

Japan Labor Issues

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News

MHLW's Survey Results on “A Comprehensive Review of the Work Style Reform Act Five Years After Its Enforcement”

The Ministry of Health, Labour and Welfare (MHLW) conducted a workers' questionnaire survey (“2025 Survey on Workers' Preferences and Perceptions Regarding Working Hours, Etc.”) as well as an interview survey targeting companies and employees. The objective of the surveys was to assess the situation five years after the enforcement of the “Act on the Arrangement of Related Acts to Promote Work Style Reform,” also known as the “Work Style Reform Act,” (see Note below) which took effect in 2019. The results of the surveys were released on March 5, 2026. According to the results of the questionnaire survey, about 30% of workers indicated that they want to reduce their working hours, with over 60% of the respondents cited “having more personal time for themselves” as the reason. Regarding the number of hours worked, which exceeds the prescribed working hours (i.e., combined hours of overtime work and work on days off), over 60% of workers considered 20 hours or less to be appropriate.

These surveys were conducted in accordance with the “Grand Design and Action Plan for a New Form of Capitalism 2025 Revised Version,” which was approved by the Cabinet in June 2025, stating that “a comprehensive review shall be conducted five years after the enforcement of the Work Style Reform Act, and the Labor Policy Council shall consider amendments to labor standard legislation based on the actual working conditions and needs.” In October 2025, a questionnaire survey was conducted among workers who were monitors registered with an online research company (allocated by prefecture). A total of 3,000 valid responses were

collected. From October to December in 2025, an interview survey was conducted with 327 companies as well as 97 employees from some of the participating companies.

I. Results of the questionnaire survey

About 40% of workers with scheduled working hours of “40 hours or more” per week indicated that their working hours were long

According to the results of the questionnaire survey of workers, regarding how they perceive the length of their working hours, the responses were as follows: “long” (7.9%), “somewhat long” (18.4%), “just right” (59.7%), “somewhat short” (7.3%), and “short” (6.6%).

When examining these results by scheduled weekly working hours, the percentages of workers who responded “long” and “somewhat long” were as follows: in the “40 hours or more” per week category (15.4% and 23.0%, respectively), and “35 hours or more but less than 40 hours” (7.2% and 21.5%, respectively). The results indicated that the percentages were particularly high among workers with 35 hours or more per week.

When analyzing the results by the average actual working hours per week—that is, the average number of hours worked in a week, including scheduled working hours, overtime, and work on days off—the percentages of those who responded “long” and “somewhat long” were as follows: those working “40 hours or more but less than 50 hours” (7.9% and 24.4%, respectively), “50 hours or more but less than 60 hours” (22.1% and 34.1%, respectively), “60

hours or more but less than 70 hours” (38.6% and 17.5%, respectively), and “70 hours or more” (42.3% and 9.6%, respectively). Among respondents with working hours exceeding 50 hours, over half indicated that their working hours were long.

The highest proportion of workers wanting to reduce their working hours was among those in the “Scientific Research, Professional and Technical Services” sector

Regarding workers’ preferences for changes to

their current working hours, respondents indicated the following preferences: “reduce” (11.7%), “slightly reduce” (18.2%), and were “satisfied with the status quo” (59.5%). This indicates that about 30% of respondents, in total, want to either “reduce” or “slightly reduce” their working hours. Meanwhile, 7.3% of respondents indicated that they want to “slightly increase,” and 3.2% stated that they want to “increase.”

The table below presents the percentages of respondents who want to “reduce,” segmented by

Table. Workers’ preferences regarding increases or reductions in working hours by industry

	Number of responding companies	Workers' preferences regarding increases or reductions in working hours (unit: %)				
		Want to reduce	Want to slightly reduce	Satisfied with the status quo	Want to slightly increase	Want to increase
Total number of workers	3,000	11.7	18.2	59.5	7.3	3.2
Agriculture	28	10.7	10.7	53.6	17.9	7.1
Forestry	7	0.0	14.3	42.9	42.9	0.0
Fisheries	3	0.0	33.3	66.7	0.0	0.0
Mining and quarrying of stone and gravel	5	0.0	20.0	40.0	0.0	40.0
Construction	163	9.2	20.2	63.2	6.1	1.2
Manufacturing	633	10.9	19.7	58.5	7.1	3.8
Electricity, Gas, Heat supply, and Water	46	15.2	10.9	69.6	4.3	0.0
Information and Communications	156	17.9	19.9	54.5	5.8	1.9
Transport and Postal services	134	13.4	16.4	59.7	6.7	3.7
Wholesale and Retail trade	323	7.7	16.7	64.7	6.2	4.6
Finance and Insurance	90	12.2	22.2	61.1	3.3	1.1
Real estate; Goods rental and leasing	55	16.4	16.4	56.4	10.9	0.0
Scientific research, Professional and technical services	46	19.6	17.4	56.5	4.3	2.2
Accommodations, Eating and drinking services	106	11.3	9.4	61.3	15.1	2.8
Living-related and personal services, and Amusement services	73	11.0	17.8	61.6	4.1	5.5
Education, learning support	118	14.4	20.3	56.8	6.8	1.7
Medical, health care and welfare	400	14.3	22.3	53.8	6.8	3.0
Compound services (including post offices and cooperative associations, etc.)	27	11.1	18.5	70.4	0.0	0.0
Services, N.E.C. (Not Elsewhere Classified)	303	10.9	14.9	64.0	8.9	1.3
Government, N.E.C.	152	13.2	21.1	57.9	5.9	2.0
Industries unable to classify	132	6.1	12.1	60.6	11.4	9.8

Source: Compiled based on the MHLW's Survey Results on “A Comprehensive Review of the Work Style Reform Act Five Years After Its Enforcement” (in Japanese).

Note: Please note that the sample sizes for each industry are limited.

industry. The “Scientific research, Professional and technical services” sector had the highest proportion at 19.6%, followed by the “Information and Communications” (17.9%), the “Real estate, Goods rental and leasing” (16.4%), and the “Electricity, Gas, Heat supply, and Water” (15.2%).

More than 30% of workers with scheduled working hours of “35 hours or more” per week, as well as over 50% of those with average actual working hours of “50 hours or more” per week hoped for a reduction in working hours

When examining workers’ preferences regarding increases or reductions in their current working hours by scheduled weekly working hours, the proportions of those who want to “reduce” and “slightly reduce” their working hours were particularly higher among those working “40 hours or more” (19.8% and 20.2%, respectively) and “35 hours or more but less than 40 hours” (12.6% and 21.6%, respectively). In these two categories, more than 30% of workers indicated a preference to reduce their working hours. Meanwhile, the percentages of workers who want to “increase” or “slightly increase” their working hours remained below 10% in each category, regardless of the length of their scheduled working hours.

When examining the results by average actual working hours per week, the responses were as follows: those working “50 hours or more but less than 60 hours” answered “reduce” (24.8%) and “slightly reduce” (28.8%), while those working “60 hours or more but less than 70 hours” (35.1% and 26.3%, respectively), and “70 hours or more” (42.3% and 13.5%, respectively). In each category, the proportion of respondents who want to reduce their working hours exceeded 50%. Nevertheless, even in the time categories where a relatively high proportion of respondents who want to “increase” or “slightly increase,” the percentages were as follows: those working “20 hours or more but less than 30 hours” (4.8% and 10.6%, respectively), and “10 hours or more but less than 20 hours” (4.3% and 10.4%, respectively). The proportion of respondents who indicated that they want to increase remained around 15%.

When examining these results by hours of overtime work per month (average of the last three months), the proportions of respondents who want to “reduce” and “slightly reduce” were higher than 30% in the time categories exceeding 10 hours.

Half of the workers who do not receive overtime pay hoped for a reduction in working hours

When examining the data by overtime pay status, among those receiving “full overtime pay,” the combined proportion of workers who want to “reduce” or “slightly reduce” their working hours remained in the low 20% range (9.2% and 15.1%, respectively). In contrast, among those receiving “partial overtime pay” (“reduce” 16.4% and “slightly reduce” 31.9%), “mostly not paid” (“reduce” 14.9% and “slightly reduce” 30.7%), and “not paid at all” (“reduce” 26.9% and “slightly reduce” 25.7%), with all categories falling within the 40% to 50% range.

When analyzing the data based on whether or not workers have a secondary or side job, among those who “do not have a secondary or side job,” the combined proportion of workers who want to “reduce” (12.0%) or “slightly reduce” (17.1%) their working hours was just under 30%. In contrast, the percentages of those who “have a secondary or side job at a company affiliated with their main job” (“reduce” 10.4%, and “slightly reduce” 27.0%) and “have a secondary or side job at a company not affiliated with their main job” (“reduce” 9.3%, and “slightly reduce” 27.3%) were both slightly higher, with each exceeding 30%.

The most frequent reasons that workers cited for hoping to increase their working hours included wanting to “earn more” or “work at their own pace”

When workers who responded that they want to “reduce” or “slightly reduce” their working hours were asked the reason (multiple answers), the most commonly cited reason was wanting to “have more personal time for myself,” which accounted for 66.7% of the responses. The remaining common reasons were “protecting my health” (39.6%) and “because working long hours is not worth the pay” (30.0%).

Conversely, among workers who responded that they want to “increase” or “slightly increase” their working hours (multiple answers), those who want to “earn more money”—excluding respondents who indicated that “their household budget is tight without income from work beyond scheduled working hours (overtime pay)”—stood out at 41.6%, followed by those who want to “work at my own pace” at 19.7%, and “my household budget is tight without income from work beyond scheduled working hours (overtime pay)” at 15.6%, among others.

Among workers who responded that they were “satisfied with the status quo” in terms of their working hours (multiple answers), the highest-ranked reasons included wanting to “avoid a change to my work-life balance” (44.3%) and wanting to “maintain existing income” (32.0%).

In addition, when examining the number of overtime hours per month that was considered appropriate, the responses were as follows: “zero hours” (21.7%), “zero hours or more but less than 10 hours” (28.8%), “10 hours or more but less than 20 hours” (15.1%), “20 hours or more but less than 30 hours” (10.5%), “30 hours or more but less than 40 hours” (9.4%), and “40 hours or more but less than 45 hours” (7.5%). The proportion of workers who consider 20 hours or less to be appropriate exceeded 60%, while the proportion of those who consider 45 hours or less to be appropriate exceeded 90%.

II. Results of the interview survey

Companies hoping to reduce working hours cited reasons such as “ensuring employees’ recruitment and retention”

According to the results of the interview survey conducted with 327 companies, regarding their views on the current status of working hours, 201 companies responded that they prefer to “maintain the status quo,” while 73 companies want to “reduce” them, and 53 companies want to “increase” them.

Among the reasons companies indicated for preferring to “maintain the status quo” (multiple answers), the most frequent ones—given by 178 companies—were related to the “current workload,”

such as “high employee satisfaction with the current working hours.” Other leading reasons included “safeguarding employees’ health and work-life balance” (22 companies) and “ensuring employees’ recruitment and retention” (20 companies).

Among the reasons companies indicated for hoping to “reduce” working hours (multiple answers), 22 companies cited reasons related to “ensuring employees’ recruitment and retention,” such as “long working hours make it difficult to retain young employees and those with families.” Other leading reasons included “safeguarding employees’ health and work-life balance” (18 companies) and “reducing labor costs” (nine companies).

Half of the companies hoping to increase working hours aimed to do so within the upper limits set by regulations

Meanwhile, among the reasons that companies indicated for hoping to “increase” working hours, the most frequently cited reason—mentioned by 29 companies—was related to the “nature of work,” such as “in the event of work delays or schedule changes due to weather conditions.” Other commonly cited reasons included “needs to increase the volume of orders” (nine companies), “responding to requests from employees” (nine companies), “due to labor shortages” (seven companies), and “aiming to improve the quality of work and technical skills” (five companies).

Among 53 companies that indicated an intention to “increase” working hours, 25 companies hoped to do so within the limits of the current regulations (e.g., 100 hours per month, an average of 80 hours over multiple months, or 720 hours per year). Meanwhile, 17 companies hoped to exceed these limits, and 11 companies hoped to exceed the standard of 45 hours per month and six times per year, which is the principle of the special provisions of the “Agreement on Overtime and Holiday Work” (known as an “Article 36 Agreement” or *saburoku kyotei*).

In response to the question regarding whether their employees had requested an “increase in their working hours,” 140 out of 327 companies reported

that such requests had been made, while 187 companies responded that they had not.

70% of the interviewed employees indicated a preference for “maintaining the current” working hours

According to the results of the interview survey of 97 employees, when asked about their current working hours, 70 employees responded that they prefer to “maintain the status quo,” 14 employees indicated a preference to “reduce” their working hours, and 13 employees indicated a preference to “increase” their working hours.

Among employees responded that they prefer to “maintain the status quo” (multiple answers), the most frequently cited reason was related to having “no dissatisfaction with the current situation” (59 employees). Other reasons cited included: “I would prefer not to extend my working hours to the point of doing overtime” and “working any harder than I do now is physically demanding.” Among employees indicated that they want to “reduce” their working hours, the primary reason cited was “work-life balance” (nine employees).

Meanwhile, among employees responded they prefer to “increase” their working hours (multiple answers), the most frequently cited reason was related to “income” (nine employees), such as “I

want to work more and earn more during busy periods.” Other relatively common reasons were related to “workload” (four employees) or “training junior staff” (three employees).

Among 13 employees who responded that they want to “increase” their working hours, nine employees stated they want to increase within the limits of the current regulations (e.g., 100 hours per month, an average of 80 hours over multiple months, 720 hours per year). In addition, three employees indicated their preference to exceed these upper limits, while one employee indicated a preference to exceed the standard of 45 hours per month and six times per year, which aligns with the principle of the special provisions of the “Agreement on Overtime and Holiday Work.”

Note

The Work Style Reform Act is a comprehensive legislative amendment package, which includes eight laws, such as the Labor Standards Act and the Industrial Safety and Health Act. These amendments have been implemented in stages since 2019. This set of amendments comprises of three key pillars: the rectification of long working hours, the realization of diverse and flexible working styles, and the assurance of fair treatment regardless of employment status. Regarding the rectification of long working hours, the upper limit for overtime is generally set at 45 hours per month and 360 hours per year. In cases where there are temporary special circumstances and both labor and management agree, the limit is set at 720 hours per year.

News

Aiming to Raise Implementation Rate of Measures for Securing Job Opportunities until Age 70 to 40% or Higher: MHLW Formulates New Basic Policy for Measures for the Stabilization of Employment for Elderly Persons, etc.

On March 31, the Ministry of Health, Labour and Welfare formulated the new Basic Policy for Measures for the Stabilization of Employment for Elderly Persons, etc., which covers the four year-period between FY2026 and FY2029, and the application of the policy started on April 1. The policy is based on the Act on Stabilization of Employment of Elderly Persons. The new policy has adopted additional policy targets intended to increase job opportunities for elderly persons and set the target of raising the implementation rate of measures for securing job opportunities until age 70 to 40% or higher. In addition, in order to further promote measures for stabilizing employment for elderly persons, the new policy also includes the further expansion of measures for securing job opportunities until age 70 and the strengthening of advice and guidance in line with companies' actual circumstances, and subsidy programs in order to improve the treatment of elderly workers.

Background to the formulation of the Basic Policy

New policy formulated in response to the expiration of the current policy

The Basic Policy for Measures for the Stabilization of Employment for Elderly Persons, etc. is formulated by the Minister of Health, Labour and Welfare under Article 6, Paragraph 1 of the Act on Stabilization of Employment of Elderly Persons (Act No. 68 of 1971). Based on the employment and job situation of elderly persons, the Policy sets concrete targets for increasing job opportunities for

elderly persons, such as employment rates, and formulates the basic framework for measures concerning the employment stability of elderly persons and others.

As the five-year period, from FY2021 to FY2025, of the previous policy was set to expire, the government formulated the new policy to be applied from FY2026. Following deliberations at the Subcommittee on Basic Employment Measures of the Labour Policy Council in January, the new policy was referred for consultation to both the Subcommittee and the Employment Security Committee on March 11, and was approved as appropriate. The new policy was announced on March 31, 2026, and took effect on April 1 of the same year.

Specifics of the new policy

Indicating the basic approach to jobs and employment for elderly persons widely to the public

The new policy, like the previous one, specifies the "Policy Purpose" at the beginning, and, based on Article 6, Paragraph 2 of the Act on Stabilization of Employment of Elderly Persons, is composed of the following four items: "Item 1: Matters related to developments in the employment of elderly persons"; "Item 2: Matters related to targets in increasing job opportunities for elderly persons"; "Item 3: Matters that should serve as guidelines on the development of various conditions to be implemented by employers"; "Item 4: Matters that should constitute the basics of measures for stabilizing the employment of elderly persons."

The Act on Stabilization of Employment of Elderly Persons has been amended based on the provisions of the Act Partially Amending the Employment Insurance Act and Other Acts, which was enacted at the 201st ordinary session of the Diet in 2020 in order to develop the environment for the empowerment of elderly persons (this act shall be hereinafter referred to as the Amended Act on Stabilization of Employment of Elderly Persons). Specifically, employers are obligated to make efforts to secure job opportunities until age 70, for example.

In light of the objectives of the Amended Act on Stabilization of Employment of Elderly Persons, the “Policy Purpose” stipulates that the new policy “seeks to ensure the stabilization of employment, promote reemployment and secure diverse job opportunities for elderly persons, for example by showing, widely to the public, including labor and management, the targets and basic approach to measures related to jobs and employment for elderly persons and by indicating guidelines on the development of various conditions to be undertaken by employers.”

Further promoting initiatives to secure job opportunities until age 70 and improve the treatment of elderly workers

At the end of March 2025, the existing transitional measure to allow the application of the eligibility criteria of a continued employment system based on labor-management agreement expired, and starting in April of the same year, measures for securing employment until age 65—for which all workers who wish to continue to be employed are eligible—were fully put into effect (namely, raising the formal retirement age, introducing a continued employment system, or abolishing formal retirement by age).

In response, the “Policy Purpose” pointed out that it is “necessary to conduct initiatives to securely implement the measures.” As for the future policy course, given that many people belonging to the generation who experienced the so-called “employment ice age”—when prolonged economic stagnation caused companies to freeze their hiring of new graduates—are set to enter their senior years in

the coming years, it stated that “it is necessary to conduct support initiatives with an eye to the future,” indicating the need to further promote initiatives to secure job opportunities until age 70 and improve the treatment of elderly workers.

The new policy covers the four-year period from FY2026 to FY2029 (the period has been set so as to maintain consistency with the government’s General Principles Concerning Measures for the Aging Society, authorized by a cabinet decision on September 13, 2024). However, as the policy is predicated on the Amended Act on Stabilization of Employment of Elderly Persons that was in effect when it started to be applied, it is stipulated that “revisions may be made when necessary” in light of developments in the situation of employment of elderly persons and systems regarding labor supply and demand adjustments.

Item 1. Matters related to developments in the employment of elderly persons

One in 2.9 people are expected to be 65 years old or older in 2040

“Item 1: Matters related to developments in the employment of elderly persons” introduces the situations of the jobs and employment of elderly persons, the employment system, and work-related accidents.

