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Limits to expansion: transnational corporations and territorial embeddedness in the Japanese temporary staffing market

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Abstract

Recent changes to employment legislation have combined with shifting macro-economic conditions to drive dramatic growth in Japan's temporary staffing industry. Leading transnational staffing agencies have sought to capitalize on this growth as part of their wider globalization strategies but have faced substantial challenges both in entering the market and in their subsequent attempts at expansion. In this paper we explore the ways in which the particularities of the Japanese host market regulatory and institutional environment combine with the inherent characteristics of temporary staffing business model to challenge the expansionary strategies of these firms. The paper argues that while transnational firms have sought to adapt their business practices and strategies to the Japanese case, the attributes of the Japanese staffing market mean they have been unable to make significant inroads into the dominant market shares held by their domestic rivals.

Key words: temporary staffing, Japan, territorial embeddedness, transnational corporations

Introduction

The number of temporary workers placed by private agencies in Japan has grown rapidly in the past two decades as part of a wider expansion in non-regular forms of working (Imai, 2004; Shire, 2002: Shire and van Jaarsveld, 2008; Shozugawa, 2001) [1]. Known as *dispatch* working or *haken* in Japan, such workers accounted for 2.8 percent of employment by 2007, or 1.6 million people, up from just 0.2 percent (87,000) in 1987 (see Table 1). The rise in dispatch workers was particularly marked during the period 2002-2007, with some 900,000 being added to the economy. This placed Japan among the countries with the highest shares of temporary agency employment globally[2]. The industry has now expanded well beyond its origins in placing female clerical workers. It now encompasses workers of both genders right across the economy, including large numbers of male manufacturing workers (Coe *et al*., 2009a). The Japanese temporary staffing market was worth an estimated US$43.3bn in 2007 up from US$14.7bn in 2000 and US$7.4bn in 1994. It is now the third largest market globally, after the US and UK, accounting for approximately 14 percent of global industry turnover and making up the vast majority (around 95 percent) of the Asia-Pacific staffing market. The industry is constituted by some 15,000 private employment agencies, which operate some 65,000 branches across the country and employ over 200,000 workers directly (CIETT, 2009); all three figures are the highest for any national temporary staffing industry. This rapid expansion, combined with the unusually high levels of profitability, has meant that Japan has been a 'hotspot' in the global temporary staffing industry for much of the 2000s (Peck *et al*., 2005).

At the same time, the period since the mid-1990s has also witnessed a significant globalization of the temporary staffing industry in which the world's largest agencies have developed extensive geographical networks. A relatively small cadre of transnational staffing firms have sought to escape the highly competitive conditions of the core markets of North America and Western Europe by expanding into a range of 'emerging' markets across Northern, Southern, Central and Eastern Europe, Australasia and East Asia at the same time as they have been diversifying into different sectors, occupations and forms of human resources services (Coe *et al.,* 2007). Table 2 introduces the top 20 staffing firms in 2008, as ranked by foreign revenues. It shows a cohort emanating exclusively from the US and five leading Western European markets, and also depicts a highly consolidated global industry dominated by the giants Adecco, Manpower and Randstad, each of whom is present in over 50 countries. It is also important to note that the listing brings together a range of firms types: some are truly global operations, straddling a number of key regional markets, others are avowedly regional, focusing on one or two key regions, usually North America and/or Western Europe; some are generalist agencies, placing workers right across the economy, others are more specialist, focusing on professional segments such as engineering and information technology. The key point at this stage, however, is that these firms have expanded both geographically and functionally in the past ten-to-fifteen years, and as a result have captured significant market shares in many of the emerging markets they have entered (e.g. Coe *et al.*, 2008).

This paper is the limited intersection of these two trends. Given the globally significant growth of the Japanese industry and the concomitant international expansion of the leading transnational providers, one might expect that the transnational agencies could make significant inroads into the Japanese market. And yet, as Table 3 makes clear, this has not been the case. Just two of the top 20 firms in Japan in 2007 were foreign-owned – Adecco and Manpower, ranked 5th and 6th respectively. Instead the industry is dominated by large domestic players such as Staff Service, Pasona, Tempstaff and Recruit Staffing which have grown into billion dollar businesses while largely staying with the confines of the Japanese market. By 2009, for example, Tempstaff – the third largest agency – had 271 offices across 28 constituent companies in Japan and was generating $2.5bn in revenues (https://www.tempstaff.co.jp/english/corporate/, accessed 26/10/09). As with the global industry, Japan's sector is highly consolidated: the top 20 firms account for over one third (38 percent) of the total staffing market, with the top four alone constituting almost 22 percent (Staff Service 7 percent; Pasona 5 percent; Tempstaff 5 percent; Recruit Staffing 4.6 percent). Below the top 20, other transnational firms are present, including Randstad, Kelly Services, Hudson, Robert Walters and Michael Page, with the rest of the industry being composed of a raft of small and medium-sized domestic enterprises (for more on the different types of domestic agencies, see Imai, 2009). Revealingly, early entrants such as Manpower (1966) and Adecco (1985) that were crucial in the formative stages of the industry have seen their market share gradually eroded and overhauled by their domestic competitors.

In this paper we seek to explore the reasons behind the inability of powerful transnational staffing agencies to meaningfully penetrate the world's fastest growing and most profitable temporary staffing market. As such, its represents a case study of the limits to certain forms of service industry globalization that are heavily shaped by host market institutional and market conditions. The analysis proceeds as follows. Next, we outline our theoretical framework, mobilizing the notion of territorial embeddedness to explore the particular characteristics of temporary staffing markets and, relatedly, temporary staffing transnational corporations (TNCs). Second, we profile the development of temporary staffing in Japan, revealing the distinctive regulatory and institutional conditions that have shaped the emergence of the industry. Third, we explore in detail the constraints facing TNCs seeking to enter into, and operate within, the Japanese market, and consider their attempts to adapt to these challenges.

Table 1: The rise of non-regular employment in Japan, 1987-2007 (numbers in thousands)

Category	1987	%	1992	%	1997	%	2002	%	2007	%
Regular employees	37,653	81.6	42,032	80.0	42,392	77.1	38,452	70.4	38,336	67.0
Non-regular employees	8,497	18.4	10,432	20.0	12,590	22.9	16,206	29.6	18,889	33.0
Part-time (paato/arubaito)	6,563	14.2	8,481	16.1	10,342	18.8	12,062	22.0	12,362	22.6
Dispatch (haken)	87	0.2	163	0.3	257	0.5	721	1.3	1,608	2.8
Contract (keiyaku/shokutaku)	730	1.6	880	1.7	966	1.8	2,477	4.5	3,313	5.8
Others	1,118	2.4	1,008	1.9	1,025	1.9	946	1.7	1,043	1.8
Total employees	46,151	100.0	52,564	100.0	54,982	100.0	54,658	100.0	57, 235	100.0

Source: Employment Status Survey, various years.

