



# Kienbaum International Newsletter

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# Country Spotlight Japan

With Emperor Naruhito's accession to the throne in May 2019, Japan has officially entered the "Reiwa" era (meaning "beautiful harmony", the 248<sup>th</sup> era in the country's history). Despite this new beginning, Japan finds itself in the midst of a major transition phase. Many of its challenges, especially the country's demographic squeeze (an aging society combined with a low birth rate) can be seen as typical future issues for developed countries and thus – if handled properly – as a reference case.

While it was quite usual for Japanese Prime Ministers to come and go in a matter of months rather than years (with certain exceptions), the current PM Shinzo Abe demonstrates a strong political stability and is just about to become the longest-serving PM in the country's history.



One of his most important initiatives so far is his economic reform package "Abenomics". However, more than six years into it, the country is still uncertain about the program's results.

Composed of "three arrows" (from the Japanese allegory that a single arrow can be easily broken, but a bundle of three arrows cannot) – monetary easing, fiscal stimulus and structural reforms – the strategy was designed to revitalize Japan's deflationary economy and lift it out of the "two lost decades" that started after the economic bubble burst at the beginning of the 1990s. As part of the plan, due to a weakened Yen and massive infrastructure investments (most recently to prepare for the Olympic Games in 2020), the Japanese stock exchange Nikkei more than doubled and companies, especially those relying on exports, brought home record earnings. Nevertheless, since these gains did not really translate into higher wages so far and due to an additional two-step consumption-tax hike (from 5% to 8% in 2014 and a postponed second one to 10% now planned for October 2019), domestic spending is still behind expectations.

With a national debt level that amounts to approximately 240% of the country's GDP (of which the majority is held domestically), the government finds itself between a rock and a hard place regarding public stimulus and private investment. Furthermore, since the third arrow – consisting of numerous structural reforms – has so far not been fired wholeheartedly, especially the country's demographic situation continues to bite into its workforce and thus productivity.

In light of these developments, Japan tries to integrate more women and senior citizens into the labor force and gradually loosens up on immigration, but so far there are doubts whether such measures are able to make a real difference.

Even though heavily promoted by the government, the idea to rely on robots to fill the gap is also still an idea for the future, despite some promising cases, for example in the field of elderly care.

A very positive step was the recent signing of the Japan-EU Free Trade Agreement (JEFTA or EPA), which entered into force last February. It eliminates most trade barriers in an area comprising about 40% of global trade. For both Japan and the European Union, this should fuel bilateral collaboration and thus boost economic growth. Especially for European companies planning to expand into Japan and vice versa, this builds an ideal foundation for market entry and subsequent growth.

Moreover, the country has developed another strategy to get back on the path of economic growth: tourism. As one of the few countries on this planet, Japan possesses all elements for a perfect travel destination – a rich culture and tradition paired with ultra-modern cities that offer superior service and hospitality, breath-taking nature (regardless of whether you are into skiing or snorkeling), as well as world-class dining and shopping. Stunning levels of safety and an unmatched infrastructure complete the picture.

<b>Capital city</b>	Tokyo
<b>Largest city (inhabitants)</b>	Tokyo (37.5m in Greater Tokyo Area)
<b>Symbol of the State &amp; Unity of the people</b>	Emperor Naruhito
<b>Head of Government / Prime Minister</b>	Shinzo Abe
<b>Currency (EUR exchange rate)</b>	Yen / JPY / ¥ (1€=119¥)
<b>Population (of which Japanese)</b>	126.3m (98.1%)
<b>Population (forecast 2050)</b>	107.4m
<b>GDP total</b>	\$5,176trn
<b>GDP per capita</b>	\$42,823
<b>GDP growth 2018</b>	+0.8%
<b>GDP growth 2020 (forecast)</b>	+2.4%
<b>Consumer prices (development 2019 YTD)</b>	+1.0%
<b>Unemployment rate</b>	2.4%
<b>Birth rate</b>	1.4 children/woman
<b>Life expectancy at birth</b>	84 yrs
<b>% of population over 65</b>	26.7%
<b>Interest rates (10yr Govt Bonds in %)</b>	-0.3%
<b>Stock market / development 2019YTD</b>	Nikkei 225 / +3.0%
<b>Main industries</b>	Automotive, Manufacturing, Electronics, Financial Services
<b>Biggest trade partner</b>	China
<b>Trade volume with EU (goods, 2018)</b>	Imports €70.4bn / Exports €64.7bn
<b>Trade volume with EU (services, 2018)</b>	Imports €18.3bn / Exports €34.7bn
<b># of German companies</b>	Approx. 450

Source OECD, The World Bank, IMF, The Economist, The World Factbook, European Commission

Backed by the Abe government, Japan's ambition to catapult itself into the global champions' league of travel destinations is no secret. From only 6.2 million inbound visitors in 2011, the official figure surged to 31.2 million in 2018. For the Olympic year of 2020, the goal is to attract 40 million and then 60 million foreign guests by 2030. This would place the country among the top five tourist destinations worldwide, thus establishing the industry as one of the most vital components of Japan's economy. The necessary infrastructure investments, especially in accommodation capacity, can be observed in big cities, where new hotels are being built on every street corner. To further attract wealthy guests, especially from its gambling-inclined Asian neighbors, Japan decided to end its casino ban, with three such establishments set to open next year.

