HUMAN RESOURCE STRATEGIES OF JAPANESE FIRMS AMID LABOR SHORTAGES

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Abstract - Many Japanese companies reported favourable financial results for 2024, with the combined net profits of 1,072 listed firms reaching a record high for the fourth consecutive year. This was driven by increased profits in the manufacturing sector, stemming from expanded earnings in export industries due to the weak yen and rising demand for semiconductors. In stark contrast to this improvement in corporate performance, the shrinking working-age population has exacerbated the labour shortage, with some companies even going bankrupt due to staffing constraints. To address this nationwide issue, it is necessary to raise the current retirement age and further promote diversity management, including the employment of foreign nationals and people with disabilities. However, many companies remain reluctant to implement such measures.
Based on survey data and statistical significance testing, this study demonstrates that, amid labour shortages, initiatives such as leveraging diverse talent, enhancing welfare benefits—including increasing telework adoption—and abolishing the mandatory retirement age contribute to improved corporate performance in Japanese firms.

Keywords - Japanese Company, Labor Shortage, Human Resource Management Strategy. Telework, Mandatory Retirement Age.

I. INTRODUCTION

Japan's total population peaked at 120 million in 2004 and has been steadily declining ever since. The working-age population—defined as individuals aged 15 to 64 who engage in productive activities after completing compulsory education—reached its highest level of 87.16 million in 1995 [1]. However, due to persistently low birth rates, it has since decreased to 70.46 million as of 2025 [2].
Meanwhile, the net profits of listed companies amounted to approximately ¥11 trillion in 2010, following the Lehman Shock, and have shown a consistent upward trend since then. Although a temporary decline was observed during fiscal years 2020 and 2021 due to the COVID-19 pandemic, profits resumed their growth trajectory, reaching ¥49.5 trillion in FY2022, ¥50.5 trillion in FY2023, and ¥58.3 trillion in FY2024 [3]. This growth has been driven by a weak yen, a strong dollar, and increasing demand for artificial intelligence (AI), particularly benefiting export-oriented firms. In FY2024, one-quarter of listed companies recorded all-time high profits.
While the intensification of corporate production activities plays a vital role in fostering national economic development, it is simultaneously exacerbating labour shortages amid the shrinking working-age population. In 2025, an unprecedented number of companies are experiencing workforce shortages, with more than half reporting a lack of regular employees..

II. THE IMPACT OF LABOUR SHORTAGES ON BUSINESS OPERATIONS

When labour is scarce, companies are constrained to accept only as many orders as their current staffing levels can support, often forcing them to decline additional work. Failure to do so may result in operational inefficiencies, reduced productivity, deteriorating quality, and increased workloads for existing employees. These factors ultimately undermine both customer and employee satisfaction. As a consequence, clients may withdraw their business, leading to declines in sales and profitability. Chronic labour shortages thus contribute to the progressive deterioration of business operations.

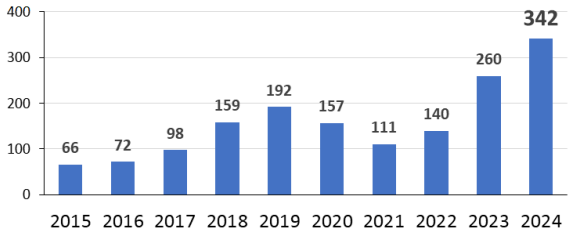


Figure 1: Trend in the Number of Bankruptcies Due to Labor Short.ages
Source: [4].

Since around 2022, increasing attention has been paid to the growing phenomenon of "labour shortage bankruptcies"—cases in which businesses fail to secure or retain essential personnel due to a shrinking labour pool, ultimately resulting in collapse. According to data from the credit information agency Teikoku Data Bank (TDB 2024), the number of labour shortage bankruptcies—defined as cases involving legal restructuring and liabilities exceeding ¥10 million, triggered by employee resignations, recruitment difficulties, or soaring labour costs—reached a record high of 342 in 2024(See Figure 1). These bankruptcies are particularly prevalent in labour-intensive sectors such as construction, logistics, food services, and hospitality industry.

III. IMPROVING BUSINESS PERFORMANCE UNDER CONDITIONS OF LABOR SHORTAGE

While wage increases are often prioritised as a strategic response to labour shortages, in Japan they have failed to keep pace with inflation driven by yen depreciation. As a result, real wages have not risen as markedly as in other advanced economies. Nevertheless, as labour shortages have intensified year by year, many firms have introduced wage increases. Yet wages alone cannot serve as a sufficient incentive to resolve labour shortages. According to Herzberg's Two-Factor Theory [5], wages may alleviate job dissatisfaction but do not substantially enhance motivation in themselves. From this perspective, addressing labour shortages and improving organisational performance requires measures that extend beyond remuneration. Even wage increases at the level typical of the average firm are unlikely to secure scarce talent; thus, companies must provide employees with incentives and attractions that go beyond financial compensation.

Benefit One Co., Ltd. conducted a survey of 1,000 full-time employees in May 2025[6]. In response to the question, "Even if pay rises are impossible, I would like to see enhanced employee benefits," 69.0% of respondents in their 20s and 62.0% in their 30s answered affirmatively. These findings attracted considerable corporate attention, underscoring the growing importance of improving employee benefits. Among the welfare measures gaining prominence are telework arrangements, flexible working hours, and extended holidays.

In this study, we propose the enhancement of welfare benefits, diversity management, and the utilisation of telework as hypotheses for strategically addressing labour shortages. Using survey data, we aim to examine and verify whether these measures exert a positive impact on corporate income and expenditure. However, the proposed area-efficient carry select adder retains partial parallel computation architecture as the conventional carry select adder area and power consumption of the regular CSLA. To

IV. UTILISATION OF TELEWORK

Employee benefits encompass compensation and services provided to employees beyond base salary. For the purposes of this study, the utilisation of telework is treated as a proxy variable. Telework is defined as "work performed outside the central office" [7] or "working at home"[8].