Table 2: Top 20 staffing TNCs, 2008

Rank	Firm	Origin	Number of territories	Foreign revenue 2008 ($m)	% revenue foreign	Firm Type
1	Adecco	Switzerland	59	30,183.47	97	Global Generalist
2	Manpower	US	82	19,607.40	91	Global Generalist
3	Randstad	Netherlands	50	18,159.82	78	Global Generalist
4	USGPeople	Netherlands	13	3,109.24	57	Regional Generalist
5	Kelly Services	US	34	2,280.15	41	Global Generalist
6	Hays	UK	27	1,904.43	38	Global Specialist
7	Robert Half Int.	US	21	1,321.96	29	Global Specialist
8	Michael Page	UK	32	901.19	62	Global Specialist
9	MPS Group	US	12	882.07	40	Regional Specialist
10	Hudson Highland	US	22	806.58	75	Global Specialist
11	Brunel	Netherlands	32	757.88	78	Global Specialist
12	Monster	US	35	602.69	45	Global Specialist
13	Synergie Group	France	11	526.09	32	Regional Generalist
14	Olympia	Germany	7	415.13	83	Regional Generalist
15	SThree	UK	11	363.02	39	Regional Specialist
16	Allegis	US	6	360.00	6	Regional Specialist
17	CDI Corp.	US	4	344.74	31	Regional Specialist
18	Harvey Nash	UK	12	315.87	67	Regional Specialist
19	Robert Walters	UK	16	302.93	61	Global Specialist
20	Resources	US	20	212.37	25	Global Specialist

Source: Company annual reports and websites

Randstad revenue figures are pro forma following the consolidation of Vedior Group in May 2008. Comparison is made with 2007 pro forma data. Revenue: 2007 €17,625.2m ($25,647.66m); 2008 €17,177.4m ($23,242.91m)

Exchange rates used: € to US$: June 2008 1.55617; December 2008 1.35311. £ to US$: June 2008 0.508552; December 2008 0.673752. SEK to US$: December 2008: 0.124863

Table 3: Top 20 Temporary Staffing Agencies in Japan, 2007

Rank 2007	Firm	Head Office	Parent Company	2007 Sales (US$m)
1	Staff Service	Tokyo		3,176.24
2	Pasona	Tokyo		2,105.64
3	TempStaff	Tokyo		2,103.97
4	Recruit Staffing	Tokyo	Recruit	1,988.58
5	Adecco	Tokyo	Adecco (Switzerland)	1,983.74
6	Manpower	Kanagawa	Manpower (US)	893.10
7	Human Resocia	Tokyo		490.18
8	Fuji Staff	Tokyo		442.08
9	Intelligence	Tokyo		396.94
10	Panasonic	Osaka	Panasonic	330.24
11	Tokio Marine & Nichido Career Service	Tokyo	Tokio Marine	321.58
12	People Staff	Aichi		277.15
13	Human Trust	Tokyo		257.71
14	Mates Group	Tokyo	Mitsubishi	255.60
15	Niscom	Tokyo		250.20
16	Avanti Staff	Tokyo		242.10
17	Arrow Business Mates	Osaka	Panasonic	230.80
18	Mitsubishi UFJ Staff	Tokyo	Tokyo Mitsubishi Bank	227.54
19	WDB	Hyogo		192.77
20	Caplan	Tokyo	Itochu	128.92

Source: Adapted from BJF (2008) Report on 'Talent Dispatch Company gross sales ranking'. Translated from Japanese. Available from: http://www.jinzaibf.co.jp/toukei.html
Uses December 2007 average monthly exchange rate of 1¥ = US$ 0.00889.

Our empirical evidence is drawn from a large ESRC-funded project entitled *The Globalization of Temporary Staffing* that ran from 2004 to 2006. The overall aim of the project was to examine the geographical expansion and service diversification of the largest transnational staffing agencies, with a focus on the markets of Australia, the Czech Republic, Japan, Poland and Sweden. In addition to the extensive collection and analysis of secondary data, for the country case studies semi-structured interviews with senior executives in transnational and domestic temporary staffing agencies, labour unions, industry trade bodies and government departments proved to be the most insightful way of addressing the research objectives. During our research in Japan we carried out 20 such interviews in early 2006, with nine transnational staffing agencies, six domestic agencies, two trade associations, one business federation and two academic specialists. The interviews were enriched through assembling a repository of publications on Japanese temporary staffing from transnational and domestic temporary staffing agencies, industry trade bodies, trade unions, government departments, investment analysts and other academics[3]. We have subsequently undertaken follow up work on the 2006 to 2009 period to explore how the market has faired under conditions of economic growth and, more recently, economic crisis (for more on this aspect, see Coe *et al*., 2009a).

Theoretical background: TNCs and embeddedness in the temporary staffing industry

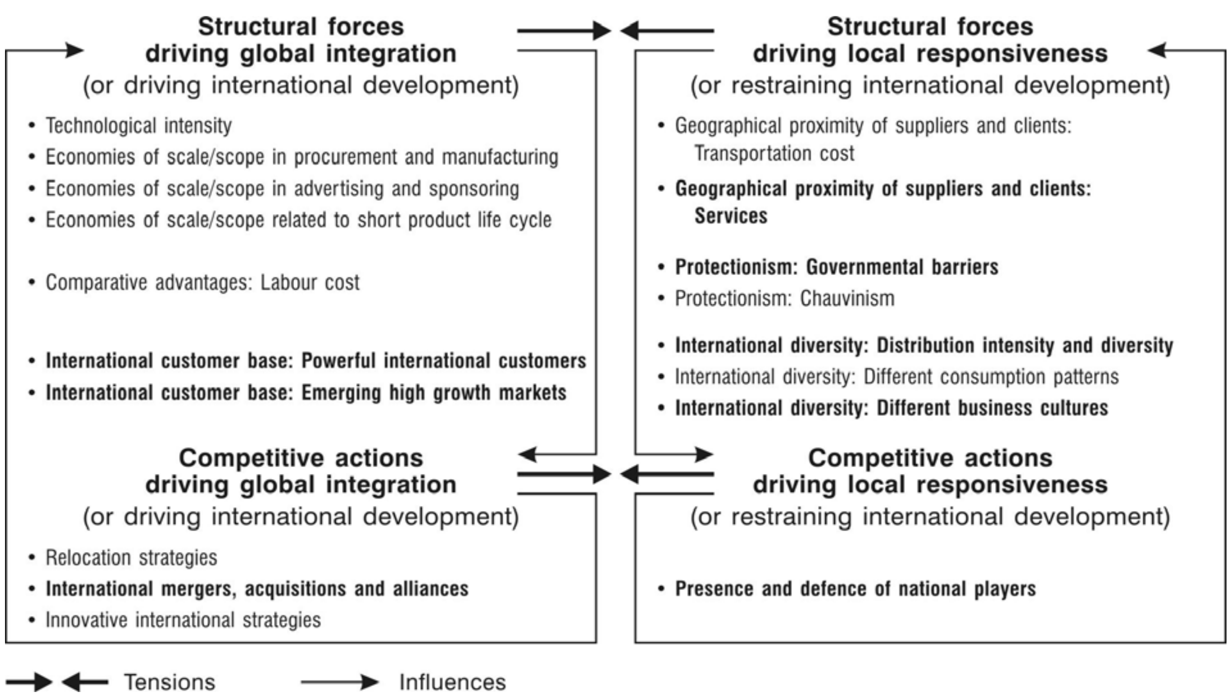
Our conceptual starting point is to assert that transnational temporary staffing agencies are by their nature highly *territorially embedded* in the host markets into which they invest. Within the existing literature there are two interrelated interpretations of the embeddedness of TNCs. First, there are accounts which emphasise the national roots of TNCs and how their internationalisation paths are shaped by the political, financial and institutional formations that exist within the home territory (e.g. Doremus *et al*., 1998; Jacoby, 2005; Whitley, 2001). Second, others have chosen to focus on the embeddedness of TNC subsidiaries within host economies, and more specifically, on the nature of connections to domestic firms and institutions at the subnational (regional) scale (e.g. Dicken *et al*., 1994; Phelps *et al.,* 2003; Christopherson and Clark, 2007). Both, however, are limited in their ability to explain the dynamics of the temporary staffing industry. While the former work focuses primarily on the imprint of the home environment, and as such has less to say about sectors in which the need to adapt to the *host* market institutional context is the key shaper of TNC strategies, the latter has tended to prioritize the network connections that tie firms into local, sub-national economies, and relationships with suppliers and partners are seemingly given precedence. As a result this latter literature also comes up short intellectually.