The population of elderly persons aged 65 or older is estimated to increase from approximately 36.03 million in 2020 to approximately 39.28 million in 2040, representing an increase of around 3.25 million over a 20-year period, with one in every 2.9 persons aged 65 or older. Meanwhile, among elderly persons, the employment rate in 2024 reached high levels, at 74.3% for those aged between 60 and 64 (a rise of 13.6 percentage points compared with 2014) and at 53.6% for those aged between 65 and 69 (a rise of 13.5 percentage points compared with 2014).

The 30% range of companies have taken measures for securing job opportunities until age 70

As for the situation of the employment system, as of June 1, 2025, when “measures for securing

employment until age 65 for all elderly persons who wish to continue working” was fully put into effect, among companies with 21 or more regular employees, 99.9% had taken the measures. On the other hand, the percentage of companies that had taken measures for securing job opportunities until age 70 was 34.8%. Regarding the wage level for elderly workers continuing to work after reaching the formal retirement age, in 2024, it was higher than 80% of the level before retirement at 39.6% of all companies (a rise of 15.1 percentage points compared with 2019).

Regarding work-related accidents, while people aged 60 or older accounted for 19.1% of all employees in 2024, the percentage of such people among those who suffered work-related deaths or injuries resulting in four or more days of leave was as high as 30.0%. Accordingly, the new policy noted that “the incidence rate of work-related accidents is high among elderly persons, with the risk of a work-related accident tending to rise in line with the advance of age.”

Item 2: Matters related to targets in increasing job opportunities for elderly persons

Adopting new targets, such as raising the employment rate for people aged between 60 and 64 to 79.0% or higher by 2029

“Item 2: Matters related to targets in increasing job opportunities for elderly persons” first describes measures for increasing job opportunities. After pointing out the importance of increasing the employment opportunities of elderly persons and promoting the treatment of elderly workers based on job duties and competences suited to companies’ actual situations, it stipulates that, based on the Amended Act on Stabilization of Employment of Elderly Persons, the government will “support the empowerment of elderly persons by strengthening various initiatives to further spread measures for securing job opportunities for elderly persons until age 70 among companies and also by strengthening support measures for companies striving to improve treatment based on job duties and competences.”

Moreover, the new policy includes numerical

targets similar to the policy targets indicated in the General Principles Concerning Measures for the Aging Society. Specifically, it upholds the following targets: raising the employment rate for those aged between 60 and 64 to 79.0% or higher (up from 74.3% in 2024) by 2029; raising the employment rate for those aged between 65 and 69 to 57.0% or higher (up from 53.6% in 2024) by 2029; and raising the implementation rate of measures for securing job opportunities for elderly persons until age 70 to 40.0% or higher (up from 34.8% as of June 1, 2025) by 2029.

Item 3: Matters that should serve as guidelines on the development of various conditions undertaken by employers

Prescribing the improvement of work facilities with due consideration for elderly persons and the implementation of support measures for those who desire reemployment

“Item 3: Matters that should serve as guidelines on the development of various conditions undertaken by employers” lays down basic guidelines on the three areas of responsibilities to be undertaken by employers: (i) developing various conditions; (ii) supporting reemployment; and (iii) supporting the design of vocational life.

Regarding the first responsibility, “developing various conditions,” the new policy prescribes that employers should make efforts to develop various conditions under sufficient labor-management consultations in order to secure job opportunities for elderly persons in accordance with their motivations and competencies. Specifically, it cites the need to “improve work facilities” with due consideration given to a decline in physical functions in order to prevent elderly persons with weakened physical strength from being excluded from workplaces, to “expand the scope of jobs” so that elderly persons’ knowledge, experiences and competencies can be fully utilized, and to “promote assignment and treatment that enables the utilization of knowledge and experiences” through a mechanism to evaluate vocational competencies and a qualification system.

As for the second responsibility, “supporting reemployment,” the new policy stipulates that when elderly workers who are set to leave due to dismissal or for other reasons wish to be reemployed, employers should proactively “strive to support reemployment through active assistance” regarding job search activity and vocational skills development before they leave while giving consideration to the “implementation of reemployment support measures (e.g., education and training)” and “active use of support by Public Employment Security Offices or other organizations.”

Regarding the third responsibility, “supporting the design of vocational life,” the new policy lays down that in order to enable workers they employ to continue leading a fulfilling vocational life until advanced age, employers should “make efforts to provide effective support for the design of vocational life in advanced age” by “providing information and consultation necessary for designing a vocational life” and by “supporting career development based on the design of vocational life.”

Item 4: Matters that should constitute the basics of measures for stabilizing the employment of elderly persons

Collection of cases of companies improving the treatment of elderly workers through the revisions of wage and personnel management systems

“Item 4: Matters that should constitute the basics of measures for stabilizing the employment of elderly persons” lays down principles regarding the following three categories of initiatives: (i) initiatives for ensuring the smooth implementation of measures for securing the employment of elderly persons; (ii) initiatives for promoting the reemployment of elderly persons; and (iii) initiatives for otherwise stabilizing the employment of elderly persons.

Regarding the first category, “initiatives for ensuring the smooth implementation of measures for securing the employment of elderly persons,” the new policy adopted additional measures mainly with respect to the matters that had already been mentioned in the previous policy, such as securing employment

until age 65, securing job opportunities until age 70, and securing appropriate treatment of elderly workers continuing to be employed.

Specifically, the new policy stipulated that in order to ensure the implementation of “measures for securing employment until age 65 for all workers who wish for continued employment,” which were fully put into effect since April 2025, active efforts should be made to raise awareness and provide guidance. It also stipulated that efforts should be made to collect and effectively provide good practices of companies making efforts to improve treatment of elderly workers through the revisions of wage and personnel management systems, and to strengthen subsidy programs for employers undertaking initiatives to improve treatment of elderly workers.

Strengthening subsidy measures to achieve policy targets

With respect to measures for securing job opportunities until age 70, the new policy lays down that Prefectural Labour Bureaus and Public Employment Security Offices should once again make thorough efforts to raise awareness about the purpose and specifics of relevant systems. It also stipulated that active efforts should be made to provide advice and guidance in accordance with companies’ actual circumstances and that subsidy measures to support the achievement of policy targets should be strengthened. Regarding measures to support business start-ups, etc., not based on an employment contract, based on the provisions of the Amended Act on Stabilization of Employment of Elderly Persons, thorough guidance should be provided to ensure compliance with the Guidelines on Implementation and Enforcement of Measures to Secure Job Opportunities for Elderly Persons, which was amended in line with the amendment of that law, and with the Freelance Act (formally called the Act on Ensuring Proper Transactions Involving Specified Entrusted Business Operators), which was put into force in 2024. Moreover, in order to make diverse job options possible in accordance with the characteristics and needs of elderly persons, the use of those measures should be further expanded by collecting

and effectively providing information, including good practice cases in which implementation and planning are conducted appropriately based on labor-management agreement.

As for the securing of appropriate treatment of elderly workers continuing to be employed, the new policy additionally stipulated that regarding the Guidelines for Equal Pay for Equal Work (formally called the Guidelines on the Prohibition against Unreasonable Treatment of Part-Time Workers, Fixed-Term Workers, and Dispatched Workers), which will be revised for further clarification through more substantial descriptions of various types of treatment based on judicial precedents, awareness should be raised and guidance should be provided regarding the revisions to be made.

Meticulous matching support suited to the needs provided through Lifelong Active Worker Support Desk

Regarding the second category, “initiatives for promoting the reemployment of elderly persons,” the new policy adopted additional measures, mainly with respect to reemployment support by Public Employment Security Offices, which had already been mentioned in the previous policy.

Specifically, while indicating the need to provide appropriate vocational guidance, including support for the preparation of resumes (CVs), job placement services, and individualized job development in order to enable the earliest possible reemployment, the new policy stipulates that “intensive reemployment support should be provided for elderly persons, mostly those who are 60 years old or older (particularly those who are 65 years old or older) through meticulous matching suited to diverse needs” at the Lifelong Active Worker Support Desk established at major Public Employment Security Offices across the nation.

In light of the increasing number of elderly persons who consider the types of jobs and conditions

available to be inadequate, the new policy also indicated the need, mainly for employment and life support advisors, to provide careful career consulting support tailored to elderly persons with respect to the redesigning of vocational life.

Promotion of a safe and secure workplace environment and use of Silver Human Resource Centers

Regarding the third category, “initiatives for otherwise stabilizing the employment of elderly persons,” the new policy adopted additional measures mainly with respect to a safe and secure workplace environment and the securing of employment and job opportunities by Silver Human Resource Centers (job placement centers for elderly persons).

Regarding a safe and secure working environment, the new policy stipulates that measures for elderly persons, such as preventing work-related accidents, maintaining sound health, and controlling working hours should be promoted. In particular, it indicated the need to disseminate and provide guidance to employers about the guidelines based on the Act to Partially Amending the Industrial Safety and Health Act and the Working Environment Measurement Act, which was promulgated in 2025 (to be gradually put into force starting in 2026).

As for the securing of diverse employment and job opportunities by Silver Human Resources Centers, the new policy stipulates that for elderly persons who wish to work temporarily or on a short-term basis after reaching the formal retirement age, the use of the Silver Human Resources Center program to provide diverse jobs closely associated with everyday lives of local communities should be promoted in order to “expand the scope of activities so that a broad range of opportunities for employment and social activity can be provided by matching elderly persons’ diverse needs for employment and social activity with the human resource needs of various industries and regional challenges.”

Article

Responses to Overtime Work Caps: Case Studies of Four Freight Transport Companies

MAEURA Hodaka

I. Introduction

This paper presents case studies of four freight transport companies, analyzing how they responded to the caps on overtime work, which have been tightened as part of the “work-style reform” in Japan. The new caps, introduced by the amendment to the Labor Standards Act in 2019, became applicable in April 2024, following a five-year grace period, to workers engaged in driving motor vehicles, i.e., truck drivers, bus drivers, and taxi drivers (hereinafter, “motor vehicle drivers”).

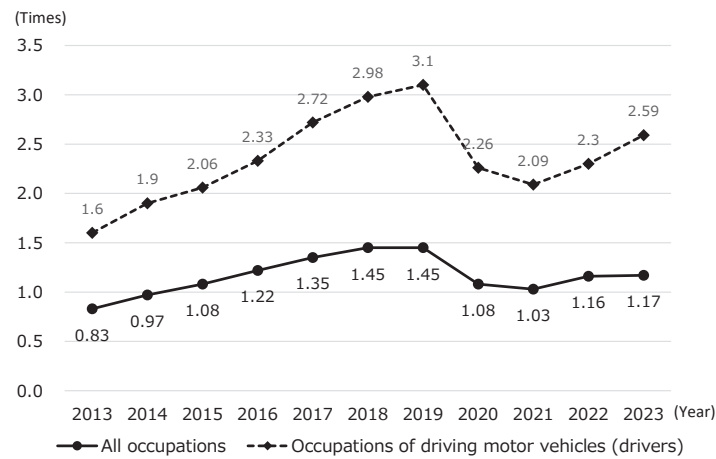
In Japan, the above-mentioned drivers are subject to a set of rules known as the Ministry of Health, Labour and Welfare (MHLW) Notice, “Standards for Improvement of Working Hours of Motor Vehicle Drivers” (hereinafter the “Notice of Improvement Standards”). These rules stipulate in detail the working conditions of drivers, for example, “hours on duty must in principle be limited to 13 hours per day” and “continuous driving hours must be limited to four hours (with a break of at least 30 minutes).” Thus, motor vehicle drivers in Japan are required to work within the framework of the rules set forth by the Notice of Improvement Standards. From the perspective of labor policy, a key issue is how companies have responded to the new caps on overtime work. This paper specifically discusses the measures implemented by the target companies through case studies. Since space limitations prevent a detailed explanation of the Notice of Improvement Standards; those interested in the specific rules are advised to refer to the MHLW website.¹

The introduction of the caps on overtime work

mentioned above has raised a concern in Japan: the so-called “2024 problem in freight transport.” Compared to other industries, the transportation industry has lower wage levels and longer working hours, which has led to shortages of truck drivers.² Therefore, this paper limits the analysis targets to truck drivers.

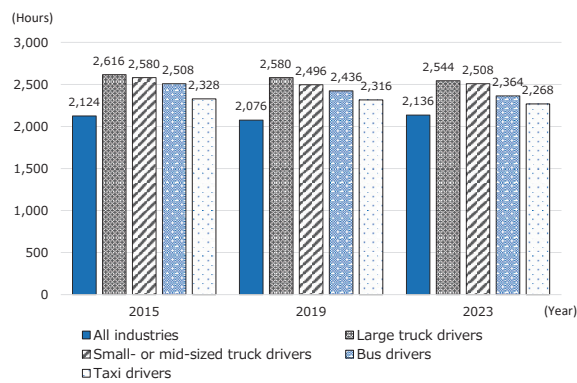
Let us look at the working conditions of motor vehicle drivers, focusing on truck drivers. Figure 1 shows the trends in the active job openings-to-applicants ratio. A higher ratio indicates more job openings and, consequently, a greater labor shortage. If the total for all occupations is interpreted as the overall average, the job openings-to-applicants ratio for occupations of driving motor vehicles is higher than the average, indicating that the labor shortage is correspondingly severe in this category. Figure 2 shows the trends in average annual working hours for various types of drivers. If the figures for all industries are interpreted as the overall average, truck drivers’ working hours are longer than the average. Furthermore, looking at the annual average overtime hours, truck drivers’ average overtime hours are longer than those in all industries (Figure 3). In addition, truck drivers have lower annual salaries compared to workers in other industries (Figure 4).

Under these circumstances, it was anticipated that tightening working hour regulations would reduce truck drivers’ working hours but it could also lead to a decline in the overall transport capacity of the freight transport industry. This concern is known as the “2024 problem in freight transport.”³



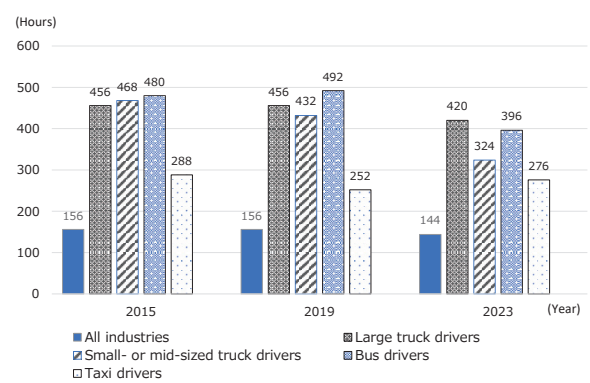
Source: MHLW, “Employment Referrals for General Workers” (Employment Security Service Statistics).

Figure 1. Trends in the active job openings-to-applicants ratio



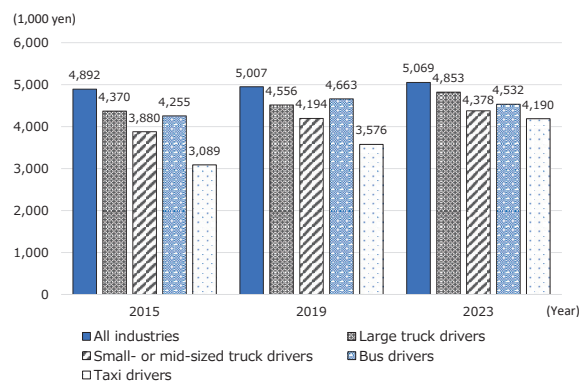
Source: Compiled based on MHLW, “Basic Survey on Wage Structure” (e-stat).

Figure 2. Trends in the average working hours



Source: Compiled based on MHLW, “Basic Survey on Wage Structure” (e-stat).

Figure 3. Trends in the average overtime working hours



Source: Compiled based on MHLW, “Basic Survey on Wage Structure” (e-stat).

Figure 4. Trends in annual salaries

II. Framework and questions for analysis

Before proceeding to the specific analysis of companies, this section clarifies the analytical framework. The analysis in this paper incorporates industrial relations in the analytical framework, because labor unions participate in determining the working hours of individual workers.

According to Ishida (2003), industrial relations constitute a “system of rules governing employment relationships” and, in particular, refer to the trade between labor expenditure (provision of labor) and counter-performance (reward for labor)—specifically, “how much a worker would gain by doing what work for how long.” Working hours, the subject of analysis in this paper, fall under the category of labor expenditure. Furthermore, to the best of my knowledge, even if a labor union organized at the workplace does not consist of a majority of workers—let alone when it holds a majority at the workplace—it is often the case that the representative of such labor union acts as a person representing the majority of the workers at the workplace when labor and management conclude an agreement on overtime work under Article 36 of the Labor Standards Act (Article 36 agreement). This is the reason industrial relations are utilized as a factor of an analytical framework in this paper.

Let us review the research findings in detail. Japanese labor unions have requested and negotiated with employers to reduce working hours (Shirai, Hanami, and Koshiro 1986; Shirai 1992; Matsui 2021, etc.). Furthermore, from the perspective of regulating working hours, labor unions participate in policy-making. This role is typically undertaken by national centers or industrial unions.⁴ Asai (2022) describes the tripartite initiatives conducted by workers, employers, and the government, with the aim of improving the business environment and working hours in the trucking industry. Shuto (2024) notes that, while the three parties held consultations and engaged in rule-making to address issues regarding working conditions, including drivers’ working hours, these efforts alone proved insufficient; therefore, the three parties invited shippers to hold a

four-party discussion and demanded that shippers and consignees reduce freight transport burdens.

It has been demonstrated that labor unions participate in determining working hours at the company level as well. Okochi, Ujihara, and Fujita (1959) revealed, through a study focused on the iron and steel, railway and bus, and coal industries, that labor and management discuss working hours via the workplace organizations. Ishida, Tomita, and Mitani (2009) analyzed the development, production technology, and production departments of automotive companies and pointed out that working hours are a critical issue in industrial relations and are regularly reviewed by both parties. Additionally, Ishida and Terai (eds., 2012) highlight three case studies in which labor unions have worked to reduce working hours.

However, Ishida, Tomita, and Mitani (2009) note, through a comparison of Japan and the United States, that the negotiation on the trade between labor expenditure and counter performance is conducted through collective bargaining in the United States, whereas in Japan, such trade is negotiated through individual bargaining. To put it bluntly, in Japan, even if labor unions engage in collective bargaining with employers, individual workers’ labor expenditure is negotiated on an individual basis,⁵ in which case the labor unions’ involvement (regulation) in determining workers’ labor expenditure would be weakened.

Accordingly, this paper sets out the following three research questions: (1) how companies responded to the application of the new working hour regulations; (2) what issues arose following the application of the new regulations; and (3) how labor and management addressed those issues.

