Nobuo Sueki*

Ageing society and evolving wage systems in Japan**

The objective of this discussion is to explain the evolution of the wage system in Japan in response to population ageing. Though focussing on the evolving situation in Japan, the nature of the policy responses discussed here are relevant for comparison to other nationally-defined contexts for wage and other employee compensation systems in, for example, Germany. Starting from the historically closed nature of labour markets and HRM systems in Japan, differences are observed from company to company and sector to sector in respect of management philosophy, industrial relations, and HRM policy and practice. Key to these developments is the role of government as a law-making body and of related institutions as sources of regulatory or advisory influence. The examples presented in this discussion reflect the idiosyncratic features of Japanese wage systems. However, common tendencies are observed in many organisations – both private and public sector - and thus can be considered representative of a general evolution. Each aspect of the wage systems discussed here points towards constant adjustments to respond to and cope with population ageing and subsequent changes in the regulatory environment related to pension eligibility and mandatory age of retirement, the evolving status of older workers both in and out of employment, and to the continued opening generally of the Japanese economy and labour markets to global influences. The discussion concludes with the insight that Japanese employers are moving towards the retention and rewarding of skill-specialists – often regardless of age - rather than of senior-aged generalists, as in previous years.

Key words: **compensation packages, retirement, retirement policies, pension reform, Japan** (JEL: J31, J33, M12, M52)

* Nobuo Sueki, Japan Productivity Center, 3-1-1 Shibuya, Shibuya-ku, Tokyo, Japan 150-8307.

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Introduction

Since the 1970s wage systems in Japan have gradually shifted from being seniority-based towards systems compensating or rewarding employees more directly against assessments of their individual performance. Important to note here is the continuing emphasis given towards linking rewards to the acquisition and application of organisation- or firm-specific skills. With the rapid ageing of the workforce and of Japanese society generally, employee wage reforms have begun to target job-related and role-related wage systems. With the move up of mandatory retirement to sixty it has become necessary for employers to adjust the relation between work, wage and age, and the balance with the younger segments of the workforce. The changes also reflect the need to cope with the development of a larger external market and higher job mobility, notably among younger workers.

Many Japanese companies continue to implement HRM systems based on the long-term nurturing of the workforce that is based on internal rotation and extensive collaboration between employees. The fact that employers continue to recruit externally new graduates ahead of more experienced employees is an indication of their way of thinking in this regard (Nagano, 2014). This long-term perspective has a direct impact on the policy followed to better integrate older workers in the organization while satisfying the career expectations of younger segments of the workforce. Young employees are eager to acquire more specialized skills and knowledge and to be rewarded according to their performance. Increasingly today, new recruits do not necessary think that they will spend their whole career in one organization. Therefore they may not desire the long-term incentives, such as the retirement allowance and the increase of salary during the later stage of the career that are typical of Japanese HRM (Sugimoto, 2010).

At the same time employers are now obliged to keep all wishing workers on the pay-roll until 65 years old (MHLW, 2014): older workers know that they will have to stay and compete in the labour market until at least 65. Because of the changes in the access to pension workers will have to remain competitive in terms of skills and knowledge until the end of their pre-retirement career in order to receive a wage that allows a decent standard of living after mandatory retirement. Therefore, and in terms of both HRM policy and practice, wage reforms need to be devised and implemented towards conciliating those macro-level financial and legal developments in order to both control labour costs and maintain the level of skills relevant to the company's business performance. Given the increased diversity of expectation among employees, HR specialists are challenged to devise a fair and motivating reward system more nuanced than in previous years. In short, recent macro-level developments call for a redesign of the wage curves across all age-segments of the workforce along with corresponding skills training and career development schemes. The following discussion gives some indication as to how these changes might be effected.

Context

There are two varieties of ageing problem in Japan. The first is ageing of society as a whole and the target is elderly people over 65 years old. Low fertility rates and rising

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life expectancy are causing the ratio of Japanese workers to retirees to shrink. Between 2010 and 2040, the share of Japan's working-age population will fall by more than 10 per cent (World Bank Group, 2015). Japan went from having one of the lowest dependency ratios in 1960 to one of the highest in the world nowadays. It is bound to escalate further and projected to more than double in the following twenty years (ILO, 2013). Concrete issues at the level of government policy are the public pension system and the cost of medical care for aged people. The first variety is linked to the second in the sense that an increasing number of elderly workers are likely to continue to work while assuring part of care of their more elderly parents. The second is the issue resulting from the increase in middle and older age people in companies. As mentioned previously, this relates to the management of wage and retirement allowances, to investments in re-skilling, and the reallocation of the workers to lower skilled or less responsible function across the organization. These shifts in HRM focus presuppose a re-designing of tasks and the targeted support - training in a broad sense - for work and life before and after each individual employee's retirement.

