

An Interview with Dietmar Kielnhofer, General Manager, The Westin Tokyo

Labor Market Reform Is Vital to Preserve *Omotenashi* in Japan's Hotel Business

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Fascinated by Japan

Q: Could you introduce yourself briefly, and explain a little bit about your relationship with Japan and your career at Westin?

Kielnhofer: Well, I came to Japan for the first time in 2005. I was a classic businessman, and I came for a week, or ten days, on an annual basis. I went to Osaka, Nagoya and Tokyo, selling other destinations. Japan is one of the very few countries that have fascinated me, because it is so well-organized and well-structured, has such a systematic approach to problem resolution. But I was also intrigued by the food. I love Japanese food — sushi, sashimi — and how everything just sort of revolves around Japanese arts and culture. So during a performance review, when my boss asked me where I would like to go next, I said Japan — Tokyo, or Osaka. And I told him why: I wanted to experience living in Japan, to see how that country functions, and what other destinations can learn from it.

Before I came to Japan I was living in Vietnam. Before that I was in Indonesia; the Middle East; North Africa; Europe; Southeast Asia. So I have traveled extensively, and I thought, for example, there are a lot of things Japan can learn from Southeast Asia. Not everything in Southeast Asia is perfect, but it's a very dynamic society, a very driven society. Japan is very structured, very organized, has a very systematic approach, but if you go to Southeast Asia, it's much more fast-paced; less systematic; less structured. In Japan you plan for everything, for every contingency; you want to make sure your blueprint is ready, your operating procedures are perfect. In Southeast Asia, you don't plan much. You plan a little bit, and then you go ahead, and then you adapt to the changing circumstances. You are very agile in Southeast Asia; you make up the rules as you go along. And if you can blend the best of Japan and the best of



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Southeast Asia — that systematic approach to planning that works in Japan with that dynamism in Southeast Asia — you will be in an incredibly powerful position.

The Labor Shortage in Japan

Q: What is your view on the labor shortage in this country?

Kielnhofer: Unemployment, or lack thereof, is a very interesting subject and a good indicator of labor shortages. On the one hand, Japan could be considered very lucky, because its unemployment is at 3.4%, which is very low and means we have a labor shortage in Japan. This 3.4% constitutes people who are not looking for work. These are people who don't want to work; they are perfectly happy sitting at

home doing nothing, living off their parents. Maybe they have money themselves — but they don't want to work. So you are very lucky with this unemployment rate. You go to Europe, they have 11%. You go to America, they have around 6.5% to 6.7%. Japan has 3.4%: that means full-time employment. Everybody has a job, and you don't even have one person applying for every job that is available.

Q: Given that the labor market in Japan is so tight, do you think Japanese salaries will go up? The prime minister has asked many companies to raise their wages.

Kielnhofer: I don't think so. The sad thing is, your base salary doesn't go up. People give you a little bit more bonus, a bit more incentive, but your actual base salary hasn't increased for the last five or six years. And I think that's very sad, because what you need is this increase in your base salary — which brings us back to unemployment. And this is where I'm confused myself, because on

the one hand there's a critical shortage of people, so it's an employees' market. You pick and choose where you want to work. I'm desperate for people. I can hire, as of right now, fifteen people, if I can find them. I can't find them. So I'm telling our human resources director, I need a pair of hands. I'm not talking about qualifications anymore: I'm looking for people who can serve our customers. We're in the hospitality industry, and our job is to provide service to customers. The same in the banking industry and the insurance industry. We are here to provide service to the community. And I can only provide service to the community if I have enough staff, enough associates, to provide that service commensurate with my image and with my reputation. The longer I wait, the worse the service gets. It's as simple as that.

So the jobseekers are in a position where they can demand higher salaries. And this is where the crux of the problem lies. A lot of the companies don't want to give a salary increase. They say, I will give you a bigger bonus, or more incentive, but your base salary remains the same. And if you want to achieve inflation of 1.5%, you have got to increase your base salary. But that doesn't happen. Prices go up in the shops, I can see that yes, but people spend less and less. That's a bit of a Catch-22 situation.

Q: So you think the labor shortage in this country will affect hospitality?

Kielnhofer: Absolutely. You want service: you want to sit down, you want somebody to greet you with a smile. But I can't find people. I need fifteen people. But I can't get them. We advertise on the Internet, we go to headhunters — I can't find people. So it will affect service.

By 2020, when the Olympics will be held in Tokyo, people will have built up their expectations. So you have another five and a half years — maybe less than that, because in 2019 you have the Rugby World Cup. The Australians, the Kiwis, the South Africans are crazy about rugby. So by 2019 you need to be ready. That means four years. It takes time to train people, time to immerse into the culture here; it doesn't happen overnight. So you're running out of time.

Q: Do you think that is a structural problem?

