



A Booming Market: Executive Search in Japan

By Simon Childs

The Japanese economy is currently undergoing a period of substantial growth, and this has accelerated and intensified the search for top-notch bilingual Japanese and foreign talent. The increasing trend of Japanese companies to look externally for mid-career talent has further intensified competition for the many multinationals that operate offices in Japan.

The search market in Japan is still considered to be relatively immature. In fact, it was illegal to operate a recruiting practice prior to 1964 when an exception was made for managerial positions and for engineering roles. The first search firms had a very limited mandate and were only able to invoice at about 5% of the fees. Further deregulation followed in 1997 and again in 1999. Now, only search firms that can obtain a license are able to legally practice. These companies can then recruit for all positions, at whatever fees they can secure. The implementation of new privacy laws has encouraged search firms to improve their confidentiality levels and prevent costly information leaks.

NOW IS THE TIME

In many respects today's Japan represents an ideal recruiting market:

Consulting fees - even at contingency levels - continues to average 30% except within the finance and investment banking community, which tend to be capped at 25% or have a maximum fee policy.

Japan's "job for life" concept has now largely disappeared. Nomura Research Institute found in an Internet survey published in December 2005 and covering 1,000 employees in their twenties and thirties with companies listed on the Tokyo Stock Exchange, that only 18% intended to remain with their companies to retirement.

The Japanese Government reported the lowest unemployment rate in 7 years at 4.1% and the jobs to applicant ratio rose to 1.04, depicting a 14-year high.

Japan has an increasing pool of bilingual and open-minded Japanese - more than 40,000 were recorded as being enrolled in higher education in the US in 2004 according to the Institute of International Education (www.IIE.org).

All industry sectors in Japan have increased headcount in 2006 - the hottest sectors include banking, real estate, technology and healthcare. Most of the demand is for sales and technical personnel.

Salaries are rising with average new salary offers representing increases of 5-

10% compared with almost static inflation.

Average salaries for Japanese mid-management in Tokyo are in the US\$100-150K ranges with senior expatriates here commanding total packages from \$500k to \$1m.

Tokyo has an excellent transport infrastructure system and most of the major multinationals have offices within a 30-minute commute of each other.

At the same time, companies are struggling to attract quality personnel and this is leading to longer working hours and increased burnout. This is particularly evident in the construction, banking, healthcare and legal sectors.

Search is a fast growing business in Japan. Figures supplied by JESRA (Japan Executive Search and Recruiters Association) show that 1,092 new licenses were added in 2004, up from 274 in 1999. JESRA estimates that recruiting companies handled approximately 29% of all managerial job changes or in excess of 11,000 successful searches in 2004. They further estimate the size of the market in 2004 at approximately JPY 96 billion or \$825 million for the main categories they evaluated (managerial, sales, technical and administrative). It is important to point out that this figure accounts for the licensed firms. Therefore,

the real search market for all positions will likely be much more than a billion dollars for both contingency and retained search.

SEARCH FIRMS FLOCK TO JAPAN

There has been no shortage of international search firms entering Japan. The global players in retained search such as Heidrick & Struggles, Spencer Stuart, Korn/Ferry, Egon Zehnder and Russell Reynolds are well established and very active. Newer entrants such as Hudson, Robert Walters, Robert Half and Michael Page rub shoulders with independent boutique businesses, managed by westerners that offer a mix of retained and contingency search.

There is still a trend for the global firms to pick up assignments at the headquarter level but the local firms offering retained search are increasingly picking up higher end projects as they demonstrate effective local knowledge, more flexibility on retained fee structures and project greater brand awareness. These companies include CDS, Ingenium, and Oak Associates.

Local Japanese search firms do very little quality retained search because they often do not have sophisticated databases, and are generally playing catch up in these areas. The bigger, publicly listed businesses such as Pasona, Recruit and Intelligence focus on the mass market as there are no locally listed search firms that only do retained search.

The focus for the international search firms thus far has been on serving multinational clients. Most of the search market is concentrated in Tokyo where there are 5,000 plus registered foreign capital companies. Some larger foreign capital businesses in Japan act with arrogance, and become complacent, relying too much on the brand name without paying attention to other ways to attract talent in a candidate-driven market. A long, cumbersome interview process often hampers them. It is often the smaller to mid-size companies that are reacting quicker, offering more customized and effective recruiting solutions.

A number of the western, locally managed search firms are starting to service the Japanese domestic client market. This is where the real growth exists as more and more Japanese companies open up to mid-career hires, and change their seniority-based wage structures to performance-based to better compete with the multinationals.



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There has been an up tick in M&A activity in recent years and this has brought Japanese multinationals such as Nissan, Japan Telecom, and several Japanese banks and finance institutions into contact with western management styles. Japanese firms are placing an increased importance on the use of English and other languages, particularly Chinese as well as business and cultural skills acquired overseas or through work with western firms in Japan. This in turn is fueling the demand for search firms to support mid-career hires, particularly in Japanese venture start-ups and with some of the more western-minded multinationals. Board level positions in the larger Japanese companies still tend to be filled internally and through personal connections in the market. One notable exception was in May 2005 when the TSE listed Daiei retail chain appointed Ms Hayashi Fumiko as Chairman and CEO. She was the former President of BMW Japan.