While both these bodies of work have advanced our conceptualizations of TNC activity, here we identify a second mode of host market embeddedness which is appropriate to studying foreign direct investment in a range of market-facing service sectors including temporary staffing (Wrigley *et al.*, 2005). In such sectors, the dominant force shaping internationalisation dynamics is the embeddedness of activity within *national* host market institutional regimes. TNC subsidiaries are enmeshed not just in host market business networks, but also within the external business environment, necessitating the combination of two different kinds of market experience: business experience, that is knowledge about how to undertake their business, and institutional experience, which 'concerns such things as laws, regulations and public or semi-public authorities that implement laws and regulations. Thus, institutional experience is country-specific…' (Forsgren *et al.*, 2005: 68). Expansion into foreign markets thus depends on achieving 'organizational legitimacy' (Bianchi and Arnold, 2004) in a range of domains extending well beyond the TNC's immediate business networks. This is not to say that home-country embeddedness in particular is not important, but rather that in certain sectors, meeting the various needs of different national marketplaces is the more significant influence on corporate strategies and structures.

What might be the underlying characteristics of such sectors? Although somewhat simplifying, the global-integration/local responsiveness frameworks developed in the international business literature are a useful place to start. Calori *et al.* (2000) (see Figure 1) offer a nuanced version of this framework that highlights the various structural and competitive forces involved. The right-hand side of diagram identifies the necessity of geographical proximity between suppliers and clients, strong government protectionism and high levels of international diversity in markets as forces driving local responsiveness. In terms of the competitive actions of the firms involved, the presence of strong domestic competitors ('national champions') is another contributory factor. This is an important observation, chiming with the arguments of Hansen (2008) that the pre-existing landscape of domestic competition – or the 'far side' of international business – is given short shrift in the TNC literature. As Hansen rightly argues, the interactive relationships between TNCs and their key competitors within different markets will not only influence the relative success of the inward investment, but will also necessarily impact upon the structures and strategies of TNCs.

What is striking about Figure 1 is the number of these attributes that apply to temporary staffing (shown in bold). These reflect both the inherent nature of the business, and its geographically variable regulation. Staffing requires a physical presence in local labour markets, and hence firms – particularly generalist agencies – seek to build extensive office networks in the territories in which they invest. The core of their business – developing lists of candidates and matching them to the requirements of client firms – is an inherently local and spatially variable service activity that requires proximity both to workers and client firms. This 'closeness' to market means that transnational staffing agencies are potentially open to strong local competition: 'distribution and sales typically are local activities. When distribution costs represent a high percentage of total cost, international competitors are no better placed than local players' (Calori *et al.*, 2000: 74). In turn, how staffing business can be conducted is heavily shaped by the prevailing national modes of labour market regulation in host economies. Three aspects are important here. First, the industry is influenced by general labour market regulation practices with respect to non-permanent employment (e.g. the rights of part-time, short-term workers). Second, it is affected by systems of welfare provision (e.g. the role of state agencies in placing unemployed workers) and the relationship between private and public sector labour market intermediaries. Third, in some countries the temporary staffing industry itself is directly regulated (e.g. licensing systems, restrictions on the kinds of workers that can be placed etc.)[4]. Finally, with respect to business cultures, as labour supply is the very essence of temporary staffing, agencies need to be attuned to market-to-market variations in business and working cultures, and, additionally, alive to wider sentiments about the social acceptability of non-standard forms of working. Overall, these various conditions dictate the necessity of a high level of national host market embeddedness on the part of staffing TNCs.

Figure 1: Global integration and local responsiveness in the temporary staffing sector



Source: adapted from Calori *et al.*, 2000, Figure I.2.

By contrast, many of the structural forces that Calori *et al.* suggest can drive global integration do not apply to temporary staffing (Figure 1). The industry is not technologically intense, and economies of scale and scope are hard to achieve because of the local nature of service delivery described above. Likewise, this means that geographical variations in labour cost are not a rationale for international expansion. Instead, in terms of global integration, the key drivers are the demands of transnational customers and the revenue potential of emerging markets, particularly in a context where established markets are often highly competitive and offer low profit margins.

In combination it seems that the structural forces shape local responsiveness in the temporary staffing industry, exerting a strong influence on the structures and strategies of leading TNCs. In general terms, the sector exhibits the presence of strong national competitors, expansion through merger and acquisition activity, and the management of diversity by TNCs through loose coordination rather than centralized control (Calori *et al.*, 2000). Importantly, however, there is both strong company-to-company variation in these attributes – for example, the extent to which TNCs seek to manage diversity through centralization of control and standardization of business practices – and also geographical variation *within* firms in terms of how they approach different national markets (Coe *et al.*, 2009b). This latter aspect – i.e. that the diversity of markets can drive spatially variable international expansions strategies – is arguably under appreciated in the management literature. The argument also resonates with other studies of the complexity and spatially variable internationalization strategies of business service firms (e.g. Faulconbridge *et al.*, 2008; Jones, 2003).

It is in this context that the Japanese market provides such a fascinating case study. The particularities of the market, encompassing both the formal regulatory sphere and wider institutions or 'ways of doing business', combine with the inherent characteristics of temporary staffing as an economic activity to create a market which is extremely difficult for staffing transnationals to enter into, and expand within. Moreover, this particular combination makes it harder in relative terms for TNCs to succeed than in other emerging markets where they have been more successful in gaining market share. A key element to understanding the structural shape and growth trajectory of the Japanese industry is the government's progressive deregulation of the activities of staffing agencies since 1986 against a backdrop of wider labour market change, a story which we sketch out in the next section.

