

The Consequences of Short-Time Compensation: Evidence from Japan

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We apply the Propensity Score Matching (PSM) with difference-in-differences methodology to unique data on STC from Japan, a country known for its extensive use, and find the first rigorous evidence on the positive consequence of STC for firm performance measured by ROA and profit margin. To be consistent with the observed positive consequences of STC for firm profitability, we further find that STC will lead to sales growth without raising labor cost. We then assess the validity of the three possible explanations for the positive consequence of STC for firm performance. As compared to the conventional explanations (preserving firm-specific human capital and avoiding the negative morale effect of layoffs), our additional evidence lends more credence to the behavioral explanation---worksharing which STC promotes can work as what the psychological literature calls “shared adversity” which facilitates supportive interactions among coworkers in the same team and strengthens commitment to the team, and thereby enhances teamwork and firm performance.