

Trimming the Fat

Downsizing is tough, but not impossible with careful planning.

Imagine the ballroom of a fancy Japanese hotel, packed with 1,500 men and women in business attire, sharing pizza, sushi and beer. Loud American music, chosen for its uplifting beat, blares out. Sound like fun? In fact, you should hope never to be invited, because when the food and drink are gone and the music winds down, some in the room will be newly unemployed.

Welcome to a downsizing by Thomas J. Nevins, president of TMT Inc., a personnel policy consulting and executive search company based in Ichibancho, Tokyo, that has "rationalized" tens of thousands of Japanese employees

since its establishment in 1978. His approach may be viewed as unorthodox, but he says it is effective, calling the method "a controlled exercise that allows management to pick the people they want to part with, such as the less strong or troublemakers."

According to Nevins, grouping all workers together is more morale boosting than bringing in a big-name outplacement company that works behind closed doors. The party may turn into a sayonara for some, since the less productive realize that leaving will be easier than staying for what they are assured will be a rough ride.

"I talk to every employee in the room, including the union reps and key managers, and say there will be pay cuts between 20 and 50 percent that will affect everyone," Nevins explains.

Resignation letters are handed to individuals previously earmarked, while those chosen for retention get dummy letters. The lists are kept secret from most people present – even Nevins. "I purposely do not want to know who is going, and who are keepers," he says.

These events are often corporate survival exercises. Employees understand that the company may go bankrupt,

resulting in everyone losing their jobs, if some don't go.

Resignations are usually signed by the end of the session.

"I negotiate fair severance packages that also include the fees that an outplacement company would have charged for finding an unemployed individual a job," says Nevins. The cruel-to-be-kind method, he claims, is far cheaper for employers than offering blanket redundancy packages, especially since the most productive workers tend to be first to accept because they know they can easily find other jobs.

"I closed our very-complete-outplacement center because I felt we were charging too much money and in fact could not hook everyone up with a job. I felt it wasn't a clean business," he asserts.

Growing market, shrinking prices

Increased competition has driven prices down to an all-time low. Five years ago, outplacement costs were 18% of an employee's annual salary (¥1.8 million for a person earning ¥10 million). A year later the fee dropped to ¥1.5 million per employee regardless of salary level, and since has declined to a fixed rate of ¥1 million two years ago.

Current fees are approximately ¥700,000 for laying off a regular employee and around three times that amount for an executive. Trimming management is more expensive because equivalent positions are more difficult to come by, so extra counselling and resources are required.

Drake Beam Morin-Japan, Inc. (DBM) is the world's oldest and largest outplacement company, and is also the biggest player in this market, which it entered in 1982. DBM refers to individuals as clients and to companies as customers, a paradox in a business where the outplacement company is essentially a client's foe during downsizing, then acts as a friend assisting in a career search. Billing its services as "Individual Career Transition Consulting," DBM has placed a total of 41,000 clients who were let go by 1,700 customers.

Yutaka Hashiba, general manager of sales, says DBM differentiates itself by providing a no-time-limit service when finding jobs for individuals affected by downsizing.

"Ninety percent of other outplacement companies in Japan put a time limit of, say, six months on this service," he points out. "We guarantee that 100% of clients find their ideal job and can take as long as they need to do so." This can soften the blow in one of life's most stressful situations, he adds.

Since the industry peaked two years ago at the tail end of the recession, it has been through a lean patch, with more players skirmishing for a diminishing slice of the pie. Consultancies have therefore been on an M&A spree.

"All the major players are now backed by search firms," says Hashiba. While downsizing and recruitment make for a perfect alliance – and logically complete the employment cycle – the long-term DBM employee questions

the ethics of this peculiarly Japanese trend. The problem is that a company charges one fee for taking a person out of the old job and then earns another fee for finding him or her a new job.

"It's very different to U.S. practice," says Hashiba. "In fact, it's almost unacceptable."

Temporary staffing agencies such as Adecco Career Staff, Ltd., Fuji Staff, Inc., Pasona Inc. and Recruit Ablic Inc. now boast outplacement divisions, while Human Management Japan Co., Ltd. and Right Management Consultants Japan, Inc. (RMCJ) also have recruitment offices.

DBM itself was not immune to the M&A trend. Meitec Corp., a major staffing agency for engineers, acquired DBM last October and made it a wholly owned subsidiary, in the hope of making outplacement services its number-two revenue earner. Hashiba, however, states that the businesses are separate.