III. Survey overview

3.1 Overview of companies surveyed

A brief overview of the companies surveyed is provided below. As mentioned earlier, this paper analyzes four freight transport companies. As shown in Table 1, all of the companies surveyed are large companies with more than 1,000 employees. These

Table 1. Companies' attributes, business characteristics, main analysis targets

Companies	Business area	Number of employees	Business characteristics	Main analysis targets
Freight Transport Company A	Nationwide	Approx. 17,000	B2B business. Most of the customers are small- and medium-sized enterprises (workload is difficult to predict).	Drivers for city and inter-store routes
Freight Transport Company B	Nationwide	Approx. 14,000	B2B business. Medium- or short-distance transportation.	Medium/short-distance transportation drivers
Freight Transport Company C (Branch S)	Nationwide	Approx. 170,000	Mainly B2C business. Business needs continue a downward trend.	Drivers for city routes
Freight Transport Company D (Branch N)	Nationwide	Approx. 2,200	B2B business. Company C's 100% subsidiary.	Drivers for inter-store routes

Note: B2B = Business-to-Business; B2C = Business-to-Consumer.

companies conduct business nationwide, primarily on a B2B basis. They have labor unions, and interviews were conducted mainly with these unions.

Here is a detailed explanation of the situation at each company surveyed. Many of Freight Transport Company A's customers are small- and medium-sized enterprises. Consequently, there are numerous cargo collection and delivery locations, and the volume of cargo (workload) is not known until the morning of the delivery day. A key characteristic of Company A is the difficulty in forecasting its workload. Company A operates two types of routes: routes that manage collections and deliveries within a specific area, starting from a designated store (hereinafter referred to as "city routes" and routes that connect stores (hereinafter referred to as "inter-store routes"). The former involves short-distance transportation, while the latter involves long-distance transportation. For the former, Company A conducts operations almost entirely in-house, but for the latter, it outsources approximately half of its workload to partner companies both within and outside its group. For Company A, the drivers responsible for these two routes are the main analysis target.

Freight Transport Company B, like Company A,

is engaged in commercial freight transport (B2B). A distinctive feature of Company B is that it operates multiple business units and manages transportation not only for other companies but also for its own internal business units. For example, Company B operates a warehousing business and transports cargo shipped from its facilities. As part of its freight transport operations, Company B outsources long-distance transportation to its partner companies. Therefore, the drivers of medium- or short-distance transportation will be the focus of the analysis for Company B.

Freight Transport Company C is facing a long-term downward trend in demand and is striving to ensure a stable supply of services while streamlining its operations. Like Company A, Company C operates two types of routes: routes that manage collections and deliveries within a specific area, starting from a designated store (hereinafter referred to as "city routes"), and long-distance transportation routes that connect stores (hereinafter referred to as "inter-store routes"). Company C outsources part of its city route operations to local companies and outsources most of its inter-store route operations to its subsidiary, Freight Transport Company D. Therefore, the target

of analysis for Company C is the drivers responsible for the city routes.

Freight Transport Company D is a wholly owned subsidiary of Company C. Since Company D undertakes operations primarily for Company C, it is affected by the downward trend in demand for Company C's business. Furthermore, as mentioned regarding Company C, Company D is responsible for Company C's inter-store route transportation (long-distance transportation). Therefore, the target of analysis for Company D is the long-distance transportation drivers. However, Company D outsources more than half of the operations outsourced to it by Company C to its partner companies. The relationship between Company C and Company D, which receives long-distance transportation contracts from Company C, and between Company D and its partner companies that receive contracts from Company D, is precisely a subcontracting relationship.

IV. Case analysis

4.1 Companies' response

(1) Response to labor shortages

The companies surveyed that discussed in this paper generally face the challenge of labor shortages. Under these circumstances, if working hour regulations are tightened, these companies will be required to reduce working hours per employee, and if they attempted to deal with the same workload as before, they would face an even more severe labor shortage. Therefore, the companies must address this issue by: (1) increasing the number of employees; (2) reducing the number of personnel required for operations by implementing measures to improve efficiency, such as business restructuring; or (3) conducting a combination of (1) and (2).⁶

Among these three options, the one discussed here is option (2), improving efficiency through business restructuring. As shown in Figure 1, the transportation and postal industries continue to face labor shortages, making it difficult to increase staffing levels. One example of an initiative to overcome this situation is a modal shift. "Modal

shift" refers to the "transition of freight transportation currently carried out by trucks and other motor vehicles to that by railways or ships, which has a lower environmental impact" (Aoki and Araki 2023). This initiative is being implemented by Freight Transport Companies A and B. For example, Company A, anticipating the application of working hour regulations, switched to rail transport for long-distance routes for which the drivers are likely to remain on duty for hours beyond the daily limit. The section below will focus on the initiatives implemented by the companies surveyed for their motor vehicle drivers.

(2) Revising transportation routes

All of the freight transport companies surveyed revised their transportation routes. Freight Transport Company A reduced the number of stores where the unloading of cargo is conducted on a single route. For example, when transporting goods to Osaka, unloading previously took place at three stores within Osaka City (Branch A → Branch B → Branch C), but the number of unloading destinations was reduced to two stores (Branch A → Branch B). By reducing the number of unloading destinations by one, the company can eliminate the unloading time at Branch C (typically about one hour) and the travel time for one section of the route (Branch B → Branch C). Company A also implements a system to consolidate shipments from branches with low delivery volumes to a specific area and transport them collectively. This has reduced transport time to a specific area by one to two hours.

Freight Transport Company B introduced relay transportation during the grace period for the application of working hour regulations. Relay transportation is a method of transportation in which a single route is divided among multiple drivers, serving as one of the measures to curb long working hours of truck drivers and address labor shortages.⁷ There are three types of relay transportation: (1) a method where drivers switch trucks with each other at a relay point; (2) a method where the tractor units of semi-trailer trucks are swapped at a relay point; and (3) a method where cargo is swapped at a relay

point. Company B employs the method it calls “switch transportation,” which falls under category (1). As a result, Company B’s drivers are now able to return to their home depot within the daily limit for hours on duty. Company A, meanwhile, employs the method it calls “docking transportation,” which also falls under category (1). As defined by Company A, this refers to a transportation method where, when the truck returns to Branch A after transporting cargo from Branch B to Branch C, its driver is switched with another driver at a midpoint between the branches.

In anticipation of the application of working hour regulations, Freight Transport Company C implemented measures, such as revising pickup routes (pickup times) and transferring cargo at relay points.⁸

Freight Transport Company D, through collaboration within its internal units and with its partner companies, has increased transportation involving the switching of drivers and cargo at relay points (relay transportation) nationwide, and has also introduced services using trailer-trucks and other vehicles that are larger than conventional trucks. The company’s Branch N has implemented such initiatives as reducing the number of branches where cargo is unloaded per trip or rearranging the order of branches where unloading takes place.

(3) Making requests to shippers

Freight Transport Companies A, B, and D made requests to their shippers. Company A asked the shippers to use software that allows for online pickup orders and shipment preparation. Using this software, the freight transport company can obtain pickup order information, thereby identifying “what kind of and how much cargo to pick up, and where,” and the software also allows it to create shipping documents. Company A shares this information with its delivery branches, which helps ensure efficient delivery. The use of this software has reduced the time required for pickups at collection points and unloading at branches.

Freight Transport Company B requested that shippers reduce cargo waiting time. Some shippers

accommodated this request by introducing a truck berth reservation system. A “truck berth” refers to a “place to park trucks to load and unload cargo,”⁹ and a “truck berth reservation system” is a “system where freight transport companies make reservations for truck berths at freight transport centers (delivery destinations) for carrying out loading and unloading” (Aoki & Araki 2023). Advance registration for the use of a truck berth serves to prevent the concentration of truck arrivals during specific time slots, alleviate congestion at the berth, and reduce cargo waiting time. This system also makes it possible to visualize the occupancy status of the berth and utilize the status information for efficient operations.¹⁰ Furthermore, Company B introduced the truck berth reservation system for its own operations, in an effort to reduce cargo waiting time for its partner companies.

Freight Transport Company D proposed a timetable revision to its parent company (Freight Transport Company C). Freight Transport Company C accepted Company D’s proposal to revise the timetable for some routes (by shifting the timetable later) so that Company D could comply with working hour regulations. As a result, drivers responsible for long-distance transportation at Company D have been able to operate within the daily limit for hours on duty even after April 2024.

(4) Developing support systems

Branch S of Freight Transport Company C uses an app to monitor the pickup and delivery status. The branch has divided its service area into seven sections, with each team handling deliveries in its assigned section. By using the app, drivers responsible for city routes can now take the shortest route to their delivery locations, enabling more efficient pickups and deliveries. On the other hand, delivery times tend to be longer in residential areas, where there are many cargo pickup and delivery locations, and mountainous areas, where distances between those locations are long. Therefore, Branch S has developed a system where drivers will check the app and provide support to other areas when they finish pickups and deliveries in their areas. This has led to a reduction and leveling of overtime hours for all drivers in

charge of the city routes.

(5) Securing and developing rest facilities

In order to avoid violating the Notice of Improvement Standards, Freight Transport Company C implements measures to ensure that its drivers can take a break of at least 30 minutes outside the branch office when sudden or temporary work continues and the drivers are likely to engage in continuous driving for more than four hours.¹¹ However, since rest facilities are not uniformly maintained across the area covered by Company C's Branch S, drivers are currently unable to take breaks safely and with peace of mind. Accordingly, Branch S of Company C's labor union has demanded that the company develop rest facilities, and the company branch is working to address this issue.

4.2 Labor unions' response

Table 2 shows the initiatives implemented by the companies surveyed to comply with working hour regulations. Based on this, an attempt is made to identify the overall picture of how labor unions have addressed this issue. The companies surveyed have labor unions, and these unions represent the majority of workers when concluding Article 36 agreements.

For transportation drivers, employers can extend

the annual overtime work limit up to 960 hours by concluding an Article 36 agreement with special clauses.¹² The companies surveyed have concluded such agreements, while setting the overtime work limit equivalent to the legal limit (960 hours per year) to prepare for unforeseen circumstances, setting it close to the legal limit, or setting it at less than half of the legal limit to reduce overtime hours.

In any case, the Article 36 agreement that each of the companies surveyed concluded complies with the working hour regulations that became applicable to truck drivers in April 2024, and at the time of the survey, none of these companies had their workers engage in work for hours beyond the limit stipulated in the special clauses. Behind this is the companies' internal working hour management systems, which are designed to issue warnings when overtime hours are likely to exceed the limit stipulated in the Article 36 agreement. Furthermore, as shown in Table 2, at the companies surveyed, except for one of them,¹³ labor and management review drivers' working hours regularly and, if any issues arise, discuss how to deal with them.

4.3 Issues and responses

(1) Issues related to continuous driving hours: Freight Transport Companies B, C, and D

Table 2. Initiatives implemented by the companies surveyed

Companies	Response to working hour regulations	Content of labor-management consultations on working hours
Freight Transport Company A	○	Labor and management review drivers' working hours once a month at the workplace, regional, and company-wide levels.
Freight Transport Company B	○	Working hour data collected from all business locations is reviewed at monthly labor-management consultations.
Freight Transport Company C (Branch S)	○	Working hours are discussed during labor-management consultations held every two weeks at the headquarters of Company C's labor union and once a month at Branch S of the union.
Freight Transport Company D (Branch N)	○	Appropriate action is taken if any violation of the Article 36 agreement occurs.

Note: A circle (○) in the table indicates that the existing Article 36 agreement complies with the working hour regulations that took effect in April 2024.

Table 3. Issues that occurred due to the application of working hour regulations and their causes

Companies	Issues arose	Causes
Freight Transport Company A	An issue related to daily working hours arose.	Difficulty predicting transportation volumes, where sudden increases in transportation volume lead to transportation delays.
Freight Transport Company B	An issue related to continuous driving hours and daily working hours arose.	Bad weather and increased transportation volume during busy seasons.
Freight Transport Company C (Branch S)	An issue related to continuous driving hours arose.	Road congestion, etc.
Freight Transport Company D (Branch N)	An issue related to continuous driving hours arose.	A large traffic congestion caused by snowfall.

Note: Issues related to continuous driving hours occur only rarely.

Issues related to continuous driving hours refer to the cases where drivers were required but unable to take a break of at least 30 minutes after driving continuously for four hours. Table 3 summarizes the issues that occurred and their causes.

Let us examine these cases. The freight transport companies surveyed formulate their operation plans on the premise of complying with working hour regulations, and as noted by Company B and Branch N of Company D below, issues related to continuous driving hours rarely occur. However, the companies sometimes cannot operate according to schedule due to such factors as bad weather, fluctuations in cargo volume (during busy seasons), and road congestion.

In such a situation, if drivers are compelled to drive for more than four hours continuously because they cannot park their trucks at rest stops on expressways (service areas or parking areas), the limit for continuous driving hours may be extended up to four hours and 30 minutes. As long as the total continuous driving hours remain within this extra limit, the extension beyond four hours does not constitute a violation of the Notice of Improvement Standards. Furthermore, while delays may occur due to bad weather or road congestion, these are considered unpredictable events, and the time required to address them can be excluded from

continuous driving hours. Therefore, issues related to continuous driving hours are limited to those caused by fluctuations in cargo volume, and such issues do not occur frequently. Consequently, it can be said that they are not particularly serious issues.

[Company B]: “Although drivers, as a rule, must take a break after four hours of continuous driving, the reality is that several drivers continued driving beyond that limit due to irregular traffic congestion during the Golden Week, Obon, or other long holidays, when they were unable to take a break at rest stops.”

[Company D]: “We are currently adhering to the continuous driving hour rule. However, there was one instance about two years ago when we were unable to comply with the rule due to snow. The drivers got stuck in the snow—or rather, had to drive at a snail’s pace—and their continuous driving hours ended up reaching four hours and one minute.”

(2) Issues related to hours on duty per day: Freight Transport Companies A and B

Hours on duty per day consist of working hours and break time. In principle, hours on duty for truck drivers are limited to 13 hours per day, but there are

cases where the actual hours on duty exceed this daily limit. This issue occurred at Freight Transport Companies A and B.

At Freight Transport Company A, pickup delays on city routes are the reason drivers' hours on duty exceed the daily limit. Due to difficulty in forecasting the volume of cargo on any given day, high volumes result in longer pickup times, and these delays cause long-distance drivers responsible for inter-store routes to remain on duty for hours beyond the daily limit. These issues occur on 10% of all routes—specifically those extending for over 500 kilometers. At Company A, countermeasures are discussed at its monthly labor-management consultations.

At Freight Transport Company B, drivers' hours on duty also exceeded the daily limit due to increased cargo volumes during busy seasons. To address this issue, Company B reviews working hour data through monthly labor-management consultations and, if any issues arise, investigates the causes and considers countermeasures.

[Company A]: “When the volume of goods from each individual customer increases even slightly, it slows down the work of the pickup and delivery drivers who go around town picking them up. They return to the depot to load the goods onto trucks bound for destinations nationwide, but this process gets delayed. Everything is interconnected. Once pickups get delayed, the next day's deliveries get delayed as well, creating a vicious cycle where the delays just keep piling up.”

[Company B] “This issue does not arise frequently, but it does occur during busy seasons. It happened recently, especially for beverages, around July and August, rather than September. Since it was particularly hot this year, we had to make trips to load shipments at (Company B's) beverage distribution centers, which caused a sudden surge in beverage shipments. When there is a large volume of shipments, a fair number of trucks inevitably concentrate on that task all at once. I think this occurred in five cases or so.”

4.4 Relationships with partner companies

As shown in Table 1, the companies surveyed in the freight transport industry do not manage all transportation operations in-house. To a greater or lesser extent, Freight Transport Companies A, B, C, and D outsource part of their transportation operations to their partner companies. The freight transport industry operates on a subcontracting structure, in which partner companies are positioned as subcontractors. In this case, even if the companies surveyed comply with working hour regulations, their partners might not do so. Therefore, the focus here is on how the partner companies address compliance with working hour regulations.

Meanwhile, there is a growing movement, led by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT), to establish appropriate transportation rates.¹⁴ The companies surveyed are receiving requests from their partner companies to revise transportation rates. For the companies surveyed, considering the continuity of their business, there is a need to accept these requests for rate revisions; however, if they fail to reach an agreement with the partner companies, they may lose cooperation from these partners. In light of this, the section below will also discuss how the companies surveyed have responded to these requests for rate revisions from their partner companies, as well as the situation in which they are unable to secure cooperation from the partner companies and how they address such situation.

(1) Compliance with working hour regulations

Freight Transport Company A requires its partner companies to comply with working hour regulations, particularly regarding the daily limit for hours on duty. Since many of Company A's partner companies are relatively large companies, these partners already maintain proper working hour management. Furthermore, Company A does not assign transportation operations with unreasonable deadlines to its partner companies. When it is difficult to comply with the daily limit for hours on duty, Company A advises its partner companies to increase staffing, including hiring part-time workers, to

address the issue; in practice, however, Company A's own drivers often help to cover the partners' driver shortages.

Like Company A, Freight Transport Company B sets delivery deadlines that allow its partner companies to comply with working hour regulations and requests that they adhere to these regulations. Furthermore, Company B has introduced a truck berth reservation system to reduce the partner companies' waiting time.

Freight Transport Company C has never outsourced unreasonable transportation operations to its subsidiary (Company D). Regarding the application of working hour regulations, Company C has held labor-management consultations to review the transportation operation process so that its subsidiary (Company D) can comply with these regulations. As a result, the maximum transportation time per trip was set at 12 hours (excluding a two-hour return trip for each transport company). Furthermore, through labor-management consultations, Company C clearly defined the continuous driving hours for both its own drivers and Company D's drivers as the period from when a driver leaves a branch office until they return to that branch office.

Branch N of Freight Transport Company D holds consultations with managers of its partner companies twice a year (once before the busy season) and requests these partners to comply with working hour regulations.

(2) Response for cost pass-through

The freight transport companies surveyed have received requests from their partner companies to raise transportation rates. These requests are driven by rising costs and wage increases for their own employees. In response to these requests, each company surveyed engages in negotiations to revise transportation rates.

Freight Transport Company A engages in negotiations with its partner companies to revise transportation rates, with a view to maintaining the continuity of its own business. The highest rate hike initially requested by one of these partners was a rise

of about 10%, but following the repeated negotiations with Company A, the rate hike settled at around 5%. Company A also implemented measures, such as raising rates to market levels for the partners whose rates were below market rates, while increasing the rates by about 3% for the partners whose rates have recently been raised. At the same time, Company A requests that the shippers revise their transportation rates. This is to secure the funds needed to cover the wage increases for its own employees and the transportation rate hikes for its partners. Company A accepts orders from its shippers at rates amounting to only about 50 to 60% of the originally agreed rates, resulting in a significant gap between the agreed rates and the actual rates. However, some shippers, when asked to revise their transportation rates, either agree to only a small rate hike or refuse to agree to a rate revision.

Freight Transport Company B revises its unit fuel price once a month. The company sets a minimum unit price for diesel oil and pays that minimum unit price even if the actual fuel cost falls below it. The company also revises the unit labor cost once a year, considering recent increases in regional minimum wages and fluctuations in prices. Company B has been implementing these measures for some time. This is because Company B believes that the "prime contractor (Company B) must implement the initiative to engage with shippers on behalf of its group companies and partner companies."