Kielnhofer: Definitely. This is where the third arrow of Abenomics comes in: structural reforms. That's the most painful and the most difficult one. Printing money, easing monetary reforms: that's the easy part. But structural reforms, changing the labor laws — it's going to be very difficult. This is where the opposition will come in. As I said, I can hire fifteen people right now, but I can't find them.

I think on the subject of labor shortage, you also have to look very critically at what subjects schools and universities teach. Unless you're going to become an engineer or a scientist, what else is the educational system offering? Japan has some of the best engineers in the world. Look at the infrastructure projects in Japan — bridges, buildings, condominiums, airports. The airport in Kansai is an engineering masterpiece. But not everybody wants to be or can



become an engineer. Sometimes I need people with a different skill set. And I cannot find these people with the different skill sets. We need accountants, we need craftsmen — you can't find them.

Japan's Recently Published Labor Market Reforms

Q: Returning to the questions of labor shortage and salaries, I think the government has been trying to introduce a salary system based on job performance or working hours.

Kielnhofer: That should have already happened a long time ago. At least fifteen years ago. You know how long it takes before a law gets passed, before it's ratified: it takes forever. And the demographics in Japan are shifting: people are getting older, and there are not enough young people. I see how the demographics shift every day during work. The wedding business is a classic example. Weddings are getting fewer and fewer. Why is that so? Because of fewer young people, fewer children. It's a very vicious circle you have. That vicious circle will only impact the economy in the next ten to fifteen years — you will not feel it now.

So it's the job of any ruling government to have that strategic foresight and to ask what will happen to the economy ten years from now? You cannot forecast, let's be honest: in our industry we do a lot of forecasting, and sometimes I think we are not doing a very good job at it. I cannot forecast what happens next week, so how do you expect me to forecast what will happen next year? One year from now, for example, how do you know there's not going to be a natural disaster? You don't know. But then again you cannot plan for every contingency. So as far as the labor shortage is concerned, that problem will only get worse.

Q: In my personal observation, Japanese used to be very good at long-term thinking, about twenty or thirty years ago. But now short-termism seems to be dominant.

Kielnhofer: Japanese were famous in the seventies for saying where do we want to be thirty years from now? They said: we are not building this company on a quarterly basis. We are building this company for the next hundred years. So it's all about gradually growing your market share, until eventually, you control the industry. The car industry is famous. The electronics industry is famous. There are some very good examples of the strategic foresight that Japanese businessmen had thirty years ago.

But now, our industry is adopting the same Anglo-Saxon business model — planning on a quarterly basis — because it's all dictated by shareholders. Share price evaluation, share price appreciation: it's all about share price. It's not anymore about creating long-term value. And if you want to create long-term value, you need people.

Now we know the older generation is getting older. The healthcare sector needs approximately 50,000 people to provide healthcare for the elderly. Where do you find 50,000 people in Japan with such low unemployment? The construction sector needs 150,000 people to finish all the infrastructure projects for the Olympics in 2020. The Olympics takes place in less than six years. Where do you get the people?

Q: Abenomics is now trying to increase the labor force with women, and perhaps with foreigners — immigrants. Do you think that's the right way to do so?

Kielnhofer: To embrace female managers in the labor force should also have happened a long time ago. Again, a few days ago I read some statistics in one of these chamber magazines, and they listed some European and American countries, and Japan, indicating the female percentage of the labor force in the economy, and the amount of senior female managers in boardrooms. Japan was at the bottom. So, bring women into the workforce. I have some very capable female managers in this hotel. They do Six Sigma. They do accounting. They do sales and marketing. But there are many more outside. Their biggest problem is that they have children and don't know what to do with them. They need to wait for a place in

childcare. So open more childcare services. Bring the females back.

But it's not only females. You need to open your labor market, it's as simple as that. You need construction workers. You know people who don't want to do certain jobs, right? Bring in labor from Korea. A friend of mine is managing a five-star hotel, and he is so short of labor that he has to bring in Korean workers and house them in dormitories because he cannot find waitresses. And it will get a lot worse before it gets better. If the economy continues to grow at 1.5% or 2%, you need more staff, you need more people.

Q: What do you think about immigration, though? Some people say it is good to have immigrants as an additional labor force, but it could result in some sort of chaotic political situation.

Kielnhofer: Why would it? That's a very narrow approach. Look at America. The United States is a country made up of immigrants, right? I mean everybody there is an immigrant more or less. I'm also a good example. I've been living in Japan for three and a half years. I have assimilated and I like to speak the language. My son loves it here, he thinks Japan is the greatest place in the world; and my wife is very happy here. There are many other people from abroad who are very happy they integrated themselves into this society.