The evolving Japanese business system and the rise of temporary staffing

The rise of temporary staffing in Japan is part of a wider trend towards non-regular working in Japan, which rose from just under one fifth to fully one third of total employees over the period 1987-2007[5]. In addition to dispatch workers, the period also saw strong growth in part-time employment (known as *paato/arubaito*) and limited-term contracting work (known as *keiyaku* or *shokutaku)* (Chatani, 2008). The growth in these forms of working must be positioned in relation to the changing nature of the 'traditional' Japanese employment system, often seen to be based on Japanese social values, strong firm internal labour markets, and the three pillars (OECD, 1977) of lifetime employment (*shushin koyo*), wage structures heavily influenced by seniority and length of service (*nenko joretsu*) and the coordination of labour through plant level enterprise unions (*kigo-nai kumiai*) (Jacoby, 2005). Although this system was never totally dominant and perhaps best describes the activities of the largest manufacturing groups, it was much lauded in the 1970s and 1980s as underpinning Japan's strong economic growth and productivity gains (OECD, 1977).

From the 1990s onwards, against a backdrop of a deep and sustained recession and a progressively interconnected world economy, debate has shifted to considering the impacts of liberalization pressures and processes of institutional adaptation within the labour system. As Jacoby (2005) has described, there have been powerful forces for change in this system encompassing: restructuring in the search for enhancement efficiency in a context of recession; social change towards individualism, especially amongst the young; declining union strength; a redistribution of corporate gains towards managers and shareholders; and statutory reform, especially the flexibilisation of labour regulation and financial deregulation. The result has been significant adjustments in the labour system in areas such as wage restraint, worker-management collaboration to raise productivity, the increasing share of nonregular workers and a shift in the lifetime guarantee from the company to the corporate group (Vogel, 2006). These developments have raised questions about the extent to which the Japanese model is unraveling, becoming more liberal, or perhaps even converging towards a US model, and authors describing these changes have variously sought to emphasise elements of continuity or transformation (Jacoby, 2005). However, as Sturgeon (2007: 3) describes, most observers 'highlight the processes of gradual institutional evolution over breakdown and radical change'. What is important here, however, is that the development of Japan's temporary staffing industry must be seen as integral, not external to, these processes of adaptation within the wider labour system (Shire, 2002).

In the remainder of this section we profile the emergence of Japan's temporary staffing industry against this shifting institutional backdrop (for a fuller account, see Coe *et al.*, 2009a; Imai, 2004). The analysis can usefully be structured into three periods bracketed by key dates in the government's deregulation of the industry: private staffing agency activity was prohibited in Japan under the Employment Security Law (ESL) enacted in 1947, was partially legalized in 1986 with the advent of the Worker Dispatching Law (WDL), and was then almost fully legalized in significant amendments to both the ESL and WDL in 1999.

1947-1985: pre-legalization.

The pre-legalization period saw the establishment of two important preconditions for subsequent growth post-1986. Firstly, the early inward investment by the American transnational staffing agency Manpower in 1966 arguably laid the foundations for the industry. Manpower Japan initially serviced other transnational firms with multi-lingual female secretarial workers and subsequently moved into supplying similar workers to a number of Japanese clients. In the 1970s a small number of domestic Japanese staffing firms were formed in response to Manpower's activities – for example Tempstaff in 1973 and Pasona in 1976. Much like Manpower, their initial activities were concerned with the small-scale supply of clerical labour, although to predominately Japanese firms. There was a clear division of labor between the transnational and domestic agencies in terms of their client bases. Secondly, the period also saw the development and institutionalization of certain forms of flexibility within, and around the margins of, *keiretsu* business groups[6] which were precursors to the widespread adoption of non-regular working practices in subsequent decades (and, indeed, are still used today). For example, many *keiretsu* established subcontracting or *ukeoi* staffing companies in order to promote stable yet flexible business relationships within the business grouping. Additionally, from the 1970s onwards other forms of intra-group labour mobility rose to prominence, namely *shukkô* – the practice of moving people within the business group but retaining the original employer and contractual conditions – and *tenseki* – moving people within the group but to a new employer and contractual conditions. Importantly, however, in this early period flexibility was largely enacted *within* the corporate group, rather than through independent labour market intermediaries such as staffing agencies. This imposed limits on the growth of the industry. While the government largely fulfilled a watching brief during this phase, Manpower, and later on, initial Japanese entrants to the market were vital in initiating a market for the services of independent staffing agencies. In recognizing the growth in the temporary staffing market, the Temporary Work Services Association (TWSA) of Japan was established in 1984. This was formed when eight of the largest agencies at the time got together and decided to act in unison to promote the industry. The TWSA has been subsequently renamed the Japanese Staffing Services Association (JASSA) and has played an important institutional role in shaping the way the industry in Japan has evolved.

1986-1998: partial legalization and the early years of market formation

In 1986 the Japanese government passed the WDL, which legalized the limited operation of temporary staffing firms. The legislation adopted a 'positive list' approach in which dispatch worker placements were allowed in 13 defined occupational fields, a list subsequently expanded to 16 occupations later on in 1986 and then 26 in 1996. The positive list occupations combined the traditional areas of clerical/secretarial work – thereby allowing employers to keep that tranche of female workers at a distance from the lifetime employment model – with a range of professional occupations where workers were either in high demand (e.g. software) and/or where organizational factors demanded temporary employment (e.g. project work in the broadcast media) (Araki, 2002). Temporal constraints were also imposed: the maximum period of dispatch was initially set at nine months, and then increased to one year. The legislation was drafted with the inputs of labour unions through their representation within the Ministry of Labour, and also on the advice of Manpower.

The impacts on the industry were immediate. 2,500 employment agencies appeared in the first year after the 1986 legislation as new domestic firms were created in response to legalization, and many major corporations set up their own staffing companies and hired clerical workers from them (Shire and van Jaarsveld, 2008). The early years after deregulation also saw something of a separation between the activities of transnational and domestic staffing agencies, with the former continuing to supply transnational subsidiaries and the latter seeking to take on existing *ukeoi* type placements, and to educate Japanese firms about the benefits of using temporary staffing services. As such, the late 1980s and early 1990s are perhaps best characterised as years of steady rather than explosive growth in temporary staffing, with *shukkô* and *tenseki* practices continuing to work fairly well in reallocating displaced workers in the early recessional years of the 1990s. However, as Japan's recession deepened into the 1990s, the limits of these intra-group practices started to emerge, and the use of the external labour market increased significantly. As unemployment levels rose past four percent, arguments grew for further deregulation of the temporary staffing market. Some influences were external – in 1997 the Japanese government had adopted the International Labour Organization's (ILO) convention 181 on staffing agency activity – but Japanese employer associations also started to lobby for change, having hitherto been steadfastly opposed to labour market reforms that might undermine the long-term employment system. Accordingly, the Government's Deregulation Committee turned to labour issues in 1995, seeking to reform labour markets in order to facilitate the reallocation of workers displaced from other sectors. In contrast to the 1986 deregulation, by moving debate beyond the tripartite membership of the Ministry of Labour, trade unions and other social partners were effectively excluded from deliberations, with the Cabinet Office using ILO 181 as leverage for this shift (Shire and van Jaarsveld, 2008). The Committee's proposals laid the groundwork for further liberalisation of temporary staffing in 1999.