In accordance with the head office policy, Branch S of Company C holds discussions (dialogues) with representatives of its partner companies at least once (or twice a year in the first and second halves of the year) regarding outsourced collection and delivery operations. Through these discussions, the branch addresses issues, such as the 2024 problem in freight transport, revisions to transportation rates in response to rising prices, and operational improvements.

Branch N of Company D responded to the requests from its partner companies to revise transportation rates. The branch addresses these requests for rate revisions during its annual guidance tours and when making individual visits to the partner companies. To date, the branch has revised the

transportation rates for all of its partners (approximately 100 companies).

(3) Response to the return of outsourced operations

There are cases where a transport company's partner company returns the outsourced operations on transportation routes to the client company, that is, the client company cannot receive the partner's cooperation. The freight transport companies surveyed had faced such return of outsourced operations from their partners and have been experiencing it more frequently these days. This situation holds true for both city routes (short-distance transportation) and inter-store routes (long-distance transportation). The reasons behind the return of outsourced operations include labor shortages, a lack of successors, bankruptcy, and financial difficulties on the part of the partner companies. In particular, Branch N of Freight Transport Company D reported an increase in returns of outsourced operations following the implementation of the new working hour regulations.

To address the return of outsourced operations, the client companies may request their partner companies to increase staffing or may themselves take over the returned operations. While temporarily assigning its own drivers to the returned operations, a client company may approach other partner companies for assistance. If it is still difficult to complete the operations, the client company may consult with its competitors to seek cooperation from their partner firms. Through these measures, the companies surveyed are currently managing to maintain transportation services.

[Company D]: "As our partner companies are actually short-staffed as well, even for operations on routes we usually assign them, they tell us that they cannot conduct operations on weekends. This is because they have to allow their drivers to rest. Since May 2024, it has become more common to use different partner companies on weekends or have our own (Company D's) drivers cover those routes. For this year-end and New Year's period, we have

already received a request for help from one of our partner companies, saying that it cannot operate starting on the 1st day of the year (New Year's Day) so it wishes to return the operations to us. Therefore, we are trying to manage our branch's staffing and manage the situation as best we can."

V. Conclusion

5.1 Key findings

The following summarizes the analysis results obtained through the case studies of the four freight transport companies. The analysis results cover four points: (1) responses of companies to the application of working hour regulations; (2) issues and responses seen after the application of working hour regulations; (3) regulations by labor unions; and (4) relationships with partner companies.

(1) Responses of companies to the application of working hour regulations

The companies surveyed took four initiatives to apply the new working hour regulations.

The first is to revise transportation routes. This was done by all the freight transport companies. The revision includes (1) reducing unloading time by decreasing or reorganizing unloading destinations, and (2) shortening time for a transportation service by using relay transportation. The revision allowed transportation to be completed within the daily limit for hours on duty, contributing to reducing the burden on truck drivers.

The second is to make requests to shippers. This initiative was conducted by Freight Transport Companies A, B, and D. Considering their business relationship, it is difficult for transportation service providers to make requests to their shippers. However, the three freight transport companies requested their shippers to reduce waiting times and revise timetables to comply with the working hour regulations, and their shippers accepted such requests.

The third is to develop support systems. The business territory for Branch S of Freight Transport

Company C includes residential areas with many cargo collection and delivery locations and mountainous areas with long distances between those locations, resulting in prolonged cargo collection and delivery times. The branch visualized the cargo collection and delivery status of each area to allow drivers in areas where their work is completed to provide support for other areas. This has led to a reduction and leveling of overtime hours for all drivers at the branch.

The fourth is to secure and develop rest facilities. Branch S of Freight Transport Company C has set up rest facilities in each area to ensure drivers' break time according to working hour regulations. Since the condition and availability of rest facilities is not uniform, however, not all drivers can take a break safely and securely. Therefore, Branch S of Freight Transport Company C is developing rest facilities at the request of Branch S of Company C's labor union.

(2) Issues and responses seen after the application of working hour regulations

The companies surveyed were trying to comply with the rules set forth in the Notice of Improvement Standards. In doing so, two issues arose (including potential ones). The following discusses the issues and responses.

The first issue is related to continuous driving hours. The continuous driving hours rule calls for limiting continuous driving to four hours and securing a break of at least 30 minutes from driving. The issue arose at Freight Transport Companies B, C, and D due to road congestion, bad weather, and increased cargo volume. Given that road congestion or bad weather are considered as an unpredictable event, the time spent responding to them may be excluded from continuous driving hours and that continuous driving hours rarely exceed the limit, however, the issue has fallen short of becoming serious.

The second issue is related to the daily limit for hours on duty. This issue occurred at Freight Transport Companies A and B. At Freight Transport Company A, drivers remain on duty beyond the daily limit as cargo pickup delays affect the entire

transportation schedule up to delivery. Company A has identified the routes subject to the issue and is considering responses through monthly labor-management consultations. At Freight Transport Company B, drivers remain on duty beyond the daily limit as transportation volume increased in busy seasons. In response, Company B implemented measures such as requesting that its shippers reduce waiting times.

(3) Regulations by labor unions

While employers are responsible for managing working hours for their employees, labor unions at the companies surveyed are contributing to compliance with working hour regulations. The labor unions of the companies surveyed represent the majority of workers when labor and management conclude Article 36 agreements. At most of the companies, regular labor-management consultations are held to discuss working hours. Participants in such consultations not only check working hours but also consider solutions to any issues. At some of the companies, labor unions ask management to comply with working hour regulations. As indicated by earlier studies, labor unions participate in determining employees' working hours and contribute to compliance with working hour regulations.

However, it seems that regulations by labor unions may not necessarily be sufficient. This is because the labor unions of the companies surveyed, though trying to force the companies to comply with working hour regulations through procedural rules (e.g., the Article 36 agreements and labor-management consultations), are not necessarily contributing to the reduction of working hours. Among the companies surveyed, only Company C's Branch S was trying to reduce working hours through labor-management collaboration. Why are many of the companies surveyed failing to actively work to reduce working hours? As far as the survey is concerned, two reasons can be cited.

The first reason is that these companies want to avoid situations where working hour regulations cannot be complied with due to labor shortages or fluctuations in workload. If this is the case, the labor

and management sides may conclude an Article 36 agreement with overtime work hours close to the ceiling. In fact, this occurs at some of the companies surveyed. The second reason is that working conditions are not good at these companies. As noted at the beginning of this paper, compared to other occupations and industries, motor vehicle drivers work longer hours yet receive relatively lower wages. Consequently, it is likely that motor vehicle drivers are willing to work overtime in order to maintain a certain level of income. In such cases, it is difficult for companies and their labor unions to reduce working hours.

(4) Relationships with partner companies

The freight transport sector that is the subject of this paper features the subcontracting structure. Generally, subcontractor companies tend to have business management difficulties and worse working conditions and environments for their employees. Subcontractors may hesitate to request their customers to revise contractual conditions, fearing that they could lose contracts.

However, when examining the relationships between the surveyed companies and their partner companies, freight transport companies are taking care not to force their partner companies to operate unreasonably and are accepting their partners' requests for revisions to transportation fares. One reason for this may be that freight transport companies may have difficulties in sustaining their business operations if their partner companies refuse to continue transportation services on some routes.

However, simply responding to requests from partners may not necessarily solve all problems. As

shown in Figure 5, since many of its customers are small- and medium-sized enterprises, Freight Transport Company A may fail to lead its customers to accept its requests for revisions to transportation fares. On the other hand, Company A is requested by its partner companies to revise transportation fares, having no choice but to bear the cost of transportation fare revisions. In other words, Company A is caught between its shippers and partner companies. If this situation continues, Company A may fail to accept transportation orders from its shippers.

Regarding a company's relationships with partner companies, those partners, who are subcontractors, tend to attract attention. As seen in the Company A case, however, it is also necessary to revise transportation fares for companies that outsource operations to their subcontractors. To achieve this, it is considered necessary to promote understanding among shippers and customers and to engage both parties in the discussion.

5.2 Implications

Based on the analysis results explained above, the following four implications can be obtained.

The first implication is about issues that have arisen when it comes to complying with working hour regulations. Some issues occurred while the companies surveyed were striving to comply with working hour regulations. In the freight transport sector, issues arose regarding continuous driving hours and the daily limit for hours on duty, as well as daily business operations. These issues were not observed in connection with bus drivers and taxi drivers, the categories of drivers not addressed in this paper. This may be because motor vehicle drivers'

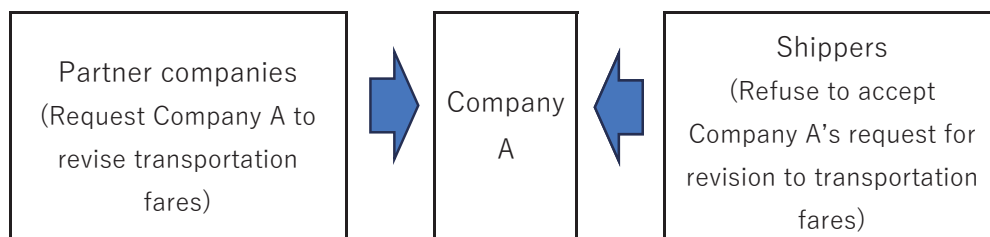


Figure 5. Relationships between Company A and its shippers and partner companies

way of working differs by sector. If these issues become more serious, therefore, sector-by-sector responses may become necessary.

The second implication is about the effects and issues of working hour regulations. The efforts of the companies surveyed indicate that, in order to comply with working hour regulations, they have revised their business operations and responded to relevant issues through labor-management cooperation. In other words, the enhanced working hour regulations have promoted business management efficiency and improved the working environment for workers. These results can be said to be the effects of working hour regulations. However, some issues have been seen. Issues that are not covered by the above case studies include an increase in workload on workers that emerged with the rise in labor intensity increased as a result of measures to divide work to allow workers to complete their work within the fixed time frame (Freight Transport Company C's Branch S). Another issue is that the overall business operation efficiency was impaired as it became mandatory to take a break after a certain amount of time in driving (Freight Transport Company D's Branch N).

The third implication is about obstacles to compliance with working hour regulations. As noted at the beginning of this paper, it has been pointed out that the freight transport industry has longer working hours and lower wages than other industries (Figures 1, 3, and 4), leading to chronic labor shortages. This may be an apparent obstacle to the optimization of working hours for truck drivers. To improve this structure, it is necessary to improve working conditions to increase the number of job applicants and raise wages to levels where drivers do not have to work overtime to secure sufficient income. Since certain financial resources are required for this purpose, however, how to secure the resources is an issue. In the current situation, companies are basically required to make efforts to do so. However, their efforts alone are insufficient. Other conceivable efforts include the implementation of programs to improve treatments for truck drivers¹⁵ and the promotion of customers and shippers' understanding about higher transportation fares.

The fourth implication is about labor unions' contributions and issues. A labor union represents the majority of a company's workers for the conclusion of an Article 36 agreement, being involved in determining the working hours of the workers in the company. Labor and management at the company check employees' working hours through regular consultations and mutually serve as partners in enabling the company to comply with working hour regulations. In the context of regulatory compliance, the existence of labor unions can be viewed as effective for compliance with working hour regulations.

However, labor unions in Japan face two issues. One is that the regulatory power of labor unions is weak. Labor unions are actors in determining working hours and try to shorten working hours as pointed out in earlier studies. Among the companies surveyed, however, many have signed Article 36 agreements with special clauses but set working hours at levels close to the upper limit. This means that labor unions, though preventing employers from running counter to the Notice of Improvement Standards, have not contributed to the reduction of working hours. The second is a decline in the unionization rate. The estimated unionization rate for labor unions in Japan is about 16%, continuing a downward trend.¹⁶ Therefore, it is necessary to seek other measures to reduce working hours. In this respect, the efforts of Freight Transport Companies A, B, and D can be used as a reference. These three companies made requests to shippers that successfully led to shorter working hours. The reason for shippers to accept such requests might have been that they were concerned that if their goods failed to be distributed, their business continuity would be affected. This applies not only to B2B business but also to B2C business. In order to resolve the problem of long working hours for motor vehicle drivers, it may be effective for their employers to cooperate with shippers and customers.

5.3 Future challenges

The final section points out two challenges to be addressed in the future. One challenge is the need to

include small- and medium-sized enterprises (SMEs) as survey subjects. Since the study in this paper was conducted primarily through interviews with labor unions, all the companies surveyed were large companies. As earlier studies indicate, the freight transport industry operates under a subcontracting structure. It is generally considered that subcontractors and the workers employed by them are subject to harsher working conditions.¹⁷ During the interviews, the companies surveyed were asked about the compliance status of their partner companies (subcontractors) regarding working hour regulations to the extent possible; however, because these are separate entities, sufficient information was not obtained.

Another challenge is the lack of information regarding annual working hours. Since the new working hour regulations took effect in April 2024, data on annual hours on duty or annual overtime hours for the 2024 fiscal year was not available. Furthermore, in order to grasp the full picture of working hour regulations, data analysis should also be conducted using government statistics. It will be necessary to conduct similar surveys in the future.

Notes

1. MHLW website, “Standards for Improvement of Working Hours of Motor Vehicle Drivers (Notice of Improvement Standards),” https://www.mhlw.go.jp/stf/seisakunitsuite/bunya/koyou_roudou/roudoukijun/gyosyu/roudoujouken05/index.html (accessed May 4, 2026).
2. Kumazawa (2010) examines cases of death from overwork (*karoshi*) that occurred in the late 1980s, revealing that drivers were working under harsh labor conditions. Shuto (2018, 2023) points out that the freight transport industry faces a mountain of problems, including labor issues affecting truck drivers, and that this has led to the current driver shortage. These observations are shared by Saito (2023), Yano (2024), Yonaga (2016), and Asai (2019).
3. Japan Trucking Association website, <https://jta.or.jp/logistics2024-lp/> (accessed April 21, 2026).
4. For example, in the Expert Committee on Working Hours for Motor Vehicle Drivers, a sectional committee within the Labor Conditions Subcommittee of the Labor Policy Council that examined the appropriate framework for regulating motor vehicle drivers’ working hours, executives from the following industrial labor federations participated as worker representatives: All Japan Federation of Transport Workers’ Unions (Unyu Roren), the General Federation of Private Railway Workers’ Unions of Japan (PRU), the Japan Federation of Transport Worker’s Unions (JFT), and the National Federations of Automobile Transport Workers Unions (Zenjiko-Roren). Asai (2019) and Fukumoto (2023) explain—albeit limited to Unyu Roren—what kinds of statements were made by the representatives of the industrial federation through the council and subcommittee meetings during this period, and how the content of those statements was reflected in the outcomes. See https://www.mhlw.go.jp/stf/shingi/shingirousei_126973_00001.html (accessed November 14, 2024).
5. Miyoshi (2023) clarified this point through an analysis of corporate case studies.
6. Ujihara (1966) points out that in order to reduce working hours, it is necessary to consider securing the profit that could have been generated from the reduced working hours, through improved efficiency and time density in work.
7. Ministry of Health, Labour and Welfare (MHLW), *White Paper on the Labor Economy 2024: Responding to Labor Shortages*, <https://www.mhlw.go.jp/wp/hakusyo/roudou/24/dl/24-1.pdf> and Ministry of Land, Infrastructure, Transport and Tourism (MLIT), “Collection of Relay Transportation Case Studies: Keys to Success Learned from Best Practices,” <https://www.mlit.go.jp/jidosha/content/001479246.pdf> (accessed December 1, 2024).
8. Based on materials provided by Company C’s labor union.
9. MHLW, *White Paper on the Labor Economy 2024: Responding to Labor Shortages*, p. 67, <https://www.mhlw.go.jp/wp/hakusyo/roudou/24/dl/24-1.pdf> (accessed December 1, 2024).
10. Canon Marketing Japan Inc, website, <https://canon.jp/biz/trend/image-dx-04> (accessed November 17, 2024).
11. Based on materials provided by Company C’s labor union.
12. MHLW, Prefectural Labour Bureaus, and Labour Standards Inspection Offices, “Easy-to-Understand Explanation of Overtime Work Limit,” <https://www.mhlw.go.jp/content/001140962.pdf> (accessed December 1, 2024).
13. Branch N of Company D’s labor union states that there is no need for regular labor-management discussions, citing the following reasons: the parent company, Company C, has not outsourced any unreasonable work that would lead to violations of the Notice of Improvement Standards; although Company D’s Article 36 agreement sets the overtime work limit close to the legal limit, overtime hours of the company’s drivers have historically been short enough; and the union branch’s executive serves as the operations manager and can monitor drivers’ working hours in the course of their duties.
14. The MLIT established the standard fare system in 2022, in an effort to set appropriate transportation rates. See <https://www.mlit.go.jp/jidosha/content/001732626.pdf> (accessed December 3, 2024).
15. For a study discussing the programs to improve treatments implemented for nursery teachers, kindergarten teachers, care workers, and nurses, see Maeura (2023).
16. MHLW, Summary of FY2023 *Basic Survey on Labour Unions*, <https://www.mhlw.go.jp/toukei/itiran/roudou/roushi/kiso/23/dl/gaikyou.pdf> (accessed November 18, 2024).
17. Kobayashi et al. (2011a, 2011b) explore factors and challenges related to fatigue—which can lead to health problems—among long-distance truck drivers at small- and medium-sized enterprises (SMEs) through comparative

analysis with large companies. A common finding across these studies is that, compared to major transport companies, small- and medium-sized transport companies offer inferior working conditions and work environments.

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Article

Training Investment and the Choice of Wage Adjustment Instruments in Japanese Firms

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This paper examines how firm-sponsored training is associated with Japanese firms' choice of wage adjustment instruments. This issue is important in Japan because firms may raise pay through different instruments, including regular increases, base-up adjustments, and bonus increases, which differ in permanence and institutional meaning. Using three waves of the JILPT Corporate Panel Survey covering the 2022–2024 *Shunto* rounds, I analyze two related dimensions of wage adjustment: whether firms grant any wage increase and, among wage-increasing firms, which adjustment instruments they use. Alongside the training indicators that are the main focus of the analysis, I examine firm-level digitalization as a secondary but substantively important dimension of wage-setting behavior. The results show that firms that invest more actively in employee training are more likely to grant wage increases. In addition, for several training indicators, the estimated associations are more consistently positive for base-up adjustments and bonus increases than for regular increases. The digitalization estimates are more mixed, but they suggest that the depth of digital technology use is related to how firms structure wage adjustments. These findings suggest that wage adjustment behavior in Japanese firms is associated not only with human capital investment but also with the technological environment in which wage-setting decisions are made.

I. Introduction

In recent years, wage increases have become an

important issue in Japan amid rising prices, labor shortages, and growing policy interest in sustainable wage growth. The 2022–2024 *Shunto* (springtime labor-management wage negotiations) rounds saw wage settlements rise to levels not observed in roughly three decades, with base-up adjustments again becoming a visible component of these settlements. However, firms do not respond in a uniform way. Some grant regular increases, some revise the wage schedule itself, and others rely more heavily on bonuses. Understanding what shapes these different forms of wage adjustment is therefore important for interpreting current developments in the Japanese employment system. One possible factor is firm-sponsored training. If firms regard training as an investment in workforce capability, they may be more willing both to raise wages and to use particular wage adjustment instruments.