Now I think you have to be very selective when you change the labor or immigration laws. You don't bring in hoodlums; you bring in people who have a skill set that doesn't exist in Japan. So you don't bring in engineers from overseas, because Japan has plenty of engineers. So for example, Japan needs healthcare workers, right?

Q: Yes, of course. So nurses from the Philippines or some other Asian countries could be very helpful?

Kielnhofer: Absolutely. So you go there and say, show me what qualifications you have. You have to be selective. You have to set for each industry the criteria you want to have. Do you have a Bachelor's degree? Do you have a Master's degree? What type of skill set do you have? You cannot have a one-size-fits-all approach, or just open the door and bring them all in. You have to do this very selectively.

Q: So in your hotel business, are you perhaps going to hire more foreigners, from all over Asia for example?

Kielnhofer: I have in this hotel a Chinese restaurant, a Japanese restaurant, a French restaurant, and an international restaurant. Now for a Japanese restaurant, I don't hire a German chef — I mean, I have plenty of Japanese chefs. For a Chinese restaurant, I would like to hire a chef from Hong Kong, or Guangzhou, for two or maybe three years, because he has the qualifications. I don't hire five chefs from China; I hire one chef from China. For my French restaurant, personally I think Japanese cook better French food than the French. Some of them are extremely talented, so I don't have to hire a French chef. But if I have an Italian restaurant, I would like to hire an Italian



chef. Again I will ask, do you have the right qualifications? Show me your qualifications, and I hire you.

Q: Capacity-building and human resources development are very important, since we face this labor shortage problem. So maybe the best option is to attract as many Asians as possible to work in this country, and we can maybe educate those people and teach them Japanese hospitality.

Kielnhofer: Absolutely. I have a person whose title is Talent Development and Culture Manager. So her job is to provide training and help foreigners understand Japanese culture: the way we do things, the way we greet customers, what language we use. Don't forget that foreigners who come to Japan want to experience Japanese hospitality — it's not just drinking green tea or having a cup of coffee or tea or a bowl of ramen or sushi. It's the overall Japanese hospitality, this dignified approach to service. And how can you experience it if there is such a critical labor shortage? I mentioned that the healthcare sector needs around 50,000 people. The construction sector needs at least 150,000 people, some say 200,000. The service sector needs another 50,000. Where do you get these people?

Q: Well, of course we need to attract more people, among them women, or foreigners interested in coming to Japan. And besides that we need education to raise the quality of the labor force. In addition, a performance-based salary system would be very important, because then people have an incentive to improve the quality of the work.

Kielnhofer: You see, I work for an international company. Westin Hotels, part of Starwood Hotels and Resort, is headquartered in North America. So our salary, and our bonus, depends on performance. I have KPIs, as we call them — Key Performance Indicators — and twice a year I get reviewed. How many KPIs do I achieve? By how much do I achieve them? So my salary and bonus is performance-based. International companies have this type of system in place. I don't think Japanese companies have the same system. Every year, everybody gets a 1% salary increase.

So let's say I'm lazy and I don't like to work very much: I work my nine hours, I go home. Let's say someone else works twelve hours every day, but she gets the same salary increase I get. That's unfair. So after two or three years, she says, well, why bother? Why should I work so hard? Because I get the same salary, the same increase he gets, and he's a lazy bum. Where is the incentive to work harder and excel in my endeavors? So there has to be a system in place that is performance-based, and this is part of the structural reforms Abenomics is about.

Q: Perhaps in Germany as well, there are two kinds of workers: permanent and non-permanent. And today it



seems crucial to make a distinction between the two, because treatment is differentiated, and non-permanent workers do not seem to have an incentive to work hard. Do you think that causes an impediment to Japanese innovation?

Kielnhofer: Absolutely. You know, I think that problem appeared in Japan only four or five years ago. To differentiate between permanent associates and casual workers, or part-time workers, is very important. If I hire a casual or part-time worker, I get no commitment. I pay you a salary, per hour, per day, and that's it. In my industry, in the service industry, I don't want that. I have no problem making you a permanent associate. I keep telling our HR director that I don't want casual or part-time workers, I want permanent employees.

And believe it or not, permanent employees are cheaper than part-time workers. We calculated it. We had a Six Sigma manager, and I asked him this question three years ago. Everybody talks about outsourcing, outsourcing, outsourcing. Well, the question is, is outsourcing the problem or the solution? What do you want? Do you want to build a long-term business, with commitment to excellence, commitment to service? Or is it like the Anglo-Saxon business model, on a quarterly basis, about share price appreciation? If I have only casual workers, or part-time workers, I get no dedication from these people. So we looked at financial returns on permanent employees versus part-time workers, and we calculated that it is cheaper for me to hire a permanent employee than to hire casual workers. And how do you measure commitment from a person, your dedication, your passion for the job, in terms of financial returns? You cannot measure that.