"Meitec Corp. deals solely with engineers on an average salary of ¥10 million and hires people for four to five years on a fixed income. This is very different from a temporary agency or search firm receiving commission for placements in all industries and at all salary levels," he contends.

After downsizing, it takes the average former employee six months to find a new position, according to Hatsumi Nishioka, sales manager of the international division at RMCJ. More than 40% of them are over 45, she says, adding that the average is higher for males over 55.

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Nishioka defends the outplacement industry's high fees: "Counseling is very important. If someone has worked for a company for more than 30 years, they need help adjusting to the fact they no longer work there."

"For men aged 45 to 55, with children to support through the education system, this can be a particularly tough time, as many of their wives do not work," says Takeshi Takamatsu, a consultant manager at Japan Management Association's private outplacement division JMAM Change Consulting Co., Ltd. (JCC). "There is a glut of 35-to-40-year-olds, mostly male, who have little in the way of experience and skills, who were taken on by the thousands at the height of the bubble."

Meanwhile, those aged 25 to 34 are considered assets because lean years taught them to be more competitive than those just

a decade older. The 45-60 group has the "skilled and experienced" label, says Takamatsu.

To fire, or not to fire

Popular opinion holds that it is practically impossible to fire an employee in Japan. Even experienced business practitioners have conflicting opinions, but foreign company owners, especially, commonly believe that local rules of employment overly protect employees, at the cost of commerce. Nevins, however, says that many of the laws are misinterpreted, and that employers often walk too fine a line trying to appease non-productive employees.

In his most recent book, *Japan True or False – People Problems, Costs, Restructuring*, Nevins states: "Article 20 of the Labor Standards Law [LSL] says that you can fire someone with 30 days notice or 30 days pay, even if there is no

cause." He adds that problems arise when there is an inconsistent interpretation of what constitutes abuse of this right of dismissal, and that if an action is brought to court it can result in years of legal wrangling, usually resulting in the employer paying for a costly out-of-court settlement.

Nishioka of RMCJ plays the issue more conservatively. "We cannot fire people," he says. "We have to ask people to voluntarily resign [since] they have to agree to leave a company."

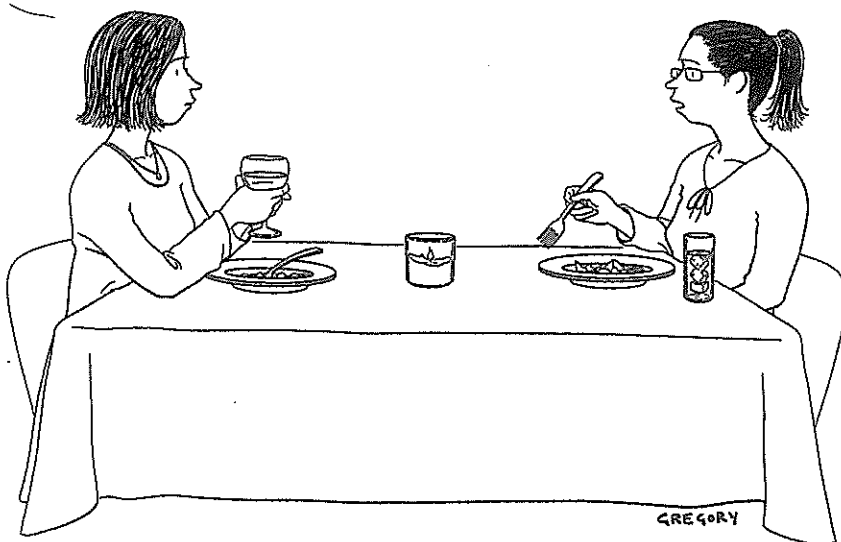
Hashiba of DBM voices a similar perspective. "In reality, lifetime employment still exists," he observes. "When a company needs to downsize or restructure, it needs agreement from every employee concerned."

Takamatsu of JCC, on the other hand, concurs with Nevins, but with a caveat. "Fundamentally, it's legal to fire someone," he says, "but in court it's a different story."

The good news is Japan's exposure to international business practice. "It's gradually becoming easier to rationalize," he says.

A sharp, quick downsizing method, combined with the compassion provided by outplacement counselors, may be one effective solution. In the best case, it could also mean that downsizing becomes a healthy exercise in which some workers are found challenging roles at other companies, while productive employees are rewarded with freed-up salary allocations and promotion.

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"I started my vegetarianism for health reasons, then it became a moral choice, and now it's just to annoy people."