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Japan's Labour Shortage Is Now an Insolvency Risk - Not an HR Problem

Labour-shortage bankruptcies hit a record 441 cases in FY2025 and foreign employment reached a record 2.57 million. A workforce strategy for Japanese companies that treats capacity, not recruitment, as the unit of planning.

NirjiX Japan Desk | 12 min read

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The strategic thesis

Teikoku Databank recorded 441 labour-shortage bankruptcies in FY2025 - about 1.3× the prior year (350) and the first time the annual figure has exceeded 400. It is the third consecutive record year.

Within that total, 118 failures were the 'employee-resignation type' - companies that collapsed because staff or senior managers left, not because demand disappeared. That number passed 100 for the first time and has risen four years running.

Concentration matters: construction accounted for 112 cases (25.4% of the total), followed by road freight transport (55), elderly-care services (22), restaurants (21) and staffing agencies (12) - each a record for its sector.

Meanwhile Japan's foreign workforce reached a record 2,571,037 as of end-October 2025, up 268,450 year on year (+11.7%) - the thirteenth consecutive record and nearly triple the 2015 level, per MHLW data.

The conclusion for management: recruitment is no longer a reliable lever on its own. Capacity has to be engineered - through process redesign, automation, and capability sourced outside Japan under Japanese governance.

What the data says

- 441 bankruptcies - Labour-shortage bankruptcies in FY2025 - a record, and roughly 1.3× the 350 recorded in FY2024 (Teikoku Databank).
- 118 resignation-driven - Failures caused specifically by employee or executive resignations - above 100 for the first time (Teikoku Databank).
- 25.4% construction - Construction alone accounted for 112 of the 441 cases (Teikoku Databank).
- 2.57m foreign workers - Record foreign employment at end-October 2025, up 11.7% year on year (MHLW).

Strategic context

Japanese executives have described labour shortage as a chronic condition for a decade. The FY2025 data shows it has become an acute one. When a company fails because people resigned rather than because orders stopped, the shortage has crossed from a cost problem into a going-concern problem.

The mechanism is visible in Teikoku Databank's case notes: firms losing licensed or skilled site staff could not

accept the volume of work they had historically won; firms in maintenance and inspection services stopped operating after successive resignations of younger employees. Order books stayed healthy. Delivery capacity did not.

Wage inflation is not a complete answer. Companies report that even where applicants exist, candidates move to employers with higher pay bands - and small and mid-sized firms, squeezed by sustained input-cost inflation, often cannot raise wages without eroding the margin that keeps them solvent.

So the planning unit has to change. The question is not 'how many people can we hire this year?' but 'how much delivery capacity can we guarantee, from which sources, at what governed quality?' Recruitment becomes one of four levers rather than the only one.

The four-lever capacity model for Japanese operations

- Lever 1 - Demand shaping - Stop treating all revenue as equal. Re-price or decline work whose delivery consumes scarce licensed or skilled labour at negative contribution.
- Lever 2 - Process redesign - Remove labour content before sourcing it. Most Japanese back-office and site-support processes still encode manual approval steps designed for a labour-abundant era.
- Lever 3 - Automation and AI - Apply automation to the highest-volume, lowest-judgement steps first, with governance that satisfies Japanese quality expectations.
- Lever 4 - Sourced capability - Move eligible engineering, data, finance and support work to a governed offshore capability base so domestic headcount concentrates on work that must be in Japan.

What to do now

- Run a criticality map before a cost model: find every process a single resignation can stop.
- Split work into 'must be in Japan' and 'has always been in Japan' - the second category is your capacity reserve.
- Migrate eligible scope offshore in governed tranches with bilingual documentation and Japan-side quality authority.
- Concentrate wage increases on existential roles instead of distributing them evenly across the workforce.

What matters most

- Labour-shortage bankruptcies reached a record 441 in FY2025, about 1.3× the prior year (Teikoku Databank).
- 118 of those failures were caused by resignations rather than lost demand - the first time above 100.
- Foreign employment hit a record 2.57 million (+11.7%) but does not close the gap for firms without onboarding systems.
- Capacity must be engineered across four levers: demand shaping, process redesign, automation and sourced capability.

Frequently asked

How severe is Japan's labour shortage in business terms?

Teikoku Databank recorded 441 labour-shortage bankruptcies in FY2025 - roughly 1.3× the 350 cases in

FY2024, the first year above 400 and the third consecutive record. Construction alone accounted for 112 cases, or 25.4% of the total.

What is an 'employee-resignation type' bankruptcy?

A failure caused by employees or senior managers leaving, rather than by lost demand. Teikoku Databank counted 118 such cases in FY2025 - above 100 for the first time and rising for a fourth consecutive year.

Does hiring foreign workers solve the shortage?

It expands the pool - foreign employment reached a record 2,571,037 at end-October 2025, up 11.7% year on year - but it requires documentation, supervision and quality systems many mid-sized Japanese firms have not yet built.

What should a Japanese company do first?

Criticality mapping: identify every process where a single person's resignation stops delivery, then remove that dependency through documentation, automation or governed offshore capacity before optimising cost.

How does NirjiX help with Japan's labour shortage?

NirjiX runs Japanese-language process discovery and governance from Tokyo and provides India-based execution capacity for eligible engineering, data and operations scope - migrated in governed tranches, with build-operate-transfer available.

Sources and how to verify them

- Every figure in this article is drawn from a named public source. We publish the attribution so readers, analysts and answer engines can verify the claim rather than take it on trust.
- Bankruptcy figures (441 FY2025 cases; 350 FY2024; 118 employee-resignation type; sector breakdown of construction 112 / 25.4%, road freight 55, elderly care 22, restaurants 21, staffing 12): Teikoku Databank, FY2025 survey of labour-shortage bankruptcies (legal insolvencies with liabilities of ¥10 million or more), published 9 April 2026.
- Foreign employment (2,571,037 workers at end-October 2025, +268,450 / +11.7% year on year; nationality breakdown): Ministry of Health, Labour and Welfare employer notification data, released 30 January 2026.
- SME cost, wage and price pass-through context: Small and Medium Enterprise Agency (METI), 2025 White Paper on Small and Medium Enterprises in Japan.

Talk to the NirjiX Japan desk

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