “re-employment services” mentioned in Section 1-1.)

### **2.3 Worker Dispatching**

Worker dispatching businesses consist of two types: (1) the registration-type (temporary worker-type) whereby agencies, upon request, send out workers who wish to be dispatched and who are registered at the agency; and (2) the special-type (contract worker-type) whereby agencies dispatch

workers hired by the dispatching company to other companies. The former is quite common, particularly for office work ranging from clerical jobs to sales. The latter is frequently found in software development, cleaning and garbage collecting for particular clients, and other fields. Each business establishment engaged in dispatching workers markets itself to increase the number of host companies, encourages job seekers to register with them, trains the worker, and then directly hires them out. Trained workers are sent to host companies who pay fees based on hourly wages. In the case of the registration-type worker dispatching company, labor costs are not fixed because workers are employed only when they are dispatched, but the special-type of company maintains workers as regular employees, so their labor costs are fixed, essentially requiring their business to be stable.

As shown in Table 1, the registration type was overwhelmingly dominant in market size in FY2000, reaching approximately ¥1.2850 trillion, whereas that of the special type was not very large, about ¥387 billion.

The market size of the worker dispatching business is enormous compared to that of classified advertisements and job placement. This is attributable to the fact that the wages for dispatched workers and part of the social insurance premiums borne by the business establishments are included in the sales amount, as stated earlier. According to a survey conducted in January 2001, about 80 percent of the registration-type agencies picked up the labor costs for dispatched workers and part of the social insurance premiums, while that figure stood at some 75 percent for special-type agencies. The operating profit of the worker dispatching business is derived from sales minus these labor costs and premium payments for the dispatched worker together with the labor costs for administrators, sales staff and other company personnel, advertising costs, rental expenses, and so on.

### **3. Tasks Facing Management in the Human Resource Industry**

The human resource industry has been subjected to governmental deregulation measures that have freed it from various restrictions. And the

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market is expected to expand further, in part due to the trend towards flexibility and mobility in the employment market caused by the persistent economic recession. Looking at recent trends in time-series data concerning the worker dispatching business, it seems that deregulation has contributed to market expansion. The worker dispatching business market (total sales of the entire branches) moved consistently upward for three years in the latter half of the 1990s: ¥1.1827 trillion in 1996, ¥1.3335 trillion in 1997, ¥1.5706 trillion in 1998, but shrank to ¥1.4605 trillion in 1999. However, the revised Worker Dispatching Law came into effect in December 1999, opening the industry to deregulation and resulting in a conspicuous expansion of the market in 2000, to ¥1.6717 trillion, exceeding not just the previous year's figure but also that marked in 1998.

The question is whether the human resource industry will continue to expand in the future, as the worker dispatching business has.

The answer is somewhat negative, in that this industry harbors structural problems, as well as possibly brilliant prospects. Its future is not as secure; rather it will be fairly rocky. The next sections of this article deal with a number of key factors involved in any solution to the problems: the Internet, mismatching, excessive competition, and the mutually complementary relationship between the public and private sectors.

### **3.1 Diffusion of the Internet**

The Internet is fairly widespread in modern society. Nowadays, it is common for university students who are about to graduate to use the Net to gather employment information and register with the different company websites. Recruiting companies, in the same fashion, screen students who are applicants and choose those who will have final interviews. By now, the Net is the main tool that firms use to directly recruit job seekers. A free website called "*Shigoto Joho Net* (Job Information Net)," which incorporates job information gathered by the public and private sectors, was opened at the initiative of the government. As websites like this become more available and serve as an information infrastructure, people looking for jobs will be able to search for and examine job information at home without purchasing a newspaper or job advertising magazine, and without visiting PESOs or a private job placement agency.

Objectively this means that it will be difficult for the classified advertisement business to expand. At the same time, some free websites — because they are free — contain unreliable and/or badly organized information, and naturally the contents can not be guaranteed. In this sense, pay sites containing classified advertisements should do everything to ensure the reliability of the information they carry (for example, by reinforcing and expanding the relevant sections). In short, companies which simply collect job information and release it will not last long. It is the companies that know how to confirm the information they receive and have the ability to bear the costs that will survive in the industry.