1999-present: full legalization and rapid expansion

The 1999 amendments to the ESL and WDL effectively marked the full legalization of temporary staffing activity in Japan. The ESL was revised to permit private staffing agencies to operate after 52 years of prohibition, and changes to the WDL saw the lifting of most of the occupational and other restrictions on temporary staffing. The 'positive list' was replaced by a much shorter 'negative list' of job-types in which dispatch working was banned including manufacturing, construction, harbor transport and certain specialized professions. The limits of duration of dispatch were lifted from one to three years for the 26 occupations on the previous positive list, and set at one year for all others. Both the sectoral and time restrictions have subsequently been relaxed further. Importantly, in 2004, manufacturing and certain types of medical work were removed from the negative list, and the time restrictions were removed for most occupations; in 2007, the maximum term was lifted for manufacturing workers from one to three years. Another legislative change in 2000 eased restrictions on so-called 'temp-to-perm' placements, which saw dispatch workers used as a precursor to permanent employment.

The impact on the industry of full legalization has been profound, fuelling the rapid growth in the industry and emergence of large domestic agencies in the 2000s described in the introduction to this paper. The transnational agencies, on the other hand, have lost the political influence and market-leading role they had in the early days on the industry. In the remainder of the paper we turn to exploring the ongoing constraints faced by transnational agencies seeking to enter and profit from this now almost entirely deregulated and fast-growing marketplace.

Transnational staffing firms in Japan – the limits to growth

In this section we empirically demonstrate our argument concerning the challenges that transnational staffing agencies face in seeking to penetrate the Japanese market. We review these on three inter-connected levels: securing market entry, gaining business once established, and then conducting business on an ongoing basis. In each case, the particularities of the Japanese business system, and more specifically, the temporary staffing market, pose difficulties for inward investors seeking to simply 'roll out' a standardized global strategy.

Open for business in Japan? The challenges of market entry

The first challenge facing staffing TNCs is to gain a foothold in the Japanese market. This section serves to reveal how market entry into Japan has disrupted many of the traditional entry strategies of staffing TNCs. As noted earlier, Table 1 offers a loose typology of staffing TNCs that intersects their geographic and functional scope of operations. Two tentative generalizations can be made regarding the market entry strategies of these groupings of firms. First, generalist firms seek to build extensive branch networks within new territories, so the acquisition of existing firms can offer considerable time and cost savings. The extent to which these pan out, of course, depends both on the nature of the new market – i.e. truly 'emerging' markets do not yet have domestic firms large enough to acquire – and on the ownership and priorities of the staffing agency – for example, private ownership can reduce the capacity to make large acquisitions due to the levels of capital required. Second, specialist firms generally only seek to operate one or a handful of offices in leading cities, and as a result greenfield investment is often the preferred entry method as it offers lower costs and risk levels when compared with acquisition. In both categories is it the globally, rather than regionally, oriented firms – which tend to be based in Western Europe and/or North America – that are seeking to extend their operations into Japan as part of expansion plans in Asia.

Table 4 charts the entry of transnational staffing TNCs in Japan. The market strategy of many early entrants was through greenfield investments. This was due to the 'illegal' nature of staffing activities pre-1986 and the absence of sizeable domestic firms to acquire. In the case of Adecco (or Adia before 1996), greenfield development was followed a decade later by the acquisition of a large domestic firm. The initial formation of domestic firms during the late 1970s and 1980s was followed by organic branch network development and growth. Japanese firms did not feel the same barriers to growth as transnational firms:

> 'Transnational leading companies like Adecco and Manpower, especially Adecco…they developed by merger and acquisition. On the contrary, companies like mine, our success has developed through organic growth' (Domestic Firm 8, February 2006).

As a result, from the late-1980s onwards, many transnational firms found that the existence of large domestic players such as Pasona and Tempstaff reduced the capacity for greenfield entry:

> 'Yes [more transnational firms will enter], if they can buy! Starting from scratch, it is too late. But they know that already. So they are trying to buy' (Domestic Firm 4, January 2006).

Since that time, as Table 4 demonstrates, transnational firms entering Japan have increasingly sought out other methods, particularly in the cases of generalist staffing firms requiring an extensive office network. Specialist firms, as noted above, operate through a far more constrained office network and hence greenfield entry has remained a viable strategy as the entries of Robert Half and Robert Walters in 2001 and 2000 demonstrate (both just have one office each in Tokyo and Osaka).

The challenges posed by greenfield entry to Japan have forced transnational firms to re-assess the advantages of acquisition – even in cases where this is not part of their wider global expansion strategy. One generalist transnational firm clearly stated that Japan was the exception in their global strategy for investment:

> 'I think Japan is the only exception at the moment…because it's such a big market over there … It's possible to make an acquisition in Japan for one hundred million euro plus, acquisitions in Japan have lets say, a quick start. That was kind of different from our original strategy in all the other countries' (Transnational Firm 3, January 2006)

The advantages of acquiring in Japan are clear – existing firms hold local market knowledge and expertise, branch networks and an established database of temporary workers. However, the monetary worth of these factors is often difficult to assess:

> 'But everyone knows that the temporary staffing business does not have any assets, they only have people assets. So it is not the smart way to buy the companies, if the country is small. If there is a big company and it is well established and they have a good market, then it makes sense to buy' (Domestic Firm 4, January 2006).

Moreover, the acquisition of an existing staffing agency can present challenges to the transnational firm in terms of the alignment of corporate cultures:

> 'Acquisition is preferred if you can find the right cultural fit…. and you can get it at the right price. That's a challenge in and of itself. In Japan we started approaching the Japanese market with the mindset that we wanted 100% ownership…I think we've learned a little bit in the last few years' (Transnational Firm 9, January 2006).

The ability of transnational firms to purchase domestic agencies has also been greatly reduced by Japanese firm owners' attitudes to the sale of their businesses. Many domestic firms are still privately owned and managed by 1940's 'baby boomers' who are reaching retirement age. While this is creating a pool of eligible staffing agencies for transnationals to target, many find their approaches resisted:

> 'It is fairly difficult to buy a company in this market, because, in many cases, the price is too high. Owners don't want to sell. If they think someone is interested the price goes up' (Transnational Firm 1, January 2006)

As a result, executives have had to adapt their typical methods of approaching potential takeover targets:

> 'The traditional trying to find a company to buy in Japan is not working – you know we have private investment banks – but that's not the way it works, its a lot of social networking and introduction in Japan. So, we have been in contact with many companies and their first attitude is not very positive towards foreigners, especially if you do not have Japanese organisation or history here …so it is not easy to find a Japanese company to be acquired' (Transnational Firm 3, January 2006)

Transnational firms are required to spend longer integrating themselves into the temporary staffing community before making their intentions explicit. This is a particular challenge and the contradiction is clear – the firms need to be on the 'inside' to get to the 'inside'. In addition, the expectations of the acquired firm owner regarding the management of the firm after acquisition impact in two ways: first, negotiations tend to include discussion of the future of staff and temporary workers, and second, there is strong resistance to foreign ownership as owners are not convinced about their capacity to fulfill Japanese employee expectations:

> 'I think to some extent there is a bit of reluctance to sell to foreign firms because of the way the Japanese view business and work. If you look at the word for employees it is really "a member of the society"…' (Transnational Firm 6, February 2006).