This paper examines how human capital investment is associated with two dimensions of wage adjustment in Japanese firms: the incidence of wage increases and the choice of wage adjustment instruments. Japan provides an informative setting because firms commonly combine regular increases, base-up adjustments, and bonus payments,¹ each of which differs in permanence and institutional meaning. This makes it possible to ask not only whether training-intensive firms raise wages, but also whether they channel the returns to training into fixed pay or more flexible compensation.

The paper makes two main contributions. First, it develops an empirical framework that treats wage adjustment in Japanese firms as a structured choice among regular increases, base-up adjustments, and

bonus increases—instruments that differ in permanence and institutional meaning—rather than as a single outcome. Second, the paper applies this framework to recent firm-level microdata and provides new evidence on how firm-sponsored training is associated with both the incidence and the composition of wage adjustment, an aspect of the training–wage relationship that has received limited empirical attention.

In addition, while training is the central explanatory dimension of the paper, the analysis considers whether firm-level digitalization is associated with the same wage-setting outcomes in separate specifications. By doing so, the paper connects the training literature to the industrial relations literature on wage-setting institutions and to the related literature on technological change in the workplace.

Using data from three waves of the JILPT Corporate Panel Survey, I estimate probit models for wage increase incidence and multivariate probit models for the joint choice of wage adjustment instruments among firms that granted a wage increase. This two-part design reflects the institutional structure of the decisions: firms first determine whether to raise wages at all and then, conditional on doing so, decide how to allocate the increase across instruments. In addition to the training indicators that are the main focus of the analysis, I also examine measures of firm-level digitalization, which capture differences in the technological environment of wage-setting decisions and allow me to assess whether similar patterns appear in specifications using digitalization variables. The results suggest that training investment is associated with both wage increase incidence and the composition of wage adjustment.

The remainder of the paper proceeds as follows. Section II reviews the related literature and identifies the research gap. Section III develops the hypotheses. Section IV describes the empirical strategy. Section V presents the main results. Section VI discusses the implications and limitations of the findings. Section VII concludes.

II. Related literature

The relationship between firm-sponsored training and wages has long been debated, but from an industrial relations perspective the key issue is not only whether training is associated with higher pay, but also how training-related gains are translated into wage-setting decisions. A central theoretical contribution is Acemoglu and Pischke (1999), who show that even general training may be financed by firms when labor markets are imperfect. Under conditions of wage compression, information asymmetries, and other forms of institutional rigidity, firms may capture part of the return to training because productivity gains are not fully translated into wages. This insight is important for the present study because it suggests that training investment and wage setting are not independent processes. Rather, the way firms share training-related gains with workers depends on the institutional environment in which wage determination takes place.

1. Training and wages: International and Japanese evidence

Empirical research has generally supported the idea that training is associated with higher wages and, in some settings, higher productivity, although the magnitude and form of these effects vary across firms and sectors. Using firm-level data from the United States, Bartel (1995) finds that formal training improves both wage growth and job performance even after accounting for selection. Black et al. (1999) show that establishment size and firm size shape the amount and composition of training, suggesting economies of scale in human capital production. Dearden et al. (2006) use British panel data to document positive effects of training on both productivity and wages.

For Japan, there is a long intellectual tradition linking on-the-job training (OJT) to skill formation and internal labor markets. Koike (2005) argues that the breadth of skills acquired through planned OJT, particularly through systematic job rotation, is a defining feature of the Japanese employment system, and that this pattern of skill formation underpins the

long-term employment relationship. Mincer and Higuchi (1988) formalize the link between firm-specific human capital, steeper age-wage profiles, and lower turnover in Japan than in the United States. These contributions frame the Japanese firm as an institution in which training and wage setting are tightly coupled through internal labor markets rather than through market-mediated wage competition.

More recent quantitative work has refined this picture. Owan (2004) develops and tests a model in which promotion, turnover, and firm-sponsored training are jointly determined, showing that training is not merely a productivity-enhancing input but also a central element of the firm's retention and career-management strategy. Kawaguchi (2006) documents the incidence and wage effects of OJT among Japanese women, highlighting substantial heterogeneity across worker groups. Morikawa (2021) reports that accumulated off-the-job training (Off-JT) raises both productivity and wages, especially in services, while Jones et al. (2012) show that training has a relatively robust positive association with wages even when its effects on firm performance are more limited. Kato and Owan (2011) go further and argue that training decisions are best understood as part of a broader human resource management "bundle," jointly determined with teamwork, shop-floor practices, and wage institutions. Taken together, these studies indicate that training is often linked to wage outcomes in Japan, but they leave open how such gains are translated into different forms of wage adjustment within firms.

2. Wage-setting institutions in Japan

A second strand of literature directly relevant to the present study concerns wage-setting institutions in Japan. Japanese firms do not simply decide whether to raise wages; they decide how to allocate any increase across instruments that carry different institutional meanings. The annual *Shunto* process, in which enterprise unions negotiate with management each spring on the basis of coordinated demands from industrial federations, shapes both whether firms raise pay and which instruments they

use. Hara and Kawaguchi (2008) show that the coordinated nature of *Shunto* allows enterprise unions to obtain larger wage gains than would be expected from purely firm-level bargaining, thereby linking collective bargaining institutions to observed wage outcomes. Kato (2016) provides a comprehensive account of the interaction between *Shunto*, enterprise unionism, and the base-up/bonus split, arguing that bargaining over base-up has become relatively less central while bonus bargaining has taken a larger role, particularly since the 1990s.

This institutional background matters for understanding both downward and, in some respects, upward wage rigidity in Japan. Kawaguchi and Ohtake (2007) examine the morale theory of downward nominal wage rigidity and find evidence consistent with reference-point-based models among Japanese workers. Kuroda and Yamamoto (2014) document that nominal wage rigidity weakened substantially after the late 1990s, a period during which firms increasingly relied on bonus adjustments rather than base-up revisions to manage labor costs. Yamamoto and Kuroda (2016) provide direct firm-level evidence of upward rigidity: firms that had previously cut scheduled earnings were more reluctant to raise both scheduled earnings and bonuses even during the economic expansion of 2014–2015. Hoshi and Kashyap (2020, 2025) trace how these firm-level behaviors aggregated into a persistent decoupling of wages from labor market tightness, and how this pattern has only begun to normalize in the most recent *Shunto* rounds. Against this background, firms' choice among regular increases, base-up adjustments, and bonus increases is not a neutral selection among equivalent instruments, but a decision about how far to commit to a lasting revision of the wage schedule.

Macroeconomic and policy developments during this period are particularly relevant to the study of wage-setting instrument choice. The data used in this paper cover the 2022–2024 *Shunto* rounds, a period in which Japanese wage dynamics underwent a pronounced shift. After decades of modest wage growth dominated by bonus-centered adjustments rather than base-up revisions, *Shunto* settlements

rose from around 2% in 2022 to 3.58% in 2023 and to above 5% in 2024—the highest levels in roughly three decades—with base-up adjustments regaining a prominent role (Hoshi and Kashyap 2025). Contributing factors include sustained inflationary pressure, persistently tight labor markets, and continued government calls for wage increases, which built on the policy orientation that had developed over the preceding decade (Kawaguchi et al. 2021). In this context, the present paper studies firm-level wage adjustment during precisely the period in which the long-standing default of bonus-based adjustment was being reconsidered, making it possible to examine whether training-intensive firms were more likely than others to translate wage increases into permanent base-up revisions rather than into more flexible bonus payments.

3. The Japanese employment system and internal labor markets

A third literature, closely related to both strands, concerns the broader Japanese employment system within which training and wage adjustment take place. Kambayashi and Kato (2017), using long-horizon data on tenure and job stability, document that long-term employment among prime-age regular workers has remained remarkably resilient through the “Lost Decades,” although the share of workers covered by this system has gradually narrowed. Hamaaki et al. (2012), by contrast, emphasize erosion of the seniority-wage component of the system, showing that age-wage profiles have flattened particularly in the mid- and late-career stages. Taken together, these studies suggest that the Japanese employment system has evolved into a more heterogeneous configuration in which long-term employment and seniority-based pay are no longer tightly bundled. This distinction matters for the present analysis because the extent to which firms translate training investment into fixed-pay adjustments, as opposed to flexible bonus adjustments, may depend on how strongly they continue to rely on internal-labor-market logic.

4. Research gap

Taken together, the literature suggests that training is often linked to wage outcomes in Japan, but it leaves open how firms distribute wage adjustments across instruments that differ in permanence and institutional meaning. The training literature treats wages largely as a single outcome; the wage-setting literature has studied the choice among instruments in detail but has paid relatively little attention to the role of human capital investment; and the employment-system literature has documented institutional change but has rarely connected it explicitly to firm-level training decisions. This paper addresses that gap by examining both whether firms grant wage increases and which wage adjustment instruments they use when they do so. Using the JILPT Corporate Panel Survey, the analysis connects the training literature to the industrial relations literature on wage-setting institutions. Rather than treating wage growth as a single outcome, the study recasts wage adjustment as a structured choice among instruments with different institutional meanings and cost implications.

III. Hypotheses

Building on the literature reviewed above, the hypotheses focus on two related questions: whether training-intensive firms are more likely to grant wage increases, and how they allocate wage adjustments across fixed-pay and more flexible instruments.

Hypothesis 1: Firms that invest more actively in employee training are more likely to grant wage increases.

The first expectation concerns the extensive margin of wage setting. If training investment enhances worker skills, improves expected productivity, or reflects a broader managerial commitment to workforce development, firms undertaking such investment should be more likely to implement wage increases in the following year. This expectation is also consistent with the view that training-intensive firms are more willing to retain the workers in whom they have invested by improving pay.

Hypothesis 2: Among firms that grant wage increases, training investment is positively associated with the use of base-up adjustments.

This hypothesis reflects the idea that training may be linked to a stronger willingness to translate workforce-related commitments into more durable revisions of the wage schedule. In the Japanese setting, base-up adjustments are institutionally distinct from regular increases because they raise the wage schedule itself rather than merely operating within existing progression rules.

Hypothesis 3: Among firms that grant wage increases, training investment is also positively associated with bonus increases, although this association is expected to be more contingent than that for base-up adjustments.

Bonus increases provide a more flexible channel of compensation than base-up adjustments. Accordingly, if firms seek to reward or retain workers while preserving flexibility under uncertain business conditions, training investment may also be associated with bonus-based adjustment. Relative to Hypothesis 2, however, the expected link is conceptually weaker because bonuses do not imply the same degree of lasting revision to the wage structure.

IV. Empirical strategy

This paper tests Hypotheses 1–3 by examining two dimensions of firm-level wage adjustment. First, I analyze whether a firm grants any wage increase in a given year. Second, conditional on granting a wage increase, I examine which wage adjustment instruments the firm uses. The analysis uses pooled firm-year observations from the first three waves of the JILPT Corporate Panel Survey,² which makes it possible to relate prior training investment to subsequent wage adjustment outcomes.

1. Data

The analysis uses firm-level microdata from the first three waves (2022–2024) of the JILPT Corporate Panel Survey, conducted annually by the Japan Institute for Labour Policy and Training (JILPT).

The survey tracks the same firms over time, allowing observation of how firms' human resource development practices and wage adjustment behavior evolve from year to year.

The survey is administered in two parts, reflecting different sampling frames. The survey of small- and medium-sized firms draws from the monitor-firm pool of the survey contractor, while the large-firm survey draws from the contractor's corporate financial database. This paper uses the combined data from both surveys. To ensure consistent treatment of firm size across the two sampling frames, firms are reclassified according to the total number of employees reported in the survey itself, rather than by their sampling-frame origin. The resulting pooled data therefore provide firm-year observations with a harmonized firm-size classification.

2. Dependent variables

The first dependent variable is an indicator for whether the firm implemented any wage increase in year t . Following the survey questionnaire, this variable takes the value of one if the firm reported any wage increase and zero if it selected "no wage increase implemented." This measure captures wage increase incidence. The second set of dependent variables captures the choice of wage adjustment instruments among firms that granted a wage increase. I focus on three binary indicators: regular increases, base-up adjustments, and bonus increases. These three instruments are analytically important because they differ in permanence and cost implications. Regular increases largely follow existing pay progression rules, base-up adjustments raise the wage schedule itself, and bonus increases provide a more flexible channel of compensation. Firms that reported a wage increase but did not select any of these three instruments are excluded from the instrument-choice analysis, because they do not provide usable information on the composition of wage adjustment across the focal instruments. In the pooled data, this excluded group accounts for 166 firms, or 2.1 percent of wage-increasing firms.³ The second-stage estimates should therefore be

interpreted as evidence on instrument choice conditional on wage increase incidence and reporting one or more of the three focal instruments.

3. Key explanatory variables

The empirical analysis uses two groups of lagged explanatory variables. The first group consists of indicators of firm-sponsored training, which are the main focus of the paper. These include (1) indicators for whether the firm implemented planned OJT or Off-JT in the previous year, (2) an indicator for any training expenditure and the log-transformed ratio of training expenditure to total cash earnings,⁴ (3) the share of employees participating in training, and (4) annual training hours per participant. All training variables are measured with reference to the period preceding the wage adjustment outcome to establish temporal ordering between training investment and wage-setting decisions. Because these indicators capture overlapping aspects of human resource development, I include them one at a time in the estimation.

The second group consists of indicators of firm-level digitalization. Specifically, I include a dummy variable indicating whether the firm used digital technologies such as enterprise resource planning (ERP) systems or cloud-based information-sharing tools in the previous fiscal year, and a continuous variable measuring the number of digital technology items in use.⁵ While these variables are not the main focus of the paper, they are included as a secondary but substantively important set of explanatory variables rather than as mere controls. They are intended to capture differences in firms' technological environment and organizational modernization that may also be associated with wage-setting behavior. The training indicators and digitalization indicators are entered separately across specifications.

The training expenditure dummy, the training expenditure ratio, the training participation rate, and annual training hours per participant are based on survey items that directly ask about the previous fiscal year, whereas the planned OJT/Off-JT indicators are drawn from the preceding wave of the survey. As a result, the estimation sample size varies

across specifications.

4. Control variables

All specifications include a common set of controls for firm characteristics and local conditions. These controls include firm-size categories, union presence, an indicator for no foreign ownership, the average age of regular employees and its square, industry fixed effects, year fixed effects, regional block fixed effects, and industry-specific linear trends. Year fixed effects absorb common macroeconomic shocks affecting all firms during the sample period, including the sharp shifts in *Shunto* settlement levels from 2022 to 2024 discussed in Section II. Industry-specific linear trends are included to absorb differential medium-run sectoral movements in wage-setting conditions during the sample period. Standard errors are clustered at the firm level. Although labor shortages can influence both training investment and wage adjustment, they may themselves be endogenous to prior training and retention strategies. I therefore include a lagged labor shortage indicator as a robustness check rather than as part of the main specification.

5. Wage increase incidence

To test Hypothesis 1, I estimate a probit model for the probability that firm i grants any wage increase in year t :

$$P(\text{WageIncrease}_{it} = 1) = \Phi(\alpha + \beta Z_{i,t-1} + \gamma X_{it} + \delta_s + \tau_t + \lambda_r + \theta_s t), \quad (1)$$

where $Z_{i,t-1}$ denotes one of the lagged training indicators or digitalization indicators included separately across specifications, X_{it} is the vector of control variables, δ_s are industry fixed effects, τ_t are year fixed effects, λ_r are regional block fixed effects, and $\theta_s t$ represents industry-specific linear trends. A positive and statistically significant association between the training variable and the probability of a wage increase is consistent with Hypothesis 1. I report average marginal effects (AME) for ease of interpretation.

6. Choice of wage adjustment instruments

To test Hypotheses 2 and 3, I restrict the sample to firms that granted wage increases and estimate a multivariate probit model for the joint choice of regular increases, base-up adjustments, and bonus increases. For each instrument $m \in \{regular, base-up, bonus\}$, the latent-variable specification is:

$$y_{mit}^* = \alpha_m + \beta_m Z_{i,t-1} + \gamma_m X_{it} + \delta_{ms} + \tau_{mt} + \lambda_{mr} + \theta_{ms}t + \varepsilon_{mit} \quad (2)$$

with observed outcomes

$$y_{mit} = 1 \text{ if } y_{mit}^* > 0, \text{ 0 otherwise.}$$

Here, $Z_{i,t-1}$ denotes one of the lagged training indicators or digitalization indicators entered separately across specifications. The error terms are assumed to follow a trivariate normal distribution with freely estimated correlations. This specification is appropriate because firms may choose multiple wage adjustment instruments simultaneously, and those choices are unlikely to be independent. Estimating the three equations jointly makes it possible to account for correlation in unobserved determinants across the three instrument choices. The estimated cross-equation error correlations are informative about whether the instruments tend to co-occur or move inversely after conditioning on the included covariates, although they are not by themselves sufficient to establish structural substitution or complementarity.

7. Interpretation

The estimates in this paper should be interpreted as conditional associations rather than definitive causal effects. Using lagged training indicators helps establish temporal ordering, and the specifications include a rich set of controls for firm characteristics, sector, region, and time. However, the analysis does not rely on an external exogenous shock or another research design that would fully eliminate reverse causality, selection, or omitted-variable concerns. In particular, firms with stronger expected performance, greater wage-setting capacity, or a broader managerial

commitment to workforce development may be more likely both to invest in training and to raise wages. The empirical objective is therefore not to identify clean causal effects of training or digitalization, but to determine whether these firm-level organizational dimensions are systematically associated with wage adjustment decisions and instrument choices in the Japanese institutional setting, using separate specifications.

V. Results

This section presents the main empirical results for Hypotheses 1–3. I begin by examining whether firms that invest more actively in employee training are more likely to grant any wage increase. I then turn to the composition of wage adjustment among wage-increasing firms and ask whether training investment is associated with the choice of regular increases, base-up adjustments, and bonus increases. This sequence follows the paper's central argument: training investment may matter not only for whether firms raise wages, but also for how they distribute wage adjustments across compensation instruments that differ in permanence and cost implications.

1. Wage increase incidence

Table 1 reports average marginal effects from probit models of any wage increase. Descriptive statistics for the estimation samples used in Table 1 are reported in Appendix Table A1. Overall, the results are broadly consistent with Hypothesis 1. Firms that invested more actively in employee training in the previous year were, on average, more likely to grant wage increases in the following year. In particular, the presence of Off-JT, the existence of any training expenditure, a higher share of employees participating in training, and longer annual training hours per participant are positively associated with the probability of implementing a wage increase in many specifications.

