

Article

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# **Effect of the 2018 Revision to the Labor Standards Law on Firm Performance: Evidence from Japan**

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## **Abstract**

In 2018, the Labor Standards Law was revised to protect workers from excessive work, maintain their health, and accomplish work–life balance in Japan. Following this revision, Japanese firms are required to grant a paid leave of 5 working days to their employees. This study investigates the effects of this policy change, which is an exogenous shock, and finds that the average proportion of sales growth increased by nearly 5.4% due to the 2018 law revision. This suggests that firm performance improves through the enhancement of employees' physical and mental health as well as the efficiency of their work style. This study contributes to the literature by providing new evidence on firms' CSR activity. Additionally, this study presents a pilot case for foreign regulators and rule-making institutions because this policy change had a positive impact on firm performance.

**Keywords:** CSR; Difference in Difference Approach; Firm Performance; Japan; Work-Life Balance

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