In large companies particularly, various policies are traditionally adopted such as permanent reassignment in another company, devising of specific treatment to early retiring people and support to encourage workers to retire and autonomously start a second career (Sugimoto, 2010). In order to cope with the automatic rise of wages of an ageing labour force Japanese companies have adopted three policies, very often cumulative: curtailing the seniority element in established wage systems; lowering basic wages – for example, for new entrants; adjusting wage systems in anticipation of the financial support and pensions received by employees who might be re-employed after retirement.

Many companies have a wage policy according to which the regular raise of wage stops when the employee reaches a certain age. It frequently occurs at the age of the mandatory retirement from managerial positions. This often occurs at age 55 and large Japanese companies in particular have adopted such policies in order to remove barriers to the career development of younger employees; for, the treatment of older workers through a revamped wage system cannot be separated from the needs expressed by all segments of the workforce, including younger employees.

Theoretical framework

Wages in Japanese have been influenced by the Lazear differed wage theory (Lazear, 1979) according to which employees are put in long-term competition with a stable set of peers and rewards come in the second part of the career. This theory predicted the benefits to employers of offering premium to long-term tenure for selected employees, who were compensated for remaining with one employer for their entire career; institutional losses were instilled into the system in order to reinforce the long-term term commitment of these employees to stay. This system was only possible in a policy environment that allowed a relatively low mandatory retirement age (sixty) such that the cost of the seniority-based reward system remains affordable. This low mandatory retirement age was possible because of the younger demographic profile of Japanese society until the 1980s (Sugimoto, 2010); against the current profile, this system is unsustainable. Mandatory retirement is still set at sixty, meaning Japan is very

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much at odds in this respect with other advanced economies such as Germany. It is likely that regulatory changes will lead soon to a raising of mandatory retirement to 65. The current obligation – social-cultural as much as legal - to keep workers on the payroll up until 65 can be considered a transitory measure taken in order to permit companies to prepare for a future raising of mandatory retirement age. Should mandatory be lifted up to 65 now fear exists that it would lead to a further surge of non-regular employment, something that would go against the objectives of the public authorities.

Discussion

We now proceed to explore some of the key systemic changes that illustrate the nature of Japanese HRM responses to an ageing society. This discussion highlights some of the most salient (in the Japanese context) and, by international HRM comparison, most distinctive of these. We begin with a re-think of a key conceptual underpinning to the evolution of Japanese wage systems.

Paradigm shift?

As in Western contexts for HRM, some innovative thinking now regards older employees as valuable sources of experience – conceptualised perhaps as a more human resource *development* approach (cf. Armstrong, 2006). This shift of focus can be achieved practically by (for example) adopting variations of employee status based on differentiated work scope and hours. The current focus is on employees in the 40-50 age range; however, some companies are attempting to include older workers (Sueki, 2013). The wage system in Japan is evolving along a number of inter-related and – as a system – inter-dependent pathways and, as we see, is losing a significant degree of system equilibrium in the current process of evolution.

The advent of noryokushugi

Since the 1970s Japanese companies have been adopting a more clearly performance-driven skill-grading system called *noryokushugi*. This system maintains key features of the established seniority-based reward system in that it is still based on regular up-ranking and wage rise. Furthermore, it uses reward-linked-to-performance that are socially-culturally embedded and appear generally fair. A key change comes in making the access criteria to seniority status within the company hierarchy more discerning and strictly controlled (Sueki, 2012a). For example, links between job title and work duties have been clarified, albeit only partly. When companies started to introduce skill-grading based evaluation wages systems, many of them gave it a weight equivalent to about 40 per cent or maximum half of the basic salary. The other half remained based on automatic raise in pay through the base-up system and the age-related (age seniority) component. However, these two wage elements have been gradually absorbed in the skill-grading based part of the wage (Sasajima, 2012).