At the same time, there is still a very important role for expats to play in Japan since many of the foreign capital firms here still prefer their top executives to come from abroad. Although a growing number of clients are insisting on Japanese language skills and familiarity with the local market, there is still evidence that does not preclude expatriates being sent over with little or no local knowledge. In those cases, success depends on how culturally sensitive the individual is and his ability to surround himself with talented Japanese top management who will help guide him in his early years, and be comfortable with him taking care of the pressures that HQ place on him to effectively perform. In fact, European companies - particularly German, Italian and French - tend to have more expatriate heads than their American counterparts.


WHAT IS UNIQUE

Fortunately, the right conditions for Executive Search in Japan are taking root. At the same time, nevertheless, it is important to highlight some of the unique challenges that search consultants in Japan must deal with on a daily basis. For example, what the Japanese call 'giri' or a sense of obligation to their current employer, boss, or their customers often prevents them from leaving their jobs in favour of better prospects. Another illustration involves never being able to estimate the power of the Japanese wife in influencing her husband's career. A candidate declined an attractive offer to leave IBM to take a board level position in a US start-up - famous at the global level but not in Japan - because his wife was told it would damage their daughter's chance of entering the kindergarten of their choice. A final, yet important, example is that some candidates will only commit to signing or joining on an auspicious day ('taian') as determined by astrology and local customs. These are obviously unique challenges search consultants in Japan must take into account when persuading

candidates to join their clients' companies.

When hiring, it is critical that the client and consultant both remember that some Japanese candidates have been quick to exploit the relatively poor levels of background checking exercised by foreign companies and search firms alike. As a result, a significant number of candidates fake data on résumés or fudge achievements. Other mistakes in hiring are made when western interviewers are taken in by a candidate's smooth talk in English and the connection they make with the Japanese candidate's overseas experiences, overlooking other candidates with less English fluency but more solid local credentials. These concerns must also be taken into

account as they can make all the difference in selecting the most appropriate candidates for our clients.

In sum, Japan is the second largest economy in the world and no company or search firm can claim they are truly global without an operation here. With the economy showing significant improvements, greater mobility of the workforce and increased acceptance of western business practices, it should continue to remain a lucrative search market for many years to come. 

www.search-consult.com

For more information, contact:

Web: www.cds-consulting.com

Simon Childs: Managing Director of CDS

Simon co-founded CDS in Tokyo in 1998 with his business partner Jason Dacaret. CDS focuses on senior-level search in the Technology, Consumer Goods and Healthcare sectors and has a team of more than 30 bilingual Japanese and international consultants, research and support staff. Most of the current work is focused on search for the foreign capital multinationals and start-ups although an increasing amount of retained business is now coming from Japanese companies.

Simon spent his early career in Hong Kong, including 10 years with the Royal Hong Kong Police where he led teams in Commercial Crimes Bureau as well as VIP Protection Unit. He also worked as an Operations Manager for a Hong Kong-based British Trading Company dealing in China, Indonesia and Vietnam. Prior to CDS, he was the Vice President of a Japanese search firm.

Simon is originally from the UK. He has a B.A. from the University of East Anglia and a postgraduate Management and Business Diploma from Henley School of Management. For further information, please contact Simon at childs@cds-consulting.com.

Executive Search Events 2006

JUNE:		
EREC		21-22 London, UK
Accord Group Global Partners' Meeting		23-24 Prague, Czech Republic
JULY:		
AIMS Global Partners' Meeting		6-8 Chicago, IL, USA
SEPTEMBER:		
IESF Global Conference		6-9 Moscow, Russia
ER Expo		12-14 Miami, FL, USA
Boyden EMEA Conference		14-17 St. Petersburg, Russia
World Search Group Annual General Meeting		20-23 Chicago, IL, USA
OCTOBER:		
IIC Partners' Annual General Meeting		4-6 Rio de Janeiro, Brazil
Executive Search Workshops		10-11 London, UK
"The Executive Search Practitioner" Conference		12 London, UK
Dillistone Systems FILEFINDER Global User Conference		13 London, UK
Annual IRC Conference		12-13 Shanghai, China
Boyden Asia/Pacific Conference		14-16 Goa, India
IACPR Global Conference		15-17 New York, NY, USA
Hunt Scanlon Leadership Forum		18-19 New York, NY, USA
Alexander Hughes Business Managers Meeting		20 London, UK
Kennedy Information Executive Search Summit		26-27 New York, NY, USA
Boyden Americas Conference		28-30 Miami, FL, USA
NOVEMBER:		
Stanton Chase International Partners' Meeting		2-4 Sydney, Australia
Recruiting 2006 Conference & Expo		8-9 New York, NY, USA
Executive Search Workshops		9-10 New York, NY, USA
Executive Search Workshops		13-14 Chicago, IL, USA



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