Table 4: Temporary staffing TNC market entry in Japan

Firm	Firm Origin	Date	Mode of Entry	Notes	Current Brand
Adecco	Switzerland	1985	Greenfield	Temporary staffing	Adecco
(Adia pre-1996)		May 1999	Acquisition	Acquired 100% of Career Staff (Japan) with sales in 1998 of $450m. General temporary staffing	Adecco
		2004	Greenfield	Establishment of contracting subsidiary	Adecco
Hays	UK	February 2006	Acquisition	Acquired James Harvard (UK) a specialist recruitment firm with 1/3rd of operations in Japan	Hays
Kelly Services	US	May 2002	Alliance	Business alliance with Nisso Corporation to provide outsourcing services	Nisso
		November 2002	Alliance	Business alliance with Tempstaff (Japan) to provide general temporary staffing	Tempstaff
		February 2005	Acquisition	Acquired under 5% of Tempstaff for $18m	Tempstaff
		September 2005	Joint venture	Joint venture with Tempstaff and Sony Corp. to service Sony Corp. Level of investment undisclosed	Tempstaff Kelly
		October 2006	Acquisition	Sony's 40% of Tempstaff Kelly acquired	Tempstaff Kelly
		March 2007	Acquisition	Tempstaff's 51% share of Tempstaff Kelly acquired to give Kelly Services 100% ownership	Kelly Services
Manpower	US	1966	Greenfield	Established temporary staffing	Manpower
		2001	Acquisition	Acquired shares in Mates (Japan). Level of investment undisclosed	Mates
		2004	Greenfield	Established contracting subsidiary	Skill Partner
Right Management Consultants	US	1994	Greenfield	Entered market offering outplacement services	Right Japan
		March 1999	Acquisition	Acquired 20% of Way Station (Japan), a career transition consulting company. This share was raised to 51% in October 2000	Right Japan
		January 2004	Acquisition	Manpower acquired Right Management Consultants	
Michael Page	UK	Early 2001	Greenfield	Established specialist financial staffing	Michael Page
Morgan and Banks	Australia	1995	Acquisition	Acquired The Wright Company	n/a
TMP Worldwide	US	January 1999	Acquisition	Acquired Morgan and Banks. Established monster.com online job board. In 2002 TMP Worldwide split into two – Hudson and Monster.com. TMP Japan (including monster.com in Japan) sold to Audax Group in June 2005.	**Hudson** Global Resources

MRI (part of **CDI Corp.**)	US	March 2004	Franchise	Franchise agreement established with Fujistaff for search and recruitment services	Fujistaff/MRI Japan
Randstad	Netherlands	2006	Greenfield	Entry into Japanese market	Randstad
		May 2008	Acquisition	Acquisition of Vedior (Netherlands) including all Japanese operations	n/a
Robert Half	US	September 2001	Greenfield	Established consulting and auditing operations	Protiviti
Robert Walters	UK	January 2000	Greenfield	Permanent placement activities established	Robert Walters
		March 2006	Greenfield	Introduction of temporary staffing services	Robert Walters
Vedior (Select pre-November 1999)	Netherlands (UK pre-1999)	1999	Joint venture	Established Fairplace Consulting Japan. Joint venture between Select, Fairplace and Staff Service. Investment levels undisclosed	Fairplace Consulting
		1999	Acquisition	Acquired shares in Panache (IT staffing). Level undisclosed and disposed in October 2003	Panache
		1999	Acquisition	Acquired 51% share in Niscom (IT staffing). Sold back to management in 2004 for €128m ($174m)	Niscom
		September 2003	Acquisition	Acquired shares in SuperNurse (medical staffing). Level undisclosed	SuperNurse
		February 2005	Joint venture	Vedior Career established as joint venture with Staff Service (Japan) to provide permanent placement services	Vedior Career
		October 2005	Joint venture	Vedior Contec established as joint venture with Frontier Construction (Japan) to provide construction recruitment services	Vedior Contec

Source: Company annual reports and websites

To give a specific example, in 2006 Randstad announced its intention to acquire a Japanese staffing firm with the aim of becoming a leading player within three years. It was unable to do so, and instead, its strategy became overtaken by events and entry was secured through the takeover of Vedior which itself has previously used a mix of entry strategies (Table 4).

The result of the obstacles to both greenfield and acquisition strategies is that while globally, the internationalisation strategies of the leadings transnationals are dominated by these modes of entry, the Japanese staffing market has seen the emergence of strategic alliances and joint ventures between foreign and domestic firms, particularly in the case of global generalist firms. As one domestic firm pointed out:

> 'They might think that Japan is a very big market, but it is a not new market…it is different here. This is not an English speaking country and it has a long history, and a very different culture' (Domestic Firm 9, February 2006).

In alliances, the domestic firms can offer invaluable insights into the operation and organisation of the staffing industry in Japan, the broader economic climate, and social and business norms. Transnational firms seek domestic agencies with similar corporate cultures to facilitate the day-to-day operation of the alliance and the longer-term exchange of knowledge:

> 'This industry is not so big, so we know who [Japanese staffing firm] is, and they know who [we] are. The corporate cultures are very similar. We are very serious, day-to-day, service-oriented staffing companies. We are not flashy, but we provide a good quality of service. So, first, corporate culture fits. Second, the…headquarters are in close contact and there is a lot of exchange at the management level' (Transnational Firm 9, January 2006).

The most significant example of market entry through an alliance is that of Kelly Services. Based in the US, Kelly Services is considered by many to be the 'original' staffing agency. Kelly Services has used both greenfield and acquisition (always 100 percent ownership) to enter 30 countries and never entered into strategic alliances or joint ventures. However, in 2002 Kelly Services formed an alliance with Tempstaff – at the time the second largest firm in Japan. In 2005 Kelly and Tempstaff entered into a joint venture with Sony Corporation to service some of their temporary staffing requirements, a venture that is turn was acquired by Kelly Services in March 2007, in addition to 5 percent of Tempstaff. The key point here is that the nature of the Japanese market can lead seemingly powerful global players to adjust their market entry strategies. In particular, they may have to engage in the lengthy, expensive and oftentimes unsuccessful process of seeking and wooing an appropriate partner given the significant barriers – which have grown over time as the size and power of domestic operators has increased – to entry through the traditional acquisition and greenfield routes.

Gaining business in Japan: the limits to leveraging global networks

Once established in the Japanese market, transnational providers face further challenges related to securing enough business to make their operations viable. There are two key aspects here. The first concerns the relatively small transnational client base that exists in Japan. In terms of outward foreign direct investment (FDI), while the extensive internationalization of many leading Japanese firms in the 1980s and 1990s has been well described (e.g. Strange, 1993), levels of investment have tailed off as Japan's economy has struggled in recent times, reducing the exposure of Japanese firms to other business systems and culture. More importantly, perhaps, levels of inward FDI into Japan are still extremely low: Japan's share of global inward FDI in 2008 was just 1 percent (JETRO, 2009), while data for 2004 showed that the share of foreign affiliates' employment as a percentage of total employment in Japan was just 0.8 percent (430,900 employees), as compared, for example, to a level of 22.1 percent (543,000 employees) in Hong Kong (UNCTAD, 2007). These limited levels of inward FDI have inevitably restricted the degree of change brought about by the presence of foreign TNCs (Whitley, 1999). For staffing transnationals, they mean that a key market segment is still small in size. As noted earlier, early transnational firm entrants such as Manpower and Adecco started out by providing secretaries and translators to transnational clients, and client following continues to be a major driver of internationalization in the sector (Coe *et al.*, 2007). In many new markets, staffing firms are able to utilize their existing relationships with transnational firms to gain early sources of business. However, in the case of Japan, many of the clients that staffing transnationals have followed into other markets will simply not be present. Another constraint on the potential market is the relative underdevelopment of Japan's service economy, particularly in terms of advanced business services (Ström, 2005), meaning that the potential for professional placements is circumscribed compared to other markets.