Despite the promising revenues this will entail, many voices fear that such developments are too fast and radical for the country's own good. The one point both supporters and critics agree on is that following this path might significantly shape the country's future faith in many ways, particularly on a societal and economic level.



# Four questions with Etsuji Suzuki

Country Head Kienbaum Japan

***After more than six years of “Abenomics” and with the Olympic Games coming up, where do you see the Japanese economy heading?***

The evaluation of “Abenomics” varies depending on the underlying political and economic perspective. From the stand point of Abe’s supporters, excessive Yen appreciation has been corrected by monetary easing and flexible fiscal policy, which resulted in improved profitability for companies and thus higher stock prices. The most recent unemployment rate went down to 2.4% (May 2019, Ministry of Health, Labor and Welfare), which is the lowest in the past 26 years. In addition, the active openings to applicants ratio has been maintained at 1.61 (June 2019, Ministry of Health, Labor and Welfare), the lowest level in 45 years. The Opposition, on the other hand, claims that the increase in fiscal spending has worsened the fiscal deficit and that the unemployment rate’s decline is an extension of the positive trend following the financial crisis, a trend that has continued since the inception of the Abe administration.

Overall, keeping both points of view in mind, the general opinion is that despite some negative aspects, the current administration, which has gained a solid level of public support, contributed to the current relatively favorable economic situation.

As far as the future of the Japanese economy is concerned, the Olympic effect, which is expected to add 0.2% to next year’s GDP, will be certainly of short-term importance. In the long run, the key to sustainable economic development will be how innovative technologies such as AI, big data and robots can be integrated into the economy. In order to realize this, I personally think that “Open Innovation” – the development of new products, services and technologies beyond the borders of one single company – will be the driver of success. Since innovation increasingly requires a complex combination of various skillsets and ingredients, the capabilities of one single organization are quickly exceeded.

Last but not least, Japan has been suffering from significant deflation in recent years. Necessary for the lasting development of the Japanese economy, along with the above, will be the willingness of Japanese companies to invest and Japanese consumers to spend.

### ***What are the biggest challenges for foreign companies when it comes to doing business in Japan?***

According to a survey conducted by the German Chamber of Commerce, German companies currently see “securing appropriate human resources” (88%), “high labor costs” (40%), “foreign exchange risk” (39%), “employee dismissals” (38%) and “employee retention” (37%) as the most challenging elements of doing business in Japan.

It is notable that “securing appropriate human resources” is scoring more than twice as high as any other area due to the current highly job-seeker-friendly labor market. Foreign subsidiaries are generally smaller in size than domestic companies, making it difficult for them to offer similar career development programs.

In addition, English proficiency – normally a prerequisite for a position at a foreign company – narrows the potential candidate pool further down (Japan is 49<sup>th</sup> on The English Proficiency Index (EF EPI) - behind many other Asian countries).

Besides the mentioned issues, we often hear from our foreign company clients about the difficulty to reach the “high quality requirements” of Japanese customers. In essence, this is related to all industries as Japanese companies are generally required to offer better quality than necessary in areas not even directly related to the products they produce or services they provide. Foreign-affiliated companies that do not have R&D or manufacturing departments in Japan will spend a great deal of effort in engaging with the engineering and manufacturing departments in their home countries in order to make them understand the special circumstances of Japan. Confronted with such a situation, foreign companies are often hesitant to satisfy these requirements by investing extra costs and/or time. As a result, business opportunities may be missed. Hence, in a nutshell, making the headquarters understand the uniqueness of the Japanese market in order to satisfy the special requirements of Japanese customers is, I should say, a key factor for success in Japan.



## ***According to you, what are the specifics of the Japanese labor market?***

Please allow me to share some insights regarding the most demanding topics concerning the Japanese labor market:

### *Decreasing workforce*

As mentioned above, the latest effective job offer ratio was 1.61, which is the highest level since February 1974. The influence of the recent economic expansion, said to be the second longest after WWII, is one of the reasons. Another fact is that the so-called “baby boomer generation”, born in Japan from 1947 to 1949, has now retired from the labor market. In addition, a large number of people in the generation which graduated from university in the 1990s had difficulties to enter the job market because of the economic crisis at that time. Shut out from the regular job market, many of them are now forced to work on a part-time basis with limited career opportunities. All of these elements contribute to a significant shortage in the working population which will further aggravate. Needless to say that under such circumstances, it has become more and more difficult for employers to secure an appropriate supply in human talent.