The *noryokushugi* skill-grading system has proved useful to some extent towards coping with workforce ageing, and its burden on the total wage bill has been limited, particularly in the case of blue-collar and general office worker. For these two categories of employee wage differences appeared that were not linked to seniority. However, the reformed system has had less impact on the wage bill for managerial track employees. In their case, the seniority-based wage differentials were anyway rather small.

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In fact, the new skill-grading system has induced wage rises even where the job description did not change and provided that the ability and skill level was perceived as rising.

Some positive points have offset any such negative cost effects in general term. For example, *noryokushugi* appears greatly to have facilitated the job rotation process and helped provide for the internal flexibility in term of occupations that traditionally characterise Japanese-style management. However, already during the 1990s weaknesses in the skill-grading system began to increase as the gap between capacity, job duties and productivity grew to the point of making the system unsustainable in terms of cost. Drastic transformations have been introduced, including a cap on wages for some senior white-collar positions (Sasajima, 2012).

Reforming the seniority-based wage system

Following the mixed success of introducing a new skill-based system, serious consideration has grown towards reforming the more socially entrenched seniority-based wage system. The policy and practice drift initiated by the *noryokushugi* system has served to focus attention on the seniority as an employee status. One outcome has been the adoption of *seikashugi,* a system more directly linking actual and measured employee performance to reward and, subsequently, to a job- or responsibility-based type of employee status common in Western contexts for HRM.

Currently, few companies in Japan have fully implemented an evaluation and reward system based entirely on job performance or role. As with employment contracts generally, the tasks for the younger white-collar workers are still not clearly defined in many Japanese companies. Equal treatment remains the general rule for employees (mostly male) below the age of thirty-five; for the notion persists among senior HR managers that younger employees have little discretionary authority and responsibility and that it is therefore difficult to precisely measure their individual contribution. Most companies continue to proceed to periodic wage increase for the young employees (Sueki, 2011). As a result, their job and role-based wages are still not very much different from conventional job grading-based wages. The creation of large wage differentials in the first stages of the career would be difficult to justify. Moreover, such a move might create undue competition among people who, on the contrary, should be encouraged to collaborate in a stage of career where learning is a key element (Sasajima, 2012).

Until recently, performance-driven systems have been thought to be more suitable for senior managerial class white-collar employees. Up until now basic wage was based on two pillars that were combined: promotion based on performance evaluation and automatic upgrading. More companies now have abolished automatic wage increases and are reinforcing the performance-based element. Furthermore, they are lowering the upper limit of wage level for each grade and imposing earlier and more stringent cap to the wage of the senior employees.

Adoption of new work patterns for older and younger employees

At the beginning, performance-driven compensation setting concentrated on those having discretionary power and whose individual performance and contribution could

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be precisely measured, notably the middle-aged managers, who tended to be more actively and demonstrably engaged in productive work processes. This approach was relatively straightforward for three main reasons. First, management-level staff does not belong to labour union and labour-management negotiations were not needed. Second, senior employees have a relative high age-related income anyway and so had little incentive to resist a reward system based on contribution. Third, these senior employees tended to be frustrated by the lack of clear recognition of their individual performance; consequently, employers ran the risk of losing valuable managers if they had not moved towards more performance-driven systems.

Companies introduced annualization schemes and policies using the discretionary work system (*sairyo rodo*) according to which workers are rewarded according to performance linked to specific objectives, and with flexibility in time to achieve them. So far, it mainly concerns mid-career specialists: for instance in marketing, finance and law where there is an in-built external flexibility for specific tasks and the achievement of objectives. However, some companies are already developing programs that involve both the older and the younger segments of the permanent workforce under the same system (Sueki, 2013). On the older side of the employee spectrum this systems allows high-level specialized workers to continue to work into their sixties: i.e. up to or even after mandatory retirement. Companies would be able to make use of their services on an *ad hoc* basis as free-lancers or consultants.

On the younger side of the employee spectrum there are already indications that performance-based system gradually extends downwards to lower management and even to employees below who are members of the union (Sueki, 2009). The wage gap used to be limited to the differential of seniority in a grade. Much larger variations start to be observed among managers and employees of the same level that correspond to differences in individual performance. A section chief annual income could fluctuate in the range of 2 million yen according to the person's achievement and not only because of the different setting of the annualized objectives (Sueki, 2009).