The second main constraint faced by transnational agencies is the reluctance of Japanese clients to use foreign providers. In part this stems from the low levels of inward investment described above; in part it reflects a cultural tendency within the Japanese business system for managers to prefer dealing with other Japanese businesses wherever possible. Being visibly part of a global corporation can therefore be a disadvantage in the Japanese context, highlighting another strength of the partnership-based entry methods described earlier. As a result, some staffing firms have started downplaying their transnationality in advertising and promotional efforts. Japanese clients, it seems, are more concerned with the quality of the service provided and the nature of the agency-client relationship than the scale and reach of the agency:

> 'They [the Japanese] really believe in local solutions for local markets. In Japan it's very different. Of course, we make a lot of stories about what we think we can add – international clients, international networks, international training programmes – we have our brand name

> although it's not very well known in Japan….the clients don't care as it doesn't make an impact on how we will treat them or the temps' (Transnational Firm 3, January 2006).

In turn, the very limited internationalisation of the leading domestic agencies (particularly given their size) also serves to sustain this perception of a distinctive Japanese market.

The net result is that transnational agencies are able to derive few competitive advantages from being a subsidiary of a wider group. Put another way, in the Japanese case, it is hard to generate economies of scale and scope through wider corporate networks. A specific example of this is with respect to global contracts, whereby agencies seek to establish multi-country deals with large transnational clients in many or all of the territories in which they both operate. While there are now several cases of global contracts within the global industry – for example agreements between Manpower and IBM, and Adecco and General Motors – in Japan the notion has received little attention and transnational firms have derived no competitive advantages from potentially being able to offer this service:

> 'There is a problem with global contracts, because Japan is not an English speaking country. So, when the foreign company A has a global contract with Manpower….for instance Pasona has been doing the staffing for company A, but because of the global contract they have to switch to Manpower, but Manpower cannot find the 200 skilled English speakers that they need. So a company might have a global contract, but they might not be able to switch from Pasona to Manpower' (Transnational Firm 4, January 2006).

There are clear limits, then, in the Japanese market, to corporate strategies that emphasise universal branding and standardized business practices. A significant degree of autonomy from headquarters in required in order to allow Japanese subsidiaries to develop independently. As one manager described:

> 'I learnt how they did the business, so I just brought the ideas and started the same kind of thing in Japan; I learnt from [our] operations in other countries. They showed me everything and gave all the materials I needed, but they never said I should do this … in terms of autonomy, I had full authority to do the business in Japan, like changing the head office, or opening new branches, changing computers' (Transnational Firm 1, January 2006).

Subsidiary managers constantly have to balance the particular demands of the Japanese market against the requirements to implement global strategies, evaluating on an ongoing basis the potential transferability of different elements of the business:

> '…it is very difficult to explain why a concept can be exported…. why a service concept is also something you can implement in other countries and I think they still feel this is wrong. [In Japan] it's so much in person, it's so much a local network and relations, you can never export this. Even the big [Japanese] companies, they don't have much interest in international corporation networks' (Transnational Firm 3, January 2006).

Retaining a degree of local autonomy appears to be critical to success in the Japanese market. This is true not only in terms of attracting clients, but also for conducting business on an ongoing basis, the subject to which we turn next.

Doing business in Japan: learning the rules of the game

Even when they have successfully entered the Japanese market and secured a client base – either transnational or domestic – transnational firms still face some distinctive challenges in performing their business in Japan. Some of these are the direct result of *regulations* and employment legislation, while others reflect wider *institutions* or ways of undertaking temporary staffing in Japan. In terms of the former, as we have already seen, regulations – although steadily relaxed since 1986 – still shape the sectors where temporary staffing is allowed, and determine the maximum lengths of placements. Often harder to adjust to, however, are rules that shape the everyday practices of temporary staffing. For example, legislation relating to temporary and permanent work means that firms cannot transplant their existing office layouts from outside Japan. As conversion from temporary to permanent employment is still restricted in some job categories, firms are legally obliged to physically separate these divisions:

> 'Today, you're allowed to do both businesses from the same office, but you're supposed to have them in different areas of the office. Defined and different people doing temporary versus permanent… and you're supposed to…keep two databases. And if a candidate registers as temporary, then they have to separately register for permanent. And you aren't supposed to coerce or encourage somebody to go from one to another' (Transnational Firm 4, January 2006).

While this may seem like a minor modification, it directly impacts on office working practices, expected revenue levels – transnational firms have become accustomed to fee charging for temp-to-perm conversions – and their strategies for attracting temporary workers – in many markets temporary work is sold as a 'way into' permanent positions. Another theoretical restriction on transnational firms' traditional working practices is Japanese legislation prohibiting the client companies from interviewing prospective temporary employees. However, this is routinely ignored by both foreign and domestic agencies:

> '…when we do an interview before the worker is dispatched, that is prohibited in Japan, so we just say that we are having a "pre-meeting" for the business' (Transnational Firm 1, January 2006).

Moreover, staffing transnationals also have to adapt to 'ways of doing business' in temporary staffing in Japan. As domestic firms became formally (i.e. legally) established after 1986 their organisational structures and business models quickly began to modify from those adopted from observing either existing firms in Japan or from founding directors' experiences of temporary staffing in other markets (particularly the US). As a result, transnational firms have found that their business models – which are usually reasonably geographically mobile – require some major adaptations in Japan:

> '…because of the local things, like culture and custom is big here, so you cannot directly apply the US business model to Japan. In order to use it in Japan you have modify it' (Transnational Firm 1, January 2006).

There are three particular dimensions of adaptation that we would point to here. First, transnational firms traditionally operate offices in which all aspects of business take place, such as the recruitment of temporary workers, liaising with clients and placing workers. However, domestic firms have developed business model in which the recruitment of clients is conducted through a dedicated sales division:

> 'Pasona … have created their Japanese business model. It is quite different to that of Manpower. … Japanese staffing companies are sales oriented, especially Pasona - a lot of sales people. Manpower had only account executives. They do sales, but the executives do other things, they do everything, arranging, matching, interviewing, everything. In the Japanese system that we created, sales is sales' (Domestic Firm 3, January 2006).

As transnational firms have tried to expand their operations beyond the limited transnational client market, their engagement with potential Japanese clients has created pressure to adopt a similar business model. As one of the first firms present in Japan, Adia (now Adecco) was able to acquire a salesforce through the acquisition of Career Staff in 1999, enabling them to overtake Manpower in market share:

> 'What they [Manpower and Adia] were doing was really the same thing. The difference was probably the sales force. I think in the temporary work service business, the difference between the strong companies and the weaker companies are the sales forces. How you build up the strong workforce decides whether they can grow fast or not. Adia was very successful in Japan because [they] succeeded to build a very strong sales force' (Transnational Firm 1, January 2006).