Moreover, the proliferation of the Net also affects the job placement business. Direct communication through free websites and e-mail between recruiting companies and job seekers will undermine the *raison d'être* of job placement agencies, which have hitherto stood between the two parties. However, several agencies withhold contact and other personal information on both job seekers and recruiting companies, and users cannot specify people or companies, and thus are required to visit the agencies to establish contact. Undoubtedly, requests to visit an agency will ensure opportunities for face-to-face counseling, but this process also obliges those who do not need counseling services and who simply want direct contact with a company to make a trip to the agency. This will create unnecessary steps in the dispatching process. However, some job placement agencies have begun to disclose the name and contact information of registered companies that are looking for new workers. To that extent, the influence of users is becoming stronger, and it is likely that agencies that withhold specific information will find it more difficult to do so in the future. The disclosure of information concerning job vacancies on the Net will inevitably lead to free classified advertisements in the job placement business. Assuming that this actually happens, it will undoubtedly be difficult for job placement agencies to maintain their current sales and company size.

### **3.2 Structured Mismatching**

The mismatching between labor supply and demand is structured. Although there are plenty of job seekers and job vacancies, mismatching of

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age, job type, location and other factors are increasing, leading to fewer employment agreements. Recruiting firms post job advertisements for “high-grade specialists” because they want workers who can contribute immediately. But as the economic downturn continues and employment mobility spreads, some firms keep applicants waiting because they know that the longer they wait, the chances that they can hire a more qualified person increases. At the same time, the labor market has a plethora of middle-aged and elderly workers who have lost their jobs as a result of restructuring.

The human resource business has primarily been considered an effective solution to mismatching. But since it is a commercial business, once mismatching has been structured, coordinating labor supply and demand will face increased costs. For example, even if many job seekers and companies with vacancies have registered with a job placement agency that offers consulting and counseling (advice and guidance) services, if the agency only receives its fee when recruitment activities have succeeded, failures due to mismatching yield no profit at all, and the agency may end up with unrecoverable costs accrued in the process of registration, counseling, and other business activities. As in other businesses, large inventories, in this case registered job seekers and job vacancies, only lead to profits if the items are sold (in this case, a successful employment agreement). Even if a worker dispatching agency has in its registered pool “highly recommended” workers, it has to promise a high wage when the person is employed, which eventually increases labor costs for the agency.

The efforts to reduce labor costs for consultants by replacing them with a computerized mediation system, or to increase sales by handling a massive amount of placement and dispatching will inadvertently result in the “hollowing-out” of accumulated knowledge about matching functions, with the end result being a faulty mechanism to adjust labor supply and demand. In other words, an increase in costs leads to poorer quality services, and subsequently the service no longer acts as a mechanism to alleviate mismatching.

On the other hand, the profit structure of the classified advertisement business is not vulnerable to structured mismatching, in that agencies in this business receive earnings when they agree to publish a job opening

advertisement. Nevertheless, as long as the mismatching between labor demand and supply prevails among the clients (companies looking for new workers), sooner or later they may begin to search for other avenues or they may put their recruitment information on their own websites. Job seekers who apply for jobs through classified advertisements may not get the job because they are not qualified (they may not even reach the interview stage). This will weaken the impulse to purchase job advertisement magazines. In fact, classified advertisements are beginning to lose the loyalty of middle-aged and elderly workers who are tired of unsuccessful interviews, and of young workers who lack confidence in their communication skills, which are required for interviews. In this situation, classified advertisement agencies are adding services that focus on the adjustment of labor supply and demand, and are embarking on job placement and worker dispatching businesses.

### **3.3 Intensified Competition**

Deregulation has resulted in a sharp increase in the number of new companies in the human resource industry. The increase is particularly conspicuous among companies offering services touching on labor supply and demand adjustment, such as job placement and worker dispatching services. The 1999 revision of the Employment Security Law did away with most of the restrictions regarding which businesses were eligible to charge fees for job placement services. The 1999 revision of the Worker Dispatching Law allowed for dispatched workers to become regular or contract employees in their host companies after completion of the dispatch period. Both of these revisions have resulted in an expansion of job placement businesses (either as new entries in the job placement business or companies already in the field expanding their business operations) among worker dispatching agencies. The number of authorized business establishments involved in charging fees for job placement has been increasing, from 3,375 in 1997 (an increase of 5.9% over the previous year); 3,498 in 1998 (an increase of 3.6%); and 3,727 in 1999 (an increase of 6.5%). That the figure jumped 25.4 percent in 2000, to 4,675. A similar upward trend can be observed in the number of authorized establishments involved in the worker dispatching business: the number of establishments



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engaged in general registration-type dispatching in FY2000, the year after revision of the Worker Dispatching Law, increased by 20 percent over the previous fiscal year, to 4,023.

