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Japan’s push for workplace equality

Three months after the conclusion of the 2022 fiscal year, employers with 301 or more employees in Japan (including US companies with locations in Japan) are required to report female-to-male pay ratios, among other metrics. This reporting requirement is a part of the 2015 "Act on the Promotion of Women’s Active Engagement in Professional Life." The pay gap reporting requirement comes from “the Grand Design and Action Plan for a New Form of Capitalism,” which the Cabinet of Japan (chief executive body of the government) approved and immediately enacted on June 7, 2022.¹

For background, Japan had the highest gender wage gap among the G7 countries (political forum consisting of seven countries: Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States) according to the Organization for Economic Co-Operation and Development (OECD), with a gender wage gap of 22.1% in 2021. Furthermore, Japan had the fourth highest wage gap of the OECD member countries, only more favorable to women than Latvia, Israel, and Korea.²

Employers with at least 301 employees in Japan are required to report the female-to-male pay ratio calculated as the average pay for women relative to the average pay for men in percentage terms. The average male or female pay is computed as the sum of all wage payments earned by male or female employees divided by the number of male or female employees during the fiscal year. The pay ratio should be reported for three populations: 1) across all employees working in Japan, 2) for permanent³ employees only, and 3) for non-permanent employees only. Wages should include all payments employees received during the fiscal year as compensation for labor and services (i.e., earnings documented on tax withholding slips).⁴ Companies have the option to exclude retirement contributions, reimbursements, etc., but the decision must be consistent for both men and women.

³ Permanent employees include all those hired directly (i.e., not contract employees) by the company, regardless of full- or part-time status.
In addition to the pay ratios, companies with at least 301 employees are required to report two additional metrics: one from each category detailed below. However, companies with 100-300 employees have the option to report either the gender pay ratio or one of the metrics listed below.

- **Category A: Metrics regarding granting female workers opportunities to participate in professional life**
  - Percent of new hires identifying as women
  - Percent of applicants who are hired by gender
  - Percent of female employees
  - Percent of female employees at the section leader level (typically the lowest management title in an organization in Japan)
  - Percent of female employees by management level
  - Percent of board members identifying as women
  - Number of male and female promotions
  - Number of re-employment and mid-career recruitment by gender

- **Category B: Metrics regarding work-life balance**
  - Female to male ratio of average years of employment
  - Retention rate of workers hired 10 fiscal years ago by gender
  - Percent of men and women who took parental leave
  - Average monthly overtime earned
  - Average monthly overtime earned by rank
  - Percent of employees who used paid time-off
  - Percent of employees who used paid time-off by rank

Japan’s new disclosure requirement introduces many challenges to employers. Collecting the necessary data may prove difficult for some employers (e.g., the data for permanent and non-permanent employees may reside in different databases). Once data are successfully identified and collected, computing the required metrics may prove challenging for some companies as it involves conducting data validation, resolving any data inaccuracies or inconsistencies, and verifying the statistics are computed correctly.

Furthermore, unadjusted pay ratios, such as those now required for public disclosure in Japan, provide limited insight into pay equity for employers because factors that may explain differences in pay (e.g., experience, education, job attributes, etc.) are not accounted for. The Ministry of Health, Labor and Welfare of Japan recognizes this point and encourages companies to include additional information behind the metrics for context.  

Companies should consider conducting a pay equity audit for a comprehensive review of compensation, taking into account their pay setting practices and attributes that may explain differences in pay. Pay ratios adjusted for these factors can be provided during such a study, along with additional insights into any identified differences in compensation.

5 See supra note 1.
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