The digitalization indicators, which are included as a secondary explanatory dimension, show a weaker and less uniform pattern. In particular, neither the digital technology use dummy nor the number of

Table 1. Average marginal effects from probit models of any wage increase

	OJT/Off-JT		Training expenditure		Training participation		Training hours		Digitalization	
Dependent variable: Any wage increase (=1)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	AME	AME	AME	AME	AME	AME	AME	AME	AME	AME
Planned OJT	0.0166 (0.0120)	0.0159 (0.0120)								
Off-JT	0.0420*** (0.0109)	0.0417*** (0.0109)								
Any training expenditure			0.0606*** (0.0119)	0.0504*** (0.0148)						
Training expenditure / total cash earnings (log)			-0.0117 (0.00802)	-0.00634 (0.0173)						
Training participation (ref. none)										
<20%					0.0734*** (0.00938)	0.0666*** (0.0121)				
20–<40%					0.0815*** (0.0144)	0.0764*** (0.0182)				
40–<60%					0.0590*** (0.0180)	0.0371* (0.0210)				
60–<80%					0.129*** (0.0305)	0.122*** (0.0436)				
≥80%					0.0894*** (0.0169)	0.0478*** (0.0184)				
Training hours per participant (ref. none)										
<1 day							0.0889*** (0.0133)	0.0714*** (0.0160)		
1–<2 days							0.0770*** (0.0107)	0.0745*** (0.0140)		
2–<4 days							0.0860*** (0.0128)	0.0834*** (0.0166)		
4–<6 days							0.103*** (0.0204)	0.0606** (0.0237)		
6–<10 days							0.0728*** (0.0241)	0.0960** (0.0473)		
≥10 days							0.0594*** (0.0209)	0.0250 (0.0217)		
Digital technology use									0.0151 (0.0197)	0.0133 (0.0198)
Number of digital technologies (log)									0.0131 (0.0162)	0.0146 (0.0164)
Labor shortage		0.0295*** (0.00923)		0.0206** (0.00990)		0.0273*** (0.00950)		0.0263*** (0.00953)		0.0308*** (0.00962)
Union present	0.0433* (0.0230)	0.0449* (0.0229)	0.0414** (0.0196)	0.0401 (0.0246)	0.0344** (0.0167)	0.0465** (0.0220)	0.0303* (0.0168)	0.0481** (0.0232)	0.0407* (0.0227)	0.0422* (0.0227)
Firm size (ref. 1–20 employees)										
21–100	0.0615*** (0.0113)	0.0586*** (0.0112)	0.0592*** (0.0102)	0.0540*** (0.0116)	0.0456*** (0.00974)	0.0510*** (0.0116)	0.0449*** (0.00979)	0.0479*** (0.0115)	0.0692*** (0.0117)	0.0661*** (0.0115)
101–300	0.0813*** (0.0198)	0.0766*** (0.0196)	0.0657*** (0.0161)	0.0671*** (0.0191)	0.0471*** (0.0156)	0.0579*** (0.0189)	0.0467*** (0.0156)	0.0506*** (0.0189)	0.0867*** (0.0200)	0.0810*** (0.0198)
301–499	0.0585** (0.0261)	0.0547** (0.0262)	0.0721*** (0.0216)	0.0880** (0.0349)	0.0523*** (0.0201)	0.0556** (0.0263)	0.0465** (0.0207)	0.0578* (0.0308)	0.0704*** (0.0260)	0.0664** (0.0261)
500+	0.115*** (0.0353)	0.105*** (0.0351)	0.0959*** (0.0264)	0.0931*** (0.0352)	0.0795*** (0.0245)	0.0832** (0.0339)	0.0763*** (0.0246)	0.108*** (0.0412)	0.123*** (0.0353)	0.113*** (0.0351)
No foreign ownership	0.0060 (0.0269)	0.00940 (0.0209)	0.0170 (0.0189)	0.0179 (0.0197)	-0.00178 (0.0184)	0.00619 (0.0204)	0.00450 (0.0183)	0.0100 (0.0203)	0.0113 (0.0210)	0.0138 (0.0211)
Average age of regular employees	0.00808 (0.00599)	0.00741 (0.00594)	0.00676 (0.00552)	-0.000126 (0.00689)	0.00964* (0.00539)	0.000869 (0.00656)	0.00850 (0.00542)	0.000581 (0.00645)	0.00611 (0.00623)	0.00573 (0.00616)
Average age squared	-0.000132** (6.28e-05)	-0.000123** (6.22e-05)	-0.000131** (5.79e-05)	-3.98e-05 (7.19e-05)	-0.000160*** (5.63e-05)	-4.96e-05 (6.85e-05)	-0.000150*** (5.67e-05)	-4.86e-05 (6.73e-05)	-0.000108* (6.56e-05)	-0.000102 (6.47e-05)
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Regional block FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry-specific linear trends	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3,242	3,242	5,138	2,664	6,072	2,907	5,951	2,849	3,038	3,038

Notes: 1. Reported estimates are average marginal effects from probit models.

2. Standard errors clustered at the firm level are in parentheses. Columns (2), (4), (6), (8), and (10) additionally control for lagged labor shortage.

3. * p < 0.10, ** p < 0.05, *** p < 0.01.

digital technologies in use displays a clear and systematic relationship with wage increase incidence. This contrast suggests that, in the present data, training investment is more systematically associated with whether firms raise wages than digital technology adoption is.

The estimated magnitudes are substantively meaningful. Off-JT is associated with roughly a 4.2-percentage-point increase in the probability of granting a wage increase, while the existence of any training expenditure is associated with an increase of about 5–6 percentage points. Training participation and training hours also display positive associations, although the relationship is not strictly monotonic across categories. The results remain broadly similar when lagged labor shortages are added as a robustness check, suggesting that the estimated association between training and wage increase incidence is not driven solely by contemporaneous labor market tightness. Union presence and larger firm size are also positively associated with wage increase incidence.

2. Choice of wage adjustment instruments

For the instrument-choice analysis, I do not report specifications that include the lagged labor shortage indicator, because adding this variable substantially reduces the sample for the multivariate probit and, as shown in Table 1, leaves the training-related coefficients in the incidence models qualitatively unchanged.

Table 2 reports the multivariate probit estimates for the choice of wage adjustment instruments among firms that granted a wage increase. Descriptive statistics for this estimation sample are reported in Appendix Table A2. These estimates are conditional on wage increase incidence and therefore speak to the composition of wage adjustment within the subsample of wage-increasing firms, rather than to unconditional instrument use in the full sample.

The results indicate that training investment is associated not only with the decision to raise wages but also with how wage adjustments are allocated across instruments. In broad terms, the training measures are more consistently associated with base-

up adjustments and bonus increases than with regular increases, which is consistent with Hypotheses 2 and 3. Planned OJT and Off-JT exhibit different patterns across the two dimensions of wage adjustment. Planned OJT is positively associated with base-up adjustments and bonus increases but not with wage increase incidence, whereas Off-JT shows the opposite pattern, being positively associated with incidence but not with the choice of any particular instrument. One reading of this contrast, consistent with the Japanese workplace-based skill-formation literature (Koike 2005; Owan 2004), is that workplace-based and institutionalized training may operate through different channels in firms' wage-setting decisions. While the present analysis does not identify the underlying mechanism, a fuller understanding of the OJT–Off-JT asymmetry is left for future research.

The remaining training indicators reinforce this interpretation. Most strikingly, the intensity of training expenditure—measured as the log-transformed ratio of training expenditure to total cash earnings—is negatively and significantly associated with regular increases (approximately -0.08) and positively and significantly associated with base-up adjustments (approximately +0.08), while its association with bonus increases is not statistically significant. This contrast is the most pronounced asymmetry across the training indicators and is consistent with Hypothesis 2. Higher training participation rates and longer annual training hours also tend to be more closely associated with base-up adjustments and bonus increases than with regular increases, although the category patterns are not fully monotonic. Because the estimates are multivariate probit coefficients, these contrasts are best interpreted as differences in conditional association rather than as direct evidence of substitution across instruments.

In addition, the estimated error correlations show a distinctive asymmetric pattern. The correlation between regular increases and base-up adjustments (ρ_{21}) is negative and highly significant (approximately -0.53 to -0.56), and the correlation between regular increases and bonus increases (ρ_{31}) is also negative and significant, though

Table 2. Multivariate probit estimates for the choice of wage adjustment instruments

	OJT/Off-JT			Training expenditure			Training participation			Training hours			Digitalization		
	Regular Coef.	Base-up Coef.	Bonus Coef.	Regular Coef.	Base-up Coef.	Bonus Coef.	Regular Coef.	Base-up Coef.	Bonus Coef.	Regular Coef.	Base-up Coef.	Bonus Coef.	Regular Coef.	Base-up Coef.	Bonus Coef.
Planned OJT	0.0157 (0.0664)	0.167*** (0.0580)	0.148** (0.0575)												
Off-JT	0.0921 (0.0647)	0.0870 (0.0566)	-0.0169 (0.0554)												
Any training expenditure				0.132** (0.0607)	0.151*** (0.0508)	0.172*** (0.0520)									
Training expenditure / total cash earnings (log)				-0.0829* (0.0452)	0.0811** (0.0397)	-0.0410 (0.0384)									
Training participation (ref. none)							0.116** (0.0553)	0.172*** (0.0485)	0.162*** (0.0493)						
<20%							0.224*** (0.0745)	0.196*** (0.0632)	0.237*** (0.0627)						
20–<40%							0.141 (0.0983)	0.265*** (0.0826)	0.208** (0.0822)						
40–<60%							0.144 (0.121)	0.378*** (0.0987)	0.276*** (0.0956)						
60–<80%							0.193** (0.0853)	0.217*** (0.0720)	0.228*** (0.0729)						
≥80%															
Training hours per participant (ref. none)										0.115 (0.0721)	0.144** (0.0631)	0.0612 (0.0639)			
<1 day										0.212*** (0.0633)	0.171*** (0.0539)	0.187*** (0.0539)			
1–<2 days										0.108 (0.0671)	0.222*** (0.0580)	0.301*** (0.0596)			
2–<4 days										0.137 (0.0913)	0.375*** (0.0810)	0.280*** (0.0785)			
4–<6 days										0.0910 (0.114)	0.0547 (0.100)	0.324*** (0.102)			
6–<10 days										0.000511 (0.109)	0.336*** (0.101)	0.215** (0.0998)			
≥10 days													-0.0126 (0.122)	-0.000834 (0.108)	-0.216** (0.107)
Digital technology use													0.0640 (0.0888)	0.179** (0.0769)	0.310*** (0.0761)
Number of digital technologies (log)															

Table 2. Continued

	OJT/Off-JT			Training expenditure			Training participation			Training hours			Digitalization		
	(1)			(2)			(3)			(4)			(5)		
	Regular Coef.	Base-up Coef.	Bonus Coef.	Regular Coef.	Base-up Coef.	Bonus Coef.	Regular Coef.	Base-up Coef.	Bonus Coef.	Regular Coef.	Base-up Coef.	Bonus Coef.	Regular Coef.	Base-up Coef.	Bonus Coef.
Union present	0.273** (0.107)	0.203** (0.0873)	-0.0378 (0.0803)	0.147* (0.0868)	0.227*** (0.0693)	-0.0137 (0.0658)	0.138* (0.0814)	0.202*** (0.0640)	-0.0419 (0.0607)	0.144* (0.0836)	0.186*** (0.0649)	-0.0293 (0.0622)	0.305*** (0.110)	0.208** (0.0891)	-0.0878 (0.0830)
Firm size (ref. 1–20 employees)															
21–100	0.336*** (0.0743)	0.0505 (0.0651)	-0.0223 (0.0652)	0.299*** (0.0613)	0.0425 (0.0526)	0.00738 (0.0531)	0.295*** (0.0580)	0.00514 (0.0500)	-0.00669 (0.0505)	0.294*** (0.0582)	0.00948 (0.0502)	-0.00175 (0.0506)	0.343*** (0.0769)	0.0477 (0.0671)	-0.0235 (0.0677)
101–300	0.399*** (0.109)	0.125 (0.0905)	-0.202** (0.0906)	0.472*** (0.0952)	0.0254 (0.0768)	-0.136* (0.0755)	0.452*** (0.0868)	-0.0239 (0.0718)	-0.152** (0.0708)	0.462*** (0.0876)	-0.0121 (0.0722)	-0.149** (0.0709)	0.441*** (0.116)	0.102 (0.0939)	-0.225** (0.0946)
301–499	0.401*** (0.139)	0.182 (0.120)	-0.281** (0.113)	0.584*** (0.117)	0.0851 (0.0906)	-0.231*** (0.0892)	0.531*** (0.104)	0.0474 (0.0848)	-0.160* (0.0838)	0.518*** (0.108)	0.0495 (0.0878)	-0.156* (0.0861)	0.423*** (0.141)	0.169 (0.123)	-0.350*** (0.116)
500+	0.559*** (0.146)	0.293** (0.119)	-0.349*** (0.117)	0.626*** (0.116)	0.0317 (0.0915)	-0.359** (0.0932)	0.615*** (0.110)	0.0197 (0.0865)	-0.372*** (0.0878)	0.652*** (0.115)	0.0549 (0.0872)	-0.347*** (0.0894)	0.573*** (0.149)	0.289** (0.122)	-0.420*** (0.123)
No foreign ownership	0.231* (0.122)	-0.312*** (0.112)	-0.0695 (0.110)	0.101 (0.108)	-0.152* (0.0899)	-0.179** (0.0891)	0.0872 (0.0970)	-0.132 (0.0826)	-0.150* (0.0809)	0.103 (0.0974)	-0.161* (0.0830)	-0.141* (0.0824)	0.198 (0.127)	-0.302*** (0.113)	-0.0449 (0.113)
Average age of regular employees	0.0764* (0.0435)	0.0366 (0.0385)	-0.0820** (0.0398)	0.108*** (0.0339)	-0.0150 (0.0311)	-0.0315 (0.0319)	0.140*** (0.0323)	-0.0236 (0.0295)	-0.0372 (0.0296)	0.134*** (0.0324)	-0.0209 (0.0293)	-0.0411 (0.0295)	0.0655 (0.0459)	0.0345 (0.0403)	-0.0895** (0.0414)
Average age squared	-0.00114** (0.000477)	-0.000533 (0.000428)	0.000822* (0.000440)	-0.00144*** (0.000371)	2.63e-05 (0.000356)	0.000288 (0.000345)	-0.00175*** (0.000357)	0.000138 (0.000328)	0.000357 (0.000328)	-0.00171*** (0.000358)	0.000115 (0.000326)	0.000404 (0.000327)	-0.00104** (0.000504)	-0.000511 (0.000449)	0.000914** (0.000460)
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Regional block FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry-specific linear trends	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	-0.833 (1.003)	-0.142 (0.876)	1.842** (0.906)	-1.350* (0.775)	0.286 (0.717)	0.661 (0.704)	-2.132*** (0.735)	0.494 (0.666)	0.734 (0.667)	-2.009*** (0.739)	0.434 (0.663)	0.789 (0.667)	-0.539 (1.052)	-0.189 (0.911)	1.886** (0.937)
rho21	-0.5280*** (0.0294)			-0.5552*** (0.0233)			-0.5582*** (0.0215)			-0.5639*** (0.0217)			-0.5258*** (0.0306)		
rho31	-0.1469*** (0.0344)			-0.1560*** (0.0278)			-0.1662*** (0.0256)			-0.1717*** (0.0258)			-0.1382*** (0.0358)		
rho32	-0.0045 (0.0312)			0.0280 (0.0254)			0.0226 (0.0232)			0.0169 (0.0235)			-0.0139 (0.0321)		
Observations	2,930			4,558			5,383			5,263			2,750		

Notes: 1. The table reports coefficient estimates from multivariate probit models for the joint choice of regular increases, base-up adjustments, and bonus increases among firms that granted a wage increase.

2. Standard errors clustered at the firm level are in parentheses.

3. The estimated error correlations capture the dependence across the three wage adjustment instruments. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

smaller in magnitude (-0.14 to -0.17). In contrast, the correlation between base-up adjustments and bonus increases (rho32) is consistently small and statistically insignificant across specifications. This pattern is consistent with the possibility that regular increases are treated as partial alternatives to base-up and bonus adjustments, conditional on the included covariates. There is no evidence that firms offset base-up adjustments with smaller bonuses, or vice versa.

The digitalization indicators also exhibit a distinctive pattern in the instrument-choice analysis. Although they are secondary to the training variables in the design of the paper, they are substantively informative. In particular, the number of digital technologies in use is positively and significantly associated with both base-up adjustments and bonus increases, whereas the simple digital technology use dummy is negatively associated with bonus increases. These estimates suggest that the depth of digitalization, rather than its mere presence, may be associated with how firms allocate wage adjustments across instruments.

Overall, the multivariate probit results provide qualified support for Hypotheses 2 and 3. Training investment is associated not only with whether firms raise wages, but also with how they structure wage adjustments across instruments. The evidence is broadly consistent with the expectation that training indicators are more consistently associated with base-up adjustments and, in many cases, bonus increases than with regular increases alone. At the same time, the results are not fully uniform across all training indicators: several training variables show non-monotonic patterns across categories. These findings suggest that the link between training and wage adjustment is better understood as a differentiated allocation process than as a simple one-to-one relationship between training and fixed-pay growth.

Beyond the training and digitalization indicators, the control variables also display patterns consistent with prior literature on the Japanese wage-setting system. Union presence is positively associated with regular increases and base-up adjustments but not

with bonus increases, broadly in line with the *Shunto* literature emphasizing enterprise unions' focus on fixed-pay components (Hara and Kawaguchi 2008; Kato 2016). Firm size shows a differentiated pattern across instruments, with larger firms more likely to use regular increases and less likely to use bonuses, consistent with more institutionalized internal labor markets in larger Japanese firms.

VI. Discussion

The findings suggest that firm-sponsored training is associated with wage adjustment through more than one margin. At the broadest level, firms that institutionalize training through Off-JT, training expenditure, broader participation, and longer training time are more likely to grant wage increases in the following year. At the same time, the instrument-choice results indicate that these associations are not distributed uniformly across pay components. Several training indicators are more consistently associated with base-up adjustments and bonus increases than with regular increases. This implies that the relationship between training and wages is not fully captured by a single wage outcome, but instead depends on how firms allocate compensation across instruments that differ in permanence and cost implications under the Japanese wage-setting system.

Moreover, the estimated error correlations across wage instruments show that these choices are not independent. The negative and significant correlations involving regular increases are consistent with the possibility that firms treat regular increases as partial alternatives to base-up and bonus adjustments. However, the correlation between base-up and bonus adjustments is not statistically significant, indicating no clear evidence that unobserved determinants of the two instruments move systematically in opposite directions once firm characteristics are controlled for. Taken together, these results reinforce the view that the employment relationship mediates not only whether productivity-related gains are shared with workers, but also the organizational form—schedule-based commitment,

flexible distribution, or a combination of both—in which that sharing occurs.

A related observation concerns the role of digitalization. Although digitalization is not the main explanatory focus of the paper, the estimates suggest that it captures a substantively meaningful organizational dimension of wage-setting behavior. In the wage increase incidence analysis (Table 1), neither the digital technology use dummy nor the number of digital technologies in use is significantly associated with the probability of granting a wage increase. In the instrument-choice analysis (Table 2), however, the depth of digitalization—measured by the number of digital technologies in use—is positively and significantly associated with both base-up adjustments and bonus increases, while the simple use dummy is negatively associated with bonus increases. One interpretation is that broader digital adoption serves as a marker of firms that are reorganizing work processes and therefore differ in how they structure wage adjustments, even if digitalization by itself does not predict whether they raise wages at all. This interpretation remains tentative, but it suggests that the technological environment may matter for the composition of wage adjustment even when it is not the primary driver of wage increase incidence.

Several limitations should be noted. First, the analysis relies on firm-level measures of training and therefore cannot identify how the relationship between training and wage adjustment varies across occupations, job tasks, or individual workers. Second, although all training variables are lagged, the empirical design does not fully rule out reverse causality or omitted-variable bias. Firms with greater wage-setting capacity may also be more likely to invest in training, and both decisions may be jointly shaped by unobserved managerial strategy or firm performance. Third, the data combine surveys of smaller and larger firms, and the number of large firms remains relatively limited in some specifications. Fourth, because the instrument-choice analysis conditions on wage increase incidence, the second-stage estimates should be interpreted as evidence on the composition of wage adjustment

among wage-increasing firms rather than as unconditional evidence on instrument choice in the full population of firms.

In addition, the instrument-choice analysis excludes a small group of firms that granted wage increases outside the three focal instruments, and the broader empirical design focuses mainly on wage adjustment for regular employees, which reflects the central role of regular-employee pay in *Shunto*-based wage setting. As Yokoyama et al. (2021) emphasize, Japanese firms also adjust along the non-regular employment margin in response to exogenous shocks, and recent work suggests that the division between regular and non-regular workers increasingly shapes aggregate wage dynamics (Kawaguchi et al. 2021). These features do not invalidate the findings, but they suggest that the estimates should be interpreted as evidence on systematic firm-level associations—in particular, on the wage adjustment process among regular employees—rather than as definitive causal effects.

Despite these limitations, the findings have implications for both industrial relations scholarship and policy debates on wage growth. The results indicate that training investment is related not only to whether firms raise wages, but also to how they distribute wage adjustments across fixed-pay and more flexible pay instruments. This suggests that policies promoting human capital investment may influence wage-setting institutions indirectly, by shaping the organizational conditions under which firms choose between regular increases, base-up adjustments, and bonus increases. More broadly, the paper shows that the translation of skill formation into pay depends on institutional structure rather than on productivity alone. Future research could build on this by examining occupational heterogeneity, non-regular workers, and the interaction between training, digitalization, and bargaining institutions in greater detail.

VII. Conclusion

This paper has examined how firm-sponsored training is associated with wage adjustment in

Japanese firms. Using three waves of the JILPT Corporate Panel Survey, I analyzed two related dimensions of wage adjustment: whether firms grant any wage increase and, among wage-increasing firms, which wage adjustment instruments they use. This approach was motivated by the idea that the relationship between training and wages should not be reduced to a single outcome. In the Japanese institutional context, firms can translate workforce-related commitments into different pay instruments, including regular increases, base-up adjustments, and bonus increases, each of which differs in permanence and cost implications.

The results provide evidence that training investment is systematically associated with firms' wage adjustment behavior. Firms that implemented Off-JT, incurred training expenditure, trained a broader share of employees, or provided longer annual training hours were, on average, more likely to grant wage increases in the following year. In addition, among firms that granted wage increases, several training indicators are more consistently associated with base-up adjustments and bonus increases than with regular increases. These findings suggest that training investment is related not only to whether firms raise wages, but also to how wage adjustments are structured across instruments with different degrees of permanence and cost implications.

More broadly, the paper suggests that training investment is linked to wage adjustment in Japan through both wage increase incidence and the composition of those increases, while digitalization appears to play a secondary but relevant role in this process.

This article is a revised and adapted version of Chapter 4, "Hito e no toshi to chinage kodo" [Investment in Human Resources and Wage Adjustment Behavior], which was originally written by the author for JILPT Research Series No. 262, entitled "Hito e no toshi to kigyo senryaku ni kansuru paneru chosa (JILPT kigyo paneru chosa, Dai 3-kai): Kigyo no chinage ni chakumoku shite" [Panel Survey on Investment in Human Resources and Corporate Strategies (the JILPT Corporate Panel Survey, the Third Wave): Focusing on Japanese firms' wage adjustment behavior]. The present version has been revised and updated in line with the editorial focus of *Japan Labor Issues*.

Notes

1. In the Japanese wage-setting context, regular increases generally follow existing pay progression rules, base-up adjustments raise the wage schedule itself, and bonus increases provide a more flexible channel of compensation.
2. The analysis uses the first three waves of the JILPT Corporate Panel Survey and constructs pooled firm-year observations from the available panel responses. I do not adopt firm fixed-effects specifications as the main estimation strategy because only about one quarter of firms are observed in all three waves, several training indicators exhibit limited within-firm variation, and the multivariate probit model used for the instrument-choice analysis does not admit a computationally tractable fixed-effects implementation.
3. These 166 firms, representing 2.1 percent of the 7,789 wage-increasing firms in the pooled three-year data, reported wage increases only through instruments outside the three focal categories. Because the survey instructs respondents to mark the three focal options only when the wage adjustment primarily targets regular employees, these firms may include cases in which wage increases were targeted at non-regular workers. Their exclusion is consistent with the paper's focus on wage adjustment for regular employees and does not alter the main interpretation.
4. The training expenditure ratio takes the value of zero for firms that reported no training expenditure during the previous fiscal year. To retain these observations in the estimation sample under a logarithmic specification, I use $\log(1 + \text{ratio})$ rather than the natural logarithm of the ratio itself.
5. Because the number of digital technology items includes zero, I use $\log(\text{items} + 1)$.

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Appendix Tables

Table A1. Descriptive statistics for the wage increase incidence sample

Variable	OJT/Off-JT specifications		Training expenditure specifications				Training participation specifications				Training hours specifications				Digitalization specifications	
	(1) / (2)		(3)		(4)		(5)		(6)		(7)		(8)		(9) / (10)	
	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD
Any wage increase (=1)	0.924	0.265	0.906	0.292	0.927	0.260	0.904	0.295	0.925	0.263	0.902	0.297	0.925	0.264	0.925	0.264
Planned OJT	0.355	0.479														
Off-JT	0.467	0.499														
Any training expenditure			0.516	0.500	0.456	0.498										
Training expenditure / total cash earnings (log)			0.405	0.675	0.197	0.398										
Training participation																
none							0.302	0.459	0.281	0.450						
<20%							0.379	0.485	0.361	0.480						
20–<40%							0.137	0.343	0.151	0.358						
40–<60%							0.057	0.232	0.065	0.247						
60–<80%							0.036	0.186	0.042	0.201						
≥80%							0.090	0.286	0.100	0.300						
Training hours per participant																
none											0.307	0.461	0.283	0.450		
<1 day											0.131	0.337	0.140	0.347		
1–<2 days											0.249	0.432	0.258	0.438		
2–<4 days											0.175	0.380	0.180	0.384		
4–<6 days											0.064	0.245	0.063	0.243		
6–<10 days											0.034	0.182	0.034	0.182		
≥10 days											0.040	0.196	0.042	0.200		
Digital technology use															0.782	0.413
Number of digital technologies (log)															0.954	0.623
Labor shortage	0.593	0.491			0.598	0.490			0.590	0.492			0.591	0.492	0.591	0.492
Union present	0.133	0.340	0.141	0.348	0.137	0.344	0.140	0.347	0.142	0.349	0.136	0.343	0.139	0.346	0.136	0.343
Firm size																
1–20 employees	0.330	0.470	0.342	0.474	0.336	0.473	0.340	0.474	0.332	0.471	0.346	0.476	0.338	0.473	0.325	0.468
21–100	0.392	0.488	0.380	0.485	0.386	0.487	0.379	0.485	0.381	0.486	0.382	0.486	0.385	0.487	0.391	0.488
101–300	0.135	0.342	0.124	0.330	0.126	0.332	0.127	0.333	0.129	0.336	0.127	0.333	0.129	0.335	0.136	0.342
301–499	0.070	0.255	0.075	0.263	0.075	0.263	0.075	0.263	0.076	0.266	0.069	0.254	0.071	0.257	0.072	0.258
500+	0.073	0.260	0.078	0.269	0.078	0.268	0.080	0.271	0.081	0.273	0.076	0.265	0.077	0.266	0.076	0.266
No foreign ownership	0.945	0.228	0.947	0.224	0.946	0.226	0.945	0.228	0.946	0.225	0.944	0.229	0.945	0.228	0.944	0.231
Average age of regular employees	44.402	6.438	44.245	6.526	44.518	6.434	44.191	6.454	44.441	6.395	44.240	6.494	44.488	6.429	44.336	6.406
Average age squared	2012.9	591.5	2000.2	598.8	2023.3	591.8	1994.5	591.6	2015.9	586.8	1999.4	595.9	2020.5	590.7	2006.7	587.4
Industry																
Construction	0.170	0.376	0.166	0.372	0.172	0.377	0.163	0.369	0.166	0.373	0.163	0.369	0.167	0.373	0.169	0.375
Manufacturing	0.249	0.432	0.243	0.429	0.243	0.429	0.249	0.432	0.248	0.432	0.248	0.432	0.247	0.431	0.255	0.436
Transport	0.048	0.215	0.049	0.217	0.049	0.215	0.049	0.216	0.050	0.217	0.049	0.216	0.049	0.217	0.048	0.214
Information and communications	0.069	0.254	0.069	0.254	0.071	0.257	0.066	0.249	0.067	0.251	0.065	0.247	0.066	0.248	0.070	0.256
Wholesale and retail	0.280	0.449	0.281	0.449	0.281	0.449	0.284	0.451	0.286	0.452	0.289	0.453	0.291	0.454	0.275	0.447
Services	0.132	0.339	0.135	0.341	0.136	0.342	0.131	0.338	0.132	0.339	0.129	0.335	0.128	0.334	0.133	0.339
Other	0.052	0.222	0.056	0.230	0.049	0.216	0.058	0.233	0.050	0.218	0.058	0.234	0.052	0.221	0.050	0.217
Regional block																
Hokkaido	0.059	0.236	0.059	0.235	0.058	0.234	0.057	0.232	0.058	0.234	0.057	0.232	0.058	0.234	0.058	0.233
Tohoku	0.071	0.256	0.070	0.256	0.076	0.265	0.070	0.255	0.073	0.259	0.069	0.254	0.071	0.257	0.070	0.256
Kanto	0.339	0.473	0.336	0.472	0.331	0.471	0.337	0.473	0.335	0.472	0.338	0.473	0.335	0.472	0.341	0.474
Chubu	0.184	0.387	0.182	0.386	0.185	0.388	0.184	0.387	0.186	0.389	0.184	0.387	0.186	0.389	0.185	0.389
Kinki	0.174	0.379	0.182	0.386	0.178	0.382	0.178	0.383	0.175	0.380	0.178	0.382	0.177	0.381	0.173	0.378
Chugoku	0.071	0.257	0.064	0.245	0.067	0.250	0.067	0.250	0.071	0.256	0.066	0.248	0.070	0.255	0.071	0.258
Shikoku	0.029	0.167	0.033	0.177	0.031	0.174	0.032	0.176	0.030	0.170	0.032	0.177	0.031	0.172	0.029	0.167
Kyushu and Okinawa	0.075	0.263	0.073	0.261	0.073	0.261	0.076	0.264	0.073	0.261	0.076	0.265	0.074	0.261	0.072	0.259
Survey-year																
2022	0.000	0.000	0.390	0.488	0.000	0.000	0.436	0.496	0.000	0.000	0.437	0.496	0.000	0.000	0.000	0.000
2023	0.524	0.499	0.361	0.480	0.538	0.499	0.343	0.475	0.557	0.497	0.342	0.475	0.557	0.497	0.493	0.500
2024	0.476	0.499	0.249	0.433	0.462	0.499	0.221	0.415	0.443	0.497	0.221	0.415	0.443	0.497	0.507	0.500
Observations	3,242		5,138		2,664		6,072		2,907		5,951		2,849		3,038	

Notes: 1. Columns correspond to the samples used in Table 1.
2. Columns (2), (4), (6), (8), and (10) additionally include lagged labor shortage.
3. Reported values are means and standard deviations.

Table A2. Descriptive statistics for the instrument-choice sample

Variable	OJT/Off-JT specifications		Training expenditure specifications		Training participation specifications		Training hours specifications		Digitalization specifications	
	(1)		(2)		(3)		(4)		(5)	
	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD
Regular (=1)	0.785	0.411	0.800	0.400	0.798	0.401	0.795	0.403	0.788	0.409
Base-up (=1)	0.587	0.492	0.525	0.499	0.511	0.500	0.510	0.500	0.598	0.490
Bonus (=1)	0.422	0.494	0.408	0.491	0.403	0.491	0.407	0.491	0.418	0.493
Planned OJT	0.376	0.485								
Off-JT	0.496	0.500								
Any training expenditure			0.544	0.498						
Training expenditure / total cash earnings (log)			0.414	0.670						
Training participation										
none					0.266	0.442				
<20%					0.395	0.489				
20–<40%					0.146	0.353				
40–<60%					0.059	0.236				
60–<80%					0.039	0.195				
≥80%					0.095	0.293				
Training hours per participant										
none							0.269	0.444		
<1 day							0.135	0.342		
1–<2 days							0.262	0.440		
2–<4 days							0.187	0.390		
4–<6 days							0.068	0.252		
6–<10 days							0.036	0.187		
≥10 days							0.041	0.198		
Digital technology use									0.799	0.401
Number of digital technologies (log)									0.984	0.617
Union present	0.144	0.352	0.152	0.360	0.152	0.359	0.147	0.355	0.147	0.354
Firm size										
1–20 employees	0.298	0.457	0.309	0.462	0.308	0.462	0.315	0.464	0.292	0.455
21–100	0.404	0.491	0.394	0.489	0.391	0.488	0.395	0.489	0.405	0.491
101–300	0.143	0.350	0.132	0.339	0.134	0.341	0.135	0.341	0.144	0.351
301–499	0.074	0.262	0.079	0.270	0.079	0.270	0.073	0.260	0.076	0.265
500+	0.080	0.271	0.085	0.279	0.087	0.282	0.082	0.275	0.084	0.277
No foreign ownership	0.946	0.227	0.947	0.224	0.944	0.229	0.944	0.230	0.945	0.229
Average age of regular employees	43.928	6.047	43.715	6.108	43.674	6.045	43.710	6.082	43.880	6.021
Average age squared	1966.2	546.1	1948.3	549.6	1943.9	543.5	1947.5	547.3	1961.7	543.1
Industry										
Construction	0.171	0.376	0.169	0.375	0.166	0.372	0.166	0.372	0.171	0.376
Manufacturing	0.256	0.436	0.255	0.436	0.259	0.438	0.259	0.438	0.261	0.440
Transport	0.048	0.213	0.046	0.209	0.046	0.209	0.046	0.209	0.048	0.214
Information and communications	0.072	0.259	0.073	0.260	0.069	0.254	0.068	0.251	0.074	0.262
Wholesale and retail	0.277	0.448	0.277	0.448	0.281	0.449	0.285	0.452	0.272	0.445
Services	0.130	0.336	0.132	0.339	0.128	0.334	0.125	0.331	0.131	0.337
Other	0.046	0.210	0.048	0.214	0.051	0.221	0.052	0.221	0.043	0.204
Regional block										
Hokkaido	0.061	0.239	0.060	0.238	0.059	0.235	0.059	0.236	0.059	0.236
Tohoku	0.071	0.256	0.070	0.256	0.070	0.255	0.069	0.253	0.071	0.256
Kanto	0.331	0.471	0.330	0.470	0.333	0.471	0.335	0.472	0.333	0.472
Chubu	0.189	0.391	0.186	0.389	0.186	0.389	0.186	0.389	0.191	0.393
Kinki	0.173	0.378	0.184	0.388	0.179	0.384	0.179	0.383	0.172	0.377
Chugoku	0.074	0.262	0.066	0.248	0.070	0.255	0.068	0.252	0.075	0.263
Shikoku	0.028	0.166	0.031	0.174	0.031	0.173	0.031	0.174	0.028	0.166
Kyushu and Okinawa	0.074	0.261	0.072	0.258	0.073	0.260	0.073	0.260	0.071	0.257
Survey-year										
2022	0.000	0.000	0.382	0.486	0.428	0.495	0.428	0.495	0.000	0.000
2023	0.522	0.500	0.363	0.481	0.346	0.476	0.346	0.476	0.491	0.500
2024	0.478	0.500	0.255	0.436	0.226	0.418	0.226	0.418	0.509	0.500
Observations	2,930		4,558		5,383		5,263		2,750	

Notes: 1. Columns correspond to the samples used in Table 2.

2. Reported values are means and standard deviations.

Commentary

Validity of Disciplinary Action Taken Following the Reporting of Racial Harassment

The Morgan Stanley Japan Group Co., Ltd. Case

Tokyo District Court (Jun. 27, 2024) 1326 *Rodo Hanrei* 14

IWAHORI Kana

I. Facts¹

On September 3, 2007, X (plaintiff), who is a South Korean national, concluded a labor contract with Company Y (defendant). On March 13, 2020, X reported to A, an HR representative at Y, that X had been subjected to harassment at the workplace (hereinafter, the “Report”). The facts alleged in the Report included that the remarks directed at X by his superior B (hereinafter, “B’s remarks”), constituted verbal harassment on the basis of race or nationality (hereinafter, “racial harassment”) and that X had been subjected to discriminatory treatment in promotion decisions. The content of B’s remarks reflected B’s critical views toward South Korea on various issues involved in the relationship between Japan and South Korea.

Following the Report, the corporate group to which Y belongs established an investigative committee and conducted a grievance investigation, including interviews with relevant parties. On April 30, 2020, C, who was responsible for investigation, and, D of Y’s human resources department, notified X of the following: B’s behavior was in nature partly unprofessional but was not deemed to constitute harassment; there is no evidence showing that X was subject to unfair treatment or influence based on nationality in terms of promotion; and the investigation on the Report would be closed accordingly.

Prior to the investigation, X had entered into a non-disclosure agreement with Y, agreeing not to

disclose the details of the investigation. Nevertheless, over a four-month period From May 12, 2020, onwards, X repeatedly contacted individuals such as X’s superiors, members of the investigative committee, other executives, and the group CEO a total of 19 times to protest the investigation results and criticize the company by sending emails or other means (X’s conducts subject to disciplinary action).

X received a disciplinary action of reprimand dated September 7, 2020 (hereinafter, “Disciplinary Action”).

II. Judgment

In the lawsuit filed by X against Y, the court rendered a judgment as summarized below.

1. The facts alleged in the Report include an allegation that X may have been subject to discrimination in terms of promotion on the basis of nationality. As discrimination against a worker in terms of promotion on the basis of nationality is a criminal act punishable under Article 3 and Article 119, item (i) of the Labor Standards Act (hereinafter referred to as “LSA”), this fact constitutes a reportable fact set forth in Article 2, paragraph (3) of the Whistleblower Protection Act (hereinafter referred to as “WPA”). The alleged facts also include an allegation that X’s work environment was damaged due to experiencing verbal racial harassment by B. As the term “work environment” encompasses a broad range of factors and is not explicitly defined,

and given the principle of legality of crime and punishment—which requires penal provisions to be clearly defined in order to safeguard individual freedom—a work environment is not included in the scope of “working conditions” prescribed in Article 3 of the LSA, a penal provision, and therefore, the alleged damage to the work environment would not constitute a reportable fact. Nevertheless, racial harassment on the basis of nationality, race, or country of origin is totally impermissible in Japan pursuant to the purport of Article 3 of the LSA, and when the work environment of a worker is damaged due to another worker’s behavior that is based on superiority in their relationship with the former and exceeds the scope necessary and reasonable in the course of business, it is considered unlawful on the part of the employer to allow such a situation to persist (Article 30-2, paragraph (1) of the Act on Comprehensively Advancing Labor Measures, and Stabilizing the Employment of Workers, and Enriching Workers’ Vocational Lives). In light of the foregoing, it may be necessary to regard damage caused by racial harassment in the workplace as a fact equivalent to a reportable fact under Article 2, paragraph (3) of the WPA (such facts and reportable facts are hereinafter collectively referred to as “reportable facts or equivalent”) and examine it by applying the purpose of this Act.

2. If a worker’s conduct constitutes grounds for disciplinary action but falls under any of the categories of whistleblowing set forth in the items of Article 3 of the WPA, i.e., whistleblowing to the recipient of services, such conduct is excluded from the scope of grounds for disciplinary action, as Article 5 of that Act prohibits disadvantageous treatment on the grounds of whistleblowing. Even where a worker’s conduct constituting grounds for disciplinary action does not fall under any of the items of Article 3 of the said Act, in light of the purport of Article 3 of the LSA—which prohibits discriminatory treatment of workers regarding working conditions on the basis of nationality or race—as well as the purpose of the WPA that ensures compliance with laws and regulations through the

protection of whistleblowing disclosure, provided that: (a) the reportable facts or equivalent that the worker communicated through the act in question is true or there are reasonable grounds to believe that they are true; (b) the conduct in question was not performed for any wrongful purpose; and (c) the means or methods used in carrying out the conduct in question are reasonable, the illegality of the act is negated. A disciplinary action imposed on the grounds of such conduct, lacks objectively reasonable grounds and is not found to be appropriate in general societal terms, and therefore, is treated as an abuse of rights and is deemed invalid (Article 15 of the Labor Contracts Act).

Since Article 5 of the WPA prohibits disadvantageous treatment on the grounds of the whistleblowing set forth in the items of Article 3 of the same Act, it is interpreted that disciplinary action may not be imposed against a worker on the grounds that their conduct constitutes whistleblowing. Among X’s conducts subject to disciplinary action, the act of communicating his claim of discrimination in terms of promotion on the basis of nationality constitutes a disclosure of a reportable fact made by X to the recipient of his services, and hence, constitutes whistleblowing to the recipient of services in the case where a report is made with no wrongful purpose (the main clause of Article 2, paragraph (1) of WPA) and the whistleblower “considers” that “a reportable fact has occurred” (Article 3, item (i) of WPA), and therefore, imposing disciplinary action against X on the grounds of such conduct is impermissible (Article 5 of WPA). Similarly, with regard to X’s conduct of communicating an allegation that their work environment had been damaged by B’s remarks that X claims as constituting racial harassment, provided that such conduct was not carried out for any wrongful purpose, it is appropriate to consider that imposing disciplinary action against X on the grounds of such conduct is also impermissible by application of the purpose of Article 5 and Article 3, item (i) of the WPA (for the reasons explained in 1. above). In this case, it cannot be found that X acted for the purpose of obtaining money, attacking a former colleague and B, or having the former colleague

transferred, and thus it cannot be said that X had any wrongful purpose. Therefore, it is appropriate to construe that it is impermissible to impose disciplinary action against X on the grounds of X's acts of communicating the above allegations.

As for the other acts subject to disciplinary action, although the reportable facts or equivalent that the worker communicated through the act in question were not found to have been communicated for a wrongful purpose, it was not established that the reportable facts or equivalent that the worker communicated through the act in question were true, nor could it be said that the means or methods used in carrying out the conduct in question were reasonable. Accordingly, the illegality of the act is not negated, and the disciplinary action is valid.

III. Commentary

1. A worker, as a natural consequence of concluding an employment contract, assumes a duty of confidentiality as an ancillary obligation; consequently, a breach of this duty may subject the worker to disciplinary action. Nonetheless, even where a worker's conduct falls under a breach of confidentiality, it may be recognized as legally justified provided that it serves the public interest, such as whistleblowing on corporate misconduct or legal violations. From this perspective, in Japan, a legal doctrine has developed to invalidate disciplinary action taken against a worker on the grounds of their act of internal/external whistleblowing,² under certain conditions (see section 3. below). Meanwhile, the WPA was enacted in 2004 (taking effect in 2006), which specifically provides for several types of whistleblowing disclosure that may be protected under the Act (see section 2. below).

In the lawsuit discussed in this article, a key issue in determining the validity of the disciplinary action against X was whether justification existed for X's report regarding B's remarks (which X claims constituted harassment) and the alleged promotion discrimination based on nationality. What uniquely characterizes this case is that the reported misconduct encompasses racial harassment. Apart from a past

case in which a worker claimed the illegality of their employer's conduct in the workplace on the basis of nationality or race, such as distributing documents containing hate speech,³ this lawsuit is probably the first case in which the validity of a disciplinary action imposed by an employer against a worker following the worker's report of such conduct was challenged.

2. A brief overview of the WPA discussed in this case is as follows.⁴ The term "whistleblowing disclosure" protected under this Act means a report made by a worker with no wrongful purpose about a reportable fact to an entity predetermined to accept such reports (Article 2, paragraph (1)). Reportable facts are limited to cover only criminal acts and violations of laws that are punishable by criminal penalties (paragraph (3) of that Article), thus clearly defining the scope of whistleblowing disclosure to be protected under the WPA. Harassment that does not amount to a criminal act does not constitute a reportable fact, and is therefore not protected under the WPA.

Disadvantageous treatment of a worker on the grounds of their whistleblowing disclosure that is defined as above may be prohibited (Article 5). However, the requirements for protecting whistleblowing differ depending on where a report is to be made (Article 3). Specifically, when a worker makes an internal report (whistleblowing disclosure to the service recipient), it is sufficient if the worker (the whistleblower) considers that a reportable fact has occurred, or is about to occur (Article 3, item (i)), whereas, in the case of a disclosure to an administrative body or the like, there must be reasonable grounds for such belief, or alternatively the whistleblower must submit a document containing specified information (Article 3, item (ii)); disclosures to any other external entity are subject to even stricter requirements than the former (Article 3, item (iii)). Thus, there is a difference in terms of the requirements for protection because consideration should be given to the potential negative impact on the employer where a report is based on a false allegation.

Because of such extremely limited scope of application of the WPA, there have only been a few

cases in which a court invalidated the disadvantageous treatment of a whistleblower by applying this Act.⁵

3. Meanwhile, before the WPA was enacted, a legal doctrine, or general doctrine, had developed based on court rulings to invalidate disciplinary action imposed on a worker for internal/external whistleblowing even when such report constitutes grounds for disciplinary action prescribed in the rules of employment if such act of the worker is justified. In assessing legitimacy in this context, the major criteria has been the truthfulness of the content of the report and the appropriateness or reasonableness of the purpose, means, and method of making the report.⁶ Even after the WPA has come into effect, protection under this doctrine is applicable with regard to internal/external whistleblowing that falls outside the scope of protection under that Act. Articles 15 and 16 of the Labor Contract Act establish the framework for determining the validity of disciplinary actions and dismissals; however, their relationship with the WPA has remained somewhat ambiguous. This judgment is particularly noteworthy as it provides a clear framework for understanding this relationship.

4. The judgment of this case is understood as follows: [1] The court constructed a concept of “reportable facts or equivalent,” which covers allegations of racial harassment that do not constitute but is equivalent to “reportable facts” defined in the WPA, and established a normative framework to the effect that it is necessary to examine such equivalence to a “reportable fact” by applying the purpose of that Act; [2] Among X’s conducts subject to disciplinary action, the court held that the act of communicating a claim of discrimination against X to the service recipient in terms of promotion on the basis of nationality constitutes whistleblowing under Article 3, item (i) of the WPA where such disclosure was not made with any wrongful purpose, and therefore, imposing disciplinary action against X on the grounds of such conduct is impermissible; [3] Similarly, the court held that X’s report of racial harassment, where not made for a wrongful purpose, falls within the

purport of Article 5 and Article 3, item (i) of that Act and any disciplinary action against X on the grounds of making such report is also impermissible.

As for the holding in [1], the court developed the concept and normative framework mentioned above based on the value judgment that racial harassment in the workplace is impermissible in light of the provisions of Article 3 of the LSA and Article 30-2, paragraph (1) of the Act on Comprehensively Advancing Labor Measures, and Stabilizing the Employment of Workers, and Enriching Workers’ Vocational Lives. The judgment of this lawsuit may be assessed as enhancing the effectiveness of protection for internal/external whistleblowing by expanding the scope of its concept of “reportable facts” prescribed under the WPA, while being fully mindful of the association with these legislative provisions.

Regarding holding [2], while it has been rare for courts to grant relief for disadvantageous treatment of a whistleblower by applying Article 3 or Article 5 of the WPA, this case is significant as the first precedent in which a court applied Article 3, item (i) of the Act to deny the validity of a disciplinary action.

With regard to X’s report of racial harassment to the service recipient addressed in holding [3], the court held that imposing disciplinary action against X on the ground of making such report is likewise impermissible unless made for a wrongful purpose. This is based on holding [1] which establishes that it is necessary to examine a “reportable fact or equivalent” (including racial harassment) by extending the purport of the WPA; however, an examination of its substance—specifically how the court applied the purport of that Act—reveals that the court’s reasoning is in effect equivalent to the direct application of that Act (Article 5 and Article 3, item (i)). In other words, it can be said that the court dealt with the issue not by applying the general doctrine, but by extending the applicable scope of protection under that Act.

Thus, the most notable point of this judgment is that it extended the concept of “reportable facts” under the WPA (holding [2]) and thereby extended the scope of protection under that Act as well (holding

[3]). Nevertheless, as mentioned above, the WPA limits “reportable facts” eligible for protection to cover only certain statutory violations, and it is not intended to provide comprehensive protection for whistleblowing of all facts that may be evaluated as unlawful. Considering that the prior legislative arguments had also adopted a cautious stance about expanding the scope of reportable facts from the standpoint of predictability,⁷ the appropriateness of the methodology employed in this judgment from the perspective of protecting whistleblowers warrants further examination.

Furthermore, even assuming that the methodology adopted in this judgment is appropriate, Article 3 of the LSA that is referenced in this judgment is primarily intended to prohibit discriminatory treatment of workers in terms of working conditions on the basis of nationality, creed, or social status. This means that “race” is not strictly included in the causes of discrimination prohibited under that Article, nor does a working environment where workers are subject to harassment fall within the scope of “working conditions.” It would also warrant examination whether it is appropriate to rely on that Article as the theoretical basis for establishing the concept of “reportable facts or equivalent” as was done in this judgment.

Notes

1. Beyond the facts discussed in the main text of this article, this case involves facts and issues that serve as preconditions for judging the validity of the disciplinary action in question: the validity of the non-disclosure agreement imposing the obligation of confidentiality on X with regard to the details of

the in-house investigation implemented in response to the Report; the validity of the employer’s work order requiring X not to disclose the facts alleged in the Report to anyone other than the investigation personnel and the human resources personnel, and the validity of its cautionary guidance requiring X to obey this work order; and the validity of the dismissal of X on the grounds that X did not stop sending emails even after the disciplinary action was taken (validity was recognized for all these matters). This article, however, does not address these facts but summarizes and reviews the judgment on this case with a focus on the issues relating to the facts discussed in the main text of the article.

2. In this article, a worker’s act of reporting a company’s misconduct or violation of law is in general referred to as a “internal/external whistleblowing,” and it is referred to as an “internal report” if a worker’s report is not brought outside the company.
3. *Fuji Housing case*, Osaka High Court (Nov. 18, 2021) 1281 *Rodo Hanrei* 58.
4. The English translation of the Whistleblower Protection Act is available on the website provided by the Ministry of Justice below:
<https://www.japaneselawtranslation.go.jp/ja/laws/view/5109>
Please note that the article numbers cited in this text are those applicable at the time of this case (prior to the amendment in 2025).
5. To the best of my knowledge, there were only two cases in which the disadvantageous treatment of a whistleblower was judged to be in violation of Article 3 or Article 5 of the WPA (both cases fall under Article 3, item (ii)). See also Yumiko Kuwamura, “Kaisei Koekitsuoshosha Hogoho no Rodoho jo no Ronten” [Issues of the Amended WPA in the Context of Labor Law], 1552 *Jurist* (2020): 43.
6. *Osaka Izumi Co-operative Society (Whistleblowing) case*, Osaka District Court, Sakai Branch (Jun. 18, 2003) 1136 *Hanrei Times* 265. *Tonami Transportation case*, Toyama District Court (Feb. 23, 2005) 891 *Rodo Hanrei* 12.
7. Consumer Affairs Agency, “Report of the Expert Committee on the Whistleblower Protection System: Toward ensuring security and safety of people’s lives by enhancing the effectiveness of the system” (2024), p. 33.

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Main Labor Economic Indicators

1. Economy

The Japanese economy is recovering at a moderate pace, while attention should be given to the effects caused from the situation in the Middle East. Concerning short-term prospects, the improvement in the employment and income situation and the effects of the policies are expected to support a moderate recovery, while attention should be given continuously to the effects caused from the situation in the Middle East. Also, attention should be given to the effects of fluctuations in the financial and capital markets and so on. (July 2026)¹

2. Employment and unemployment

The number of employees in June increased by 400 thousand over the previous year. The unemployment rate, seasonally adjusted, was 2.5%.² Active job openings-to-applicants ratio in June, seasonally adjusted, was 1.18.³ (Figure 1)

3. Wages and working hours

In June, total cash earnings increased by 4.0% year-on-year, while real wages (total cash earnings, realized as consumer price index (total excluding owner-occupied imputed rent)) increased 2.2%, and real wages (total cash earnings, realized as consumer price index (composite)) increased 2.3%. Total hours worked decreased by 0.2% year-on-year, while scheduled hours worked decreased by 0.3%.⁴ (Figure 2)

4. Consumer price index (CPI)

In June, CPI for all items increased by 1.7% year-on-year, the consumer price index for all items less fresh food increased by 1.6%, and CPI for all items less fresh food and energy increased by 1.7%.⁵

5. Workers' household economy

In June, consumption expenditures by workers' households decreased by 4.0% year-on-year nominally and decreased by 5.8% in real terms.⁶

For details for the above, see JILPT, *Main Labor Economic Indicators*. <https://www.jil.go.jp/english/estatis/eshuyo/index.html>

Notes: 1. Cabinet Office, *Monthly Economic Report*, which analyzes trends in the Japanese and world economies and indicates the assessment by the government. <https://www5.cao.go.jp/keizai3/getsurei-e/index-e.html>

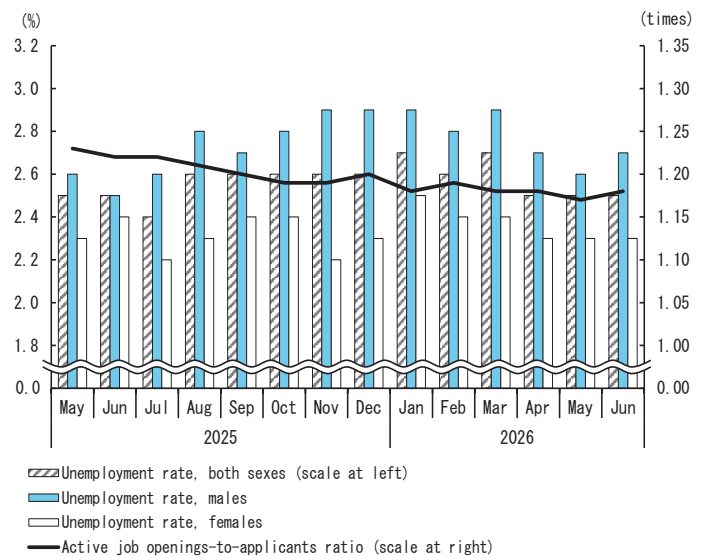
2. <https://www.stat.go.jp/english/data/roudou/results/month/index.html>

3. <https://www.mhlw.go.jp/toukei/list/114-1.html> (in Japanese)

4. For establishments with 5 or more employees. <https://www.mhlw.go.jp/toukei/list/30-1.html> (in Japanese)

5. <https://www.stat.go.jp/english/data/cpi/index.html>

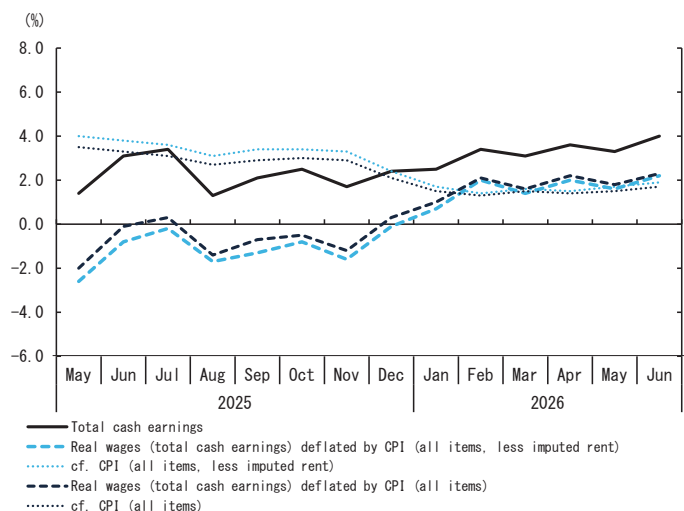
6. MIC, *Family Income and Expenditure Survey*. <https://www.stat.go.jp/english/data/kakei/index.html>



Source: Ministry of Internal Affairs and Communications (MIC), *Labour Force Survey*; Ministry of Health, Labour and Welfare (MHLW), *Employment Referrals for General Workers*.

Note: Active job openings-to-applicants ratio indicates the number of job openings per job applicant at public employment security. It shows the tightness of labor supply and demand.

Figure 1. Unemployment rate and active job openings-to-applicants ratio (seasonally adjusted)



Source: MHLW, *Monthly Labour Survey*; MIC, *Consumer Price Index*.

Figure 2. Total cash earnings / real wages annual percent change

What's on the Next Issue

Japan Labor Issues

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tentative

Research reports on “Youth Employment and Labor Policy” presented by researchers from countries and regions in the Asia-Pacific area at the 9th JILPT Tokyo Comparative Labor Policy Seminar (held on March 26, 2026).

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Taiwan/Youth Employment Policy in Taiwan: Current Challenges and Institutional Responses

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