But unfortunately, since a couple of years ago, in particular after the March 2011 earthquake, the argument has been: in the event of a crisis, you can lay off people easily. Well, that is partially correct. But let's not forget, our industry goes through cycles. The day you're riding the dragon, you do very well — but that doesn't mean that cycle is not going down. I have seen too many boom-and-bust cycles. And I think at the moment we are sort of at the tail end of the

boom. When I came here in 2011, there was a lot of uncertainty in the economy.

Q: Yes, that was the year of the earthquake. I was going to ask you about that. Three and a half years ago when you came, it was a very shocking situation...

Kielnhofer: Oh, it was. It was dreadful. The overall consumer sentiment was very negative. People didn't know what would happen, how they could go forward; they just didn't know what to do. In the newspapers, everything you read was just doom and gloom. Prime Minister Shinzo Abe has to get a lot of credit for lifting the collective spirit of the Japanese people. We talk about Abenomics, but I think this is where he really has to get credit — he gave the country a feelgood factor that wasn't there before. And consumer sentiment changed. People started to spend money again. So comparing where we are now, and where we were three years ago, there's a huge difference. Consumer sentiment is positive. The newspapers don't say that all the time, but the general sentiment of the population now is a lot better than what it was three years ago. And that's good. But all these big companies have to ask themselves whether they really want to continue depending on outsourced labor or whether they want to build a core competency that they do not have anymore.

Q: A European friend has told me it is a shame the Japanese lost their lifetime employment system, and that now 40% of workers are non-permanent.

Kielnhofer: It's heartbreaking. How can you do that? That was the foundation of your nation, of your competitiveness. Again, you don't feel the impact now, but you will feel it in the next ten to fifteen years if you don't change it. Your competitiveness will disappear if you only hire casual workers. These people have no aspiration, no dream. You have got to nourish talent, and you can only do that if you give them a chance to prove themselves. I want to hire young people. I want them to challenge me intellectually: how can we make things better? Look at engineering. I mean, Japan invented *kaizen*, right? *Kaizen* is Japanese. Just-in-time delivery is Japanese. What happened to *kaizen*? Nobody talks about it anymore. I think foreigners embrace *kaizen* more than the Japanese, because there is no more commitment, and that is commitment you get from your permanent labor force, not from outsourced people. There's no passion. I hire you, I pay you \$10 or \$15 an hour — that's it. You don't build commitment like that.

Q: One solution might be to reduce the differentiated treatment between permanent workers and non-permanent workers.

Kielnhofer: Also a good point. I agree. I have this conversation with my head office, with our human resource director as well, and as I said, this is where the crux of the problem is. I would like to hire

more people but I can't get them. So we do outsourcing. Everything gets outsourced. I think the magic word in Japan is outsourcing. How can you build an economy on outsourced labor?

The Hotel's Future Strategy

Q: Finally, what about your hotel's future strategy in preparation for 2020, and how can you attract more tourists?

Kielnhofer: I remember I had this conversation with our senior management team in the hotel, and I said Japan will get the Olympics, for a very simple reason: you were competing with Madrid and Istanbul. Spain is bankrupt and Istanbul doesn't have the infrastructure and capacity to pull it off. So Japan is left. And in September before the announcement was made, I told everybody, I guarantee you Japan will win. And Japan won.

So then we had to start working on a white paper. My head office wanted to know what we were doing. How would we maximize the earnings of the Westin Tokyo in 2020? Now we took a very pragmatic approach: last year it was still six years away, and a lot of things can happen in six years. We looked at a lot of statistics on tourist arrivals. I think Japan wants to attract 20 million tourists by 2020. They had 10 million last year, for the first time. So you want to double it in six years; and in 2030 you want to attract 30 million tourists. Can you imagine: 30 million, that's more than Thailand. You need the infrastructure. You need the human resources in place. Because at the end of the day, it is people who deliver the service, not machines. You have a lot of automation in Japan — I love the automation — but at the end of the day you still need people to provide service to customers.

There are certain factors that are beyond our control. A lot depends on airport capacity. Narita is a very aging airport. Haneda is a great airport, everybody loves it, but it cannot expand anymore. There are a lot of international airlines that want to fly to Haneda because of its proximity — this is something that is beyond our control. What I can control is service provided to our customers; I can control the product. My job is to make sure the Westin Tokyo is in immaculate condition as far as facilities and the product are concerned. I want our customers to feel comfortable when they stay here. I would like that when our customers leave the hotel they feel better than when they arrived. We want to know each of our guests so that they feel special and recognized — all the time. We pride ourselves on a high level of customization: we want to provide a customized service for you and not treat customers as numbers. I want to make sure each and every customer gets recognized every time he or she comes to the hotel. And that's all I can do. I can try to talk to people and influence infrastructure projects to give me the resources to provide services. But these are the limitations I have.

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