Second, another organisational difference relates to corporate structure. Manpower and Adecco have extensive networks of branches across Japan, but these differ from their domestic competitors' in form and organisation. While transnational agencies tend to follow their global organisational norms – uniformly branded branches controlled centrally from national headquarters – their large domestic competitors tend to a different model whereby new geographical locations and/or operations in a new sector warrant the establishment of a new company subsidiary contained within a larger holding company. This structure loosely echoes the *keiretsu* tradition and conforms to societal pressures to create many managerial positions within the same firm. These more complex firm structures enable subsidiaries to develop their own brands, market presence and relationship with clients with or without direct association to the larger holding company. For example, Tempstaff's generalist staffing operation is split into four regional offices (branded as Tempstaff), specialist staffing into twenty-six firms (each with a unique brand and offering services ranging from outsourcing to human resources) and ten overseas operations. In contrast, upon acquisition Adecco rebranded Careerstaff as Adecco and now operates over two hundred branch operations across Japan – these branches are uniformly managed and branded.

These differences in firm organisation and structure alter the management of operations and influence the ways in which the firm presents itself, and communicates with, clients and temporary workers. While transnational firms vary in the extent to which they seek the benefits of uniform branding and centralized control, at the global level most are seeking to secure efficiencies and economies of scale through harmonization and centralization initiatives (Coe *et al.*, 2007; 2009a). Conversely, domestic firms seek to present organisational structures that conform to past and current practices in Japan:

> 'There are big differences between the organisation [of firms] between the US and Japan. We like to have the subsidiaries. There are problems related to the registration of companies in Japan' (Domestic Firm 2, January 2006).

This more federal model may explain the ability of domestic firms to expand rapidly both geographically and functionally across the Japanese economy, whereas transnational firms have struggled to develop extensive networks without acquiring existing domestic firms.

Third, the nature of the client relationship is distinctive in Japan compared to other territories. The temporary staffing industry in the core markets of the US, UK and continental Europe is characterized by a relatively distant relationship between the staffing agency and client firm. Not only do client firms regularly change their staffing suppliers, but also the mechanisms by which they communicate are evolving. For example, electronic tendering – whereby staffing agencies bid online for client tenders – is increasingly common. Transnational staffing firms in Japan have had to adapt their attitudes and working practices to suit the somewhat different expectations of client firms for stable, long-term relationships. Domestic agencies have also noticed this difference when starting to make forays into foreign markets:

> 'The most, strongest characteristic of the Japanese market is that we emphasise the long-term relationships, and we emphasise the trust between clients and companies. But, I think that that is a custom particular to Japan. So we have to change that in other countries' (Domestic Firm 6, February 2006).

As transnational firms have witnessed domestic agencies growing in size, profitability and market share, they have endeavored to adapt their business practices accordingly. However, the extent to which they have done this depends on the kind of staffing firm involved: while the generalist staffing firms are in direct competition with the leading domestic agencies, specialist firms tend to operate in niche markets serving more professional and internationally-oriented sectors and hence find their existing business practices are more tractable.

Conclusion

This paper has sought to explore the conundrum of why the leading transnational temporary staffing agencies have been unable to penetrate, to any great degree at least, one of the world's largest, fastest growing and most profitable staffing markets, namely that of Japan. Despite Manpower and Adecco being key players in the formation and legalization of the industry in the 1970s and 1980s, the market is now dominated by a small group of domestic agencies, a dominance that has been reinforced during the particularly rapid expansion in temporary staffing since full legalization in 1999. Our analysis has detailed the challenges faced by transnational agencies in terms of entering the market, securing a client base once established, and the ongoing conducting of business. We have argued that Japan's unique regulatory and institutional context has combined with the inherent characteristics of temporary staffing as a business to limit the extent to which transnational agencies are able to leverage their global networks. These constraints encompass both the direct impacts of regulation, and broader institutions or business cultures such as the preference for using Japanese agencies and establishing stable, long-term relationships between clients and agencies. As a result, transnational agencies entering the Japanese marketplace have had to adapt their global strategies and business practices to the local context and, even then, have still seen their market share eroded by the strong growth of domestic agencies.

Conceptually, we have characterised temporary staffing as an industry requiring high levels of territorial embeddedness for TNCs. This is driven by the local service nature of the industry, its distributional intensity and susceptibility to a range of government regulation, its embroilment in labour market cultures and ways of working, and the presence of strong domestic competitors. In the Japanese case, the nature of temporary staffing combines with a distinctive regulatory and institutional context to pose a peculiarly tough challenge to transnational agencies, and one that requires a greater adjustment to global strategies than other host markets. The form of *national* host market embeddedness that we describe here has arguably been hitherto understudied in the TNC literature which has preferred to highlight home market and *regional* host market embeddedness. For a variety of market-facing service sectors, however – and in addition to temporary staffing we might add retailing, logistics, professional services, education and healthcare to the list – adapting to the host regulatory and institutional environment is the key organisational challenge, and one which may ultimately have more of an impact on corporate strategy than home country origins.

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[1] Temporary staffing is defined by the nature of the triangular relationship between the dispatching firm, the temporary employee and the client firm; while the employment relation exists between the employee and the staffing agency, the work relation is determined by the client firm.

[2] For example, the figures for the US and UK in 2007 were 2.0 percent and 4.8 percent of total employment, respectively (CIETT, 2009).

[3] Conducting data collection in Japan necessitated a rigorous and self-reflective methodological approach to penetrate the supposedly 'closed' world of Japanese information (Bestor *et al.* 2003). While qualitative methodologies are now the most commonly used approach in cross-cultural studies, there is still a general lack of focus on cross-cultural interviewing and its implications for data collection and data interpretation (Shah, 2004). There were clear differences between our research experiences when interviewing non-Japanese respondents (often Western European or American white males) and Japanese firm owners/managers and government officials. Our positionalities shifted dependent upon a number of factors including the interviewing researchers (as our team was mixed-gender), the method of gaining access (through 'cold-calling' or 'snowballing') and our familiarity with the firm or organisation (high levels of contact had been maintained with some transnational firms across a range of geographies). Overall, during the research process it became apparent that we were not complete 'cultural outsiders', but that this resulted more from Japanese understandings of western culture and society than *vice versa*. We also benefited greatly from discussions with our translator and academic contacts at the Institute of Social Science, University of Tokyo.

[4] While we are primarily focussing here on the nationally-variable nature of these intersecting regulations, Federal countries in particular (e.g. the US or Australia) may exhibit multi-scalar regulatory regimes wherein both Federal and state/provincial governments significantly shape labour market regulation. For an exploration of how this multi-scalarity of regulation further enhances the challenges facing transnational agencies in the Australian context, see Coe *et al.* (2009c).

[5] Regular work is taken to refer to full-time employees with 'open' (non-limited term) contracts. Nonregular employees have employment restricted for less than one year in length – as written into Japanese labour law – and in general do not have the same fringe benefits (such as company housing, pensions, health coverage) as regular employees.

[6] A large-scale business grouping of networked, affiliated companies that grew to prominence from the mid-1950s onwards.