### *Declining birthrate and aging population*

According to a White Paper published by the Japanese Government last year, the ratio of the population older than 65 years to the overall population is 26.7%, which is the highest among major countries. Naturally, this causes a serious impact on the labor market. For example, foreign-affiliated companies in Japan often request recruitment of middle managers with prior managerial experience up to their 40s, which is getting more and more difficult because of the demographic composition. This age group has little motivation to change jobs as they still see career development opportunities in their current companies. From a recruiter’s point of view, we would thus recommend to target an even more senior generation, i.e. managers in their late 50s, who are facing a so-called “executive-age limit” and cannot expect any further internal career development opportunities.



### *Female workforce*

The current status of Japan's female workforce is still lagging behind other developed countries. The labor force participation ratio for women in Japan drops significantly between their late 20s and early 30s, caused by marriage, childbirth and childcare. Even though the subsequent "return to employment rate" has been increasing to a certain extent, it is still lower than in the West. This makes it difficult for women to climb up the corporate ladder and advance to managerial positions. Incidentally, the ratio of women in managerial positions in Japan is only 11.1% (ILO data), which is only 1/3 of that in Europe and America. In the future, presuming that the necessary infrastructure such as daycare centers for working women is in place, we hope that it will become easier for women to resume working after childbirth, which will then hopefully generate more opportunities for women to be promoted to managerial and executive levels.

### *Foreign employees*

The number of foreign residents in Japan was 2.64 million as of June 2019 (Ministry of Justice). Despite being on a record high, this is only the equivalent of about 2% of the total population. Compared to European countries, for example, this share is extremely low. In addition to the given geographical barriers of an island nation, the Japanese society is characterized by very high conformity pressure, which, in itself, seems to be an invisible barrier to integrate foreigners. Although the situation cannot be changed instantly, taking the current employment situation into consideration, it should be an option for companies to promote the recruitment of foreigners. In fact, many talented foreigners who have specialized skills are looking for job opportunities in Japan, especially from other Asian countries.

***Do you have one specific case for us where Kienbaum created significant value for its clients in Japan?***

With pleasure! I would like to point out a recent country manager search project for a German mechanical parts manufacturer. The client company established a local subsidiary in Japan in 2000 and simultaneously started its marketing activities. From the beginning, however, these had been entrusted to one single agency but it proved difficult to actively develop and sell new products. Nevertheless, the company's market was expected to grow, especially in the automotive industry. In order to successfully benefit from this potential, a mismatch between promoted and actual sales channels had to be resolved. Under these circumstances, we received a search request for a Country Manager who needed ample business experience with JOEMs. Because of the fact that there were no comparable companies in Japan, the search was focused on candidates with JOEM experience as well as 1<sup>st</sup> and 2<sup>nd</sup> tiers in the surrounding industries. After four months, the selection of a final candidate was completed and the new country manager got hired.

Recently, I had a chance to hear about his subsequent achievements. According to him, they had started business talks with JOEMs and one of them is now about to enter mass production with the company – a huge success after a long period of development.



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## Client Reference

The TOX® PRESSOTECHNIK Group, as a multinational company, faces the challenge of stiff competition within the human resource markets to attract high-level candidates in several countries.

For us, the most important aspect is to understand the local culture and how it influences our company philosophy. No personnel market in the world is identical, which makes it difficult to meet all the criteria and attract the most suitable candidates.

The Japanese culture is one of the most interesting and challenging, as it is very different from what we know in Europe. Therefore we started recruitment for a high level position in Japan together with KIENBAUM Japan. The combination of our Japanese subsidiary with its local staff and the multicultural understanding within the global KIENBAUM network made the cooperation with KIENBAUM very successful.

TOX® PRESSOTECHNIK GmbH & Co. KG





# Kienbaum in Japan

With a dedicated team of four people at our office in Yokohama as well as two additional, highly-experienced colleagues in Düsseldorf and Cologne, Kienbaum has been supporting its clients in building bridges between Germany, Europe and Japan for more than a decade. Our services concentrate on Executive Search for German, European and Japanese companies with a special focus on the manufacturing and automotive industries, where both countries have their particular strengths. Furthermore, our local team is also covering South Korea, where we can also look back at several successfully-completed mandates for international clients.

## About Kienbaum

With 24 offices in 13 countries, Kienbaum is THE ideal partner for the development of your organization's full potential – Not only in Germany and Europe, but all around the globe. Thanks to more than 50 years of international presence, Kienbaum offers you an understanding of local markets that is unparalleled. From Atlanta to Zurich, our transnational excellence spreads across the most important economic centers and regions worldwide. Our experienced Kienbaum consultants in the Americas, Europe and Asia have a highly-successful track record of both local and cross-border mandates and will make sure you find the best talent for your specific endeavors.





# Kienbaum International Office

*Your dedicated point of contact for all questions related to Kienbaum's international expertise and global service portfolio*

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