For employers, the total wage bill is composed of basic job-based wage, while performance-based income appears as bonus payments that can show variations in the range of 20-25%. Companies have adopted this approach because the contribution to the social security system coming from monthly wages and the bonus is accounted for separately. Reducing employee wages remains almost unknown, not least because of the broader national economic context where price inflation is largely unknown. Even when lowered, the range of fluctuation is very small. Under the pressure of social-cultural expectations, it is difficult to lay-off underperforming regular employee. So, companies continue to employ such employees until retirement and they have to devise policies to encourage them to work and to remain motivated (Sueki, 2012a).

Fundamentally, the bonus system has always contained elements related to seniority and meritocratic evaluation. Ability and skills have traditionally been reflected in grades and ranks upgrading, while the bonus was expected to reflect performance. However, in the immense majority of companies this element of individual performance was very small. Now companies want to prevent a drift of wage cost from the earliest possible stage of the career. Therefore, they have to create large bonus differential where the element based on their performance is higher (Sueki, 2011).

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The transition toward job-based wage systems

Some issues remain in order to improve the aforementioned performance-based system. First, formal evaluation of performance is difficult for many types of jobs. Second, it is feared that it could drive managers to privilege individual achievements over company's contribution. Third, evaluation easily concentrates on short-term performance rather than on long-term, as the latter is more difficult to evaluate (Nakamura, 2006). Fourth, because it is not customary in Japan to choose one's job a treatment based on job-related evaluation is bound to create dissatisfaction.

A move toward a job-based system while retaining the possibility to have workers rotate across functions in the company requires job description and design that can be transferable inside the company, i.e., that have a value and weight that can be objectively compared. Companies in which the criteria on skill and ability are unclear devise support material on capability development. Concretely, it is based on manuals giving details on the required ability and skill for the key jobs in the organization. In general, these manuals state the required ability and skill; they also stipulate on-the-job training (OJT) for the improvement of skills along with a degree of 'learned ability', defined by Sueki (2009) as acquired through formal type of training. This stipulation reflects the change in many companies towards outsourcing and off-the-job learning (general education and distance learning), combined with acquisition of an official qualification for both blue and white-collar workers (Sueki, 2009). Managers can utilize those manuals to provide guidance to their subordinates during evaluation interviews related to ability and skill development. They can also be a guiding principle of evaluation of the same subordinates by different superiors according to the same standards in the case of rotation inside the organization.

In a longer-term perspective learned ability is expected to become a key element in the maintenance of the appropriate level of knowledge and skills, up to the latest career stages before and after mandatory retirement. Therefore, it is directly linked to the use of older workers in the probable case of the lift up of mandatory retirement at sixty-five and older. As a result of this move towards a job-based system, closer examination of *seikashugi* merits and demerits is underway. In the evaluation of achievements, parallel use of result and process becomes more widely spread as concrete countermeasure. The objective is to respond to possible questioning and dissatisfaction from employees in the case of purely result-oriented approach that would neglect efforts and would not take into account the market uncertainties (Nakamura, 2006).

In a job-driven system employees should be treated as specialists and it requires active involvement in their own career management. However, the limited freedom for individual employees in Japan to choose a preferred job compared to Western countries is the cause of dissatisfaction of the treatment when performance-driven meritocratic systems are adopted that centred on job-based to set wages (Sueki, 2012a). Especially in the case of regular employees, companies decide employees' type of occupation and duty and their wishes are usually disregarded. So, companies need to fundamentally change their patterns of management of career if they want to introduce successfully job-related systems.

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Companies intend to proceed in that direction with caution in view of the uneasiness of employees to accept systems that may lead to large variation in income that cannot be objectively justified. Besides the use of stock option and other capital-driven incentives to arouse concern for the achievements of the company, in some companies, specialists and researchers are given latitude not to excessively focus on short-term achievement and they are rewarded for their long-term results through special incentive system. A closer look at failures to manage a performance-driven wage system reveals that they did not show the dysfunction of performance pay itself, but were rather the results of the failure to simultaneously introduce policies to mitigate the downsides of performance pay. One of the most prevalent sources of failure was the multitasking agency problem where employees were motivated to spend more time on measured tasks than those more difficult to monitor. It explains why for complex jobs requiring managerial and technical abilities and skills, but also for many lower levels kinds of jobs companies move toward role-based system based on competency frameworks and profiles going along job broadbanding that gives more flexibility in appraisal and reward.