A sharp increase in the number of new participants is likely to intensify competition, including the practice of dumping. According to a survey in December 2000 researching the situation affecting private job placement agencies, placement fees dropped substantially after 1997 as deregulation occurred, and the range of annual average sales per consultant began to shift downwards, to below ¥10 million. As stated earlier, this is partly, in fact to a large extent, due to the impact of outplacement-type placement services which introduce participants in their training courses to employers almost free of charge. If a free placement service is available, the job placement agencies will acquiesce to demands from their clients (companies looking for new workers) to lower their prices even though the workers the agency can offer are of high quality. In the same fashion, in the worker dispatching market, an increase in the number of newly participating agencies intensifies competition, strengthening the demand to reduce contract prices from companies which use their services. Needless to say, a fall in the unit price of a dispatch has a negative impact on the wage levels of dispatched workers.

What is more, persistent economic recessions accelerate excessive competition. As the slump continues, and as more regular employees are replaced with dispatched workers, liquidity of labor cost increases in companies. However, all the firms that are flocking to worker dispatching agencies are not necessarily “good clients” because firms with poorer business performances that requested a large number of dispatched workers may be more likely to fall behind in their payments. In other words, as the number of clients increases, agencies had to tighten their credit control to avoid amassing bad loans. This also increases costs. In the job placement business, on the other hand, placement fees are generated when introduced workers succeed in finding employment, so the risk of bad loans is not as great as in the worker dispatching business, where the agencies dispatch workers first and collect the fees later. Even so, since the agencies usually charge their clients after they have received a dispatched worker, their sales fluctuate greatly over time.

### **3.4 The Obscure Complementary Relation Between the Public and Private Sectors**

As is well-known, the new ILO Convention adopted in 1997 (C181, Private Employment Agencies Convention) calls for mutual cooperation between private “human resource businesses” and PESOs including other relevant public bodies. The convention sets up the complementary system as an ideal whereby the public and private sectors can demonstrate their respective advantages in dealing with unemployment and the mismatch of labor demand and supply.

It’s possible that in the future the public sector could be responsible for example for caring for the vulnerable, granting subsidies to companies in rural areas and to industries whose labor market is small and therefore should not fall in the realm of the private sector; whereas the private sector could be responsible for launching businesses targeting workers with high incomes, and overseeing the labor market in big cities which could generate various advantages due to the scale of the economy. However, although it is easy to envisage this, it is extremely difficult to discuss and sort out in concrete terms how the two sectors are to be separated. Similarly, is not desirable for the private sector to have both free services (PESOs, etc.) and fee-charging businesses (private services) coexist within the same market. In terms of the number of authorized business establishments involved in the job placement and worker dispatching business, a disproportionately large number of private “human resource businesses” are found in Tokyo, Osaka and other big cities. At the same time, PESOs in large cities are particularly inundated with job seekers, and consequently those offices in urban areas are better staffed. If the government reduces the workforce of public institutions in large cities on the ground that they are filled with private businesses (which can substitute for public offices), it would imply that the government was ignoring the needs of the people who flock to such public offices. One tends to assume that vulnerable workers and disadvantaged rural labor markets should be taken care of by the public sector, but judging from cases in the U.K., Australia, and other countries, it is in these spheres that the government can entrust such services to private firms, and save the expense. This

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vision should also be of significance in relation to administrative and financial reforms.

Even if there is agreement that, in the future, operations located in large cities with highly paid workers should be overseen by private companies, and those involving vulnerable workers and rural areas will become the responsibility of public entities, the problem of which body should be responsible for the sizable groups and areas between the two poles still remains. Even if an infrastructure on the Internet is created for the exchange of information for both job seekers and companies searching for employees, and even if an efficient computer matching program is developed, in the current labor market, where mismatching of labor supply and demand is institutionally deeply rooted, it is such groups and areas that need the counseling, advice and assistance the most. Serious doubt exists as to whether the the principle of self-responsibility will effectively contribute to the future of the national economy.

It is obvious that there is an understanding that in the future the public and private sectors will be completely separated, and a decision is made to effectively use the private sector for services related to the labor market. However, there is not enough detailed data concerning the actual state of both public and private services (including the degree of user satisfaction, costs, and the measurement of relationship between cost and effect) to permit the consideration and establishment of a clear line of responsibility between the private and public sectors.