Telework offers several notable advantages: it reduces commuting time and thereby enhances work efficiency; it enables employees to balance work with childcare or eldercare responsibilities; and it facilitates the recruitment of talented staff from across Japan and internationally. In environments characterised by labour shortages, telework not only promotes efficiency but also helps prevent staff turnover.

Empirical evidence suggests that companies with a higher proportion of teleworking employees generally outperform those with lower adoption rates. This is because telework enables firms to mitigate labour shortages—for example, employees on childcare leave can continue working remotely—thus allowing companies to meet rising demand.

H1: Companies with a higher proportion of teleworking employees perform better than those with a lower proportion.

V. DIVERSITY MANAGEMENT

In the context of ongoing labour shortages, companies often find that even active recruitment campaigns fail to secure sufficient personnel. To address this challenge, it is essential to adopt diversity management practices that expand the pool of available talent. Recruiting and effectively utilising individuals from diverse backgrounds—including women, older workers, foreign nationals, and persons with disabilities—can help mitigate workforce constraints. By fostering an inclusive organisational culture and implementing supportive policies, firms can not only alleviate labour shortages but also enhance innovation, adaptability, and overall performance.

According to Risberg and Soderberg [9] ,diversity is defined as "a mix of differences, similarities, and tensions that can exist among the elements of a collective mixture". In addition, workforce diversity is defined as "heterogeneity and differences among employees in an organisation in terms of race, age, ethnicity, cultural background, physical abilities, religion, gender, sexual orientation, language, education, lifestyle, beliefs, appearance and economic status" by Seliverstova[10] .

With the recent increase in international students and individuals seeking employment in Japanese companies, the utilisation of overseas talent not only helps alleviate labour shortages but also enhances business performance through product development informed by diverse perspectives and by expanding overseas exports. Moreover, as Japan's elderly population continues to grow and many firms still enforce mandatory retirement at age 65, a number of businesses—particularly small and medium-sized enterprises—have begun abolishing compulsory retirement. In such organisations, employing older individuals who remain healthy for two to four days per week contributes to addressing labour shortages. This approach not only reduces labour costs but also

facilitates the efficient transfer of expertise from experienced workers.

Companies that actively pursue diversity management are therefore likely to outperform those that do not. Accordingly, the following hypothesis is proposed.

H2: Companies proactively engaged in diversity management achieve superior performance compared to those that are not.

VI. ABOLITION OF THE MANDATORY RETIREMENT SYSTEM

Most Japanese companies have traditionally adopted a mandatory retirement system, typically set at age 65 in line with the commencement of pension payments. However, recruitment difficulties—particularly among small and medium-sized enterprises—combined with Japan's steadily growing elderly population, have prompted an increasing number of firms to abolish mandatory retirement. The combined population of those aged 65 and 66 currently stands at approximately three million.

According to a survey conducted in December 2024 by CADDi Co., Ltd. of 406 full-time employees aged 50 and above, around 55% expressed a desire to continue working after retirement[11]. Many older workers seek not only to secure an income but also to maintain a sense of social participation by working reduced hours or days in roles that leverage their existing skills and expertise. For companies, retaining such experienced personnel is advantageous, as it facilitates knowledge transfer and reduces recruitment costs. This suggests that firms abolishing mandatory retirement may achieve superior performance compared to those maintaining it.

H3: Companies that have abolished mandatory retirement achieve better performance than those that have not.

VII. HYPOTHESES VERIFICATION

To verify the three hypotheses outlined above, we conducted a questionnaire survey of corporate managers in December 2024, funded by the Ministry of Education, Culture, Sports, Science and Technology's Grant-in-Aid for Scientific Research. A total of 557 valid responses were obtained. Respondents were classified into two groups based on telework adoption ratio, diversity hiring practices, and retirement system implementation. The hypotheses were tested by examining whether statistically significant differences existed in the average financial status scores (ranging from 1 = predominantly in deficit to 5 = predominantly in surplus) between the two groups for each item. The results for all three items (see Tables 1, 2, and 3) provided support for the proposed hypotheses.

Valiables	N	Mean	SD	*t*	*p*
Low telework ratio	446	3.340	1.076	3.399	.000
High telework ratio	111	3.730	1.095		

Table 1 Telework ratio and Financial trend

Source: Author's own survey (December 2024)

Valiables	N	Mean	SD	*t*	*p*
Reluctant toward diversity management	257	3.250	1.129	3.248	.001
Proactive in diversity management	300	3.550	1.038		

Table 2 Diversity management and Financial trend

Source: Author's own survey (December 2024)

Valiables	N	Mean	SD	*t*	*p*
Adopting a mandatory retirement age	110	3.120	1.187	2.989	.003
Not adopting a mandatory retirement age	447	3.490	1.054		

Table 3 Presence of Mandatory Retirement System and Financial trend

Source: Author's own survey (December 2024)

VIII. CONCLUSION

To sustain business performance in an era of labour shortages, firms must strengthen diversity management by broadening the pool of scarce talent, actively adopt telework to enable flexible working arrangements, and abolish mandatory retirement to retain skilled workers and facilitate the transfer of expertise to younger staff. Although other measures exist—such as expanding allowance systems—failure to act will render business continuity particularly difficult, especially for small and medium-sized enterprises. The three strategic measures identified in this study were all found to be essential for achieving business performance under conditions of labour scarcity.

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