Implications for older employees prior to retirement

Having illustrated some of the recent reforms to wage management systems in Japanese organisations, the focus for discussion now highlight implications for older workers as they near the mandatory retirement age. Consistent with other contributions of this Special Issue, we focus our attention on employees aged fifty.

Linking wage systems to retirement allowance systems

Most Japanese companies have unique retirement systems. Regular employees receive a portion of their wage when they retire. The retirement allowance accounts for around ten per cent of lifetime earnings, a significant amount of money for most workers. The retirement allowance is not linked to age but directly to the tenure because its objective from the origin was to cultivate long-term organizational commitment. Employees who worked for a long time until retirement age can get a larger amount of retirement pay. The amount of retirement allowance may be very different in the case of retirees of the same age due to the different length of continuous employment. Research data of model retirement allowance tells us that continuous employment of less than twenty years of continuous service does not grant a large amount of retirement payment (Sueki, 2001).

Conversely, the allowance increases sharply in the case of those who can claim more than 30 years of service because it is based on a coefficient that favour long tenure. Thus, there is an institutional loss penalizing job-switchers. Retirement allowance has always been considered as a reward compensation for distinguished service, a supplement to public pension but also as part of the deferred compensation in the same way as the bonus. However, when the retirement allowance system was redesigned when retirement age moved up from 55 to 60 years old, the above-mentioned explanation proved not to be completely convincing. In most of the cases, the amount of retirement allowance pay did not increase even with five more years of work added.

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The curve was almost flat and it mostly just reflected changes in the interest rate (Sueki, 1989).

Once, retirement payment used to be linked with wages and significant pay increase induced significant increase in retirement payment. That is why, even before the adoption of policies to deal with aging of the workforce, companies started to control the higher wages effect on the retirement allowance. It started with the revamp of the second pillar of the basic wage. The part of the 'base-up' wage increase was not reflected anymore in the retirement allowance. A separate system of tables based on points was put in place. Afterwards, a growing number of companies started to propose to pay the retirement allowance in instalments as a kind of integration in the pension system. However, although employees can choose a one-off payment or payment by instalments most of them choose the former for the time being.

In view of the growing mobility of the workforce that seems to be desired by both workers and employers it may be envisioned that the retirement allowance system in its evolved form would gradually disappear. Its maintenance in the case of mandatory retirement moving up to 65 would force companies to substantially redesign the wage curves of all employees. However, no significant moves are observed for the time being. Retirement allowance continues to play a role in the nurturing of a long-term oriented corporate culture and its social and economic role for elderly workers remains important.

One leading electrical machinery manufacturer (Panasonic) has allowed new employees to choose a course "with retirement allowance payment" or a course "without retirement allowance payment" since the late 1980s. At first, integration in the pension system meant a higher monthly wage but now it also means a bonus with a lower contribution to the social security. It is said that about 50% of the employees select one method or the other (Sueki, 2001). One objective of this policy is to prepare for employment practices that facilitate job changes and to cope with the ageing advance in a long-term perspective. However, although the initiative gathered attention no companies have followed suit so far.

Instead, the trend in recent years points toward a retirement system that is rapidly spreading. Retirement systems disconnected from wages and company pension are deemed to be mutually exclusive but conditions were eased and now point retirement systems attract greater attention as a meritocracy-linked tool. Many of them are dual, i.e., they mix continuous service point and performance point. This enables the retirement system to be integrated in the performance-based wage system.

Another approach would be to abolish the retirement allowance payment. One leading precision equipment maker abolished retirement system by paying retirement payment at once. 100 per cent of the funds that had been accumulated in order to pay the retirement allowance were redistributed to all workers. But the measures do not stop there. The amount of money that would have been paid at retirement time is included in the bonus each time. This example indicates that changes (including abolishment) of the retirement allowance payment cannot but be gradual. So far, there is almost no case of complete removal of the retirement allowance schemes even in the case of wage annualization schemes. What is observed is that (mainly large ones)

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companies have started to transform it in integrating the allowance in the pension schemes and in adopting the point system mentioned earlier.

Wage administration of middle and advanced age workers

One feature of the system of retirement for employees aged 55 was that employees below this age gained a periodic wage hike. However, after the change of retirement age from 55 to 60, the setting of wage of over 55 year-old employees was drastically modified because it meant an actual increase in labour cost. Many Japanese companies had the wage curves recouping in the second part of the 40s, and lifelong working and lifelong wages was coming to balance when employees retire at 55. Diverse wage curves were set up in taking two considerations in minds, i.e., the balance with the wage-related treatment of the young workers and a comparison with other companies. This led to more various wage curves, especially in large companies but with always the overriding objective of restraining wage hike.

However, little difference is actually observed between companies adopting the average periodic wage increase pattern and the average in those adopting the pattern of discontinuing the periodic wage hike. When the total cost of all employees is considered the changes in wage pattern for the employees over 55 year-old do not generate clear difference in total labour costs. Thus, in term of wage setting it could be argued that more importance should be given to the balance between young and elder employees' and to the balance of duty, skills and ability (Fukuda, Sueki, & Mikami, 2013).

The wage curve is the basis of the calculation of the lifetime earnings that add monthly wage (multiplied by 12) and annual bonus from the initial salary to the age of retirement. However, as seen beforehand the retirement allowance is very important and the impact of the move from 55 to 60 in retirement cannot be neglected when lifetime earnings is calculated in the case of all the model wage patterns. On the one hand it is observed that lifetime earnings increase considerably in all cases. On the other hand, the amount of work also increases by 15.2% in the case of a university graduate because the career extends from 33 to 38 years. As a result, lifetime earnings are not much different even with different wage curves from 55 to 60 (Sueki, 2012a).

Changes in wage setting for middle or advanced age workers

There are examples of alterations in the wage curve related to the wage setting of employees aged over 60: these settings impact employees younger than 60. The changes imply the use of a point system in order to facilitate the change in wage management. In the case of retirement and employment extension, when changes in lifetime earnings are looked upon there is an issue that is often neglected, namely that of the volume of performed work. If the working period is the same it may be possible to oversee such issue but in the case of retirement extension the volume of the increase of the performed work. When the retirement age moved up from 55 to 60, in companies that changed the wage curve for employees who were under 55 years old troubles occurred, sometimes leading employees to launch legal challenges. This is because despite the increase in working time the changes in the system did not lead to any significant increase in lifetime earnings. In that case there was no merit to just continue

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working. It was financially more rewarding to retire without profiting from the retirement extension and to move to another company.

Currently, and with the employment extension to 65 years of age, there are similar moves in some companies to undertake modifications in the wage curve that concern employees who are below 60 years old. Then, it is possible that similar legal problems emerge. In the case of changes that impact also employees who are under 60 years old it has to be examined to what extent it leads to a decline in lifetime earnings before the age of 60. Then, there needs to be some examination of how the gap through the wage setting after 60 years old can be covered: in other words, to what extent does the total wage between 60 and 65 years old impact on each employee's lifetime earnings?

The extension of employment from 60 to 65 takes the form of reemployment in most companies. In many companies that decided to extend the retirement age wage management is often similar to that adopted in companies that decided to keep the retirement age at 60 and preferred re-employment. It is the case for instance at Suntory that has adopted a policy of extension of the retirement age and not reemployment. However, wages amount to 70 per cent of what they were at age 60. Therefore, there is no significant difference with other companies utilizing re-employment (Sueki, 2013).

It is still difficult at this point to know about how companies will proceed in order to create enough jobs for the employees between 60 and 65. So far, wages were set so far in taking into account that employees receive about half of the public pension. Many employees suffered from wage reduction by half compared to their wages at age 60 but had this supplemented by the pension and financial support from government. The broad picture in term of amount of money can be described as such. For example if the wage curve during the whole career is from 200,000 Yen to 600,000 Yen, and if the starting point is a public pension of 200,000 yen per month, and if half of this is paid, the wage at the end of the employee's career can be compared. If, however, end of career wage is 600,000 Yen per month, and post-retirement monthly wage is half of this (300,000 Yen), and if 100,000 Yen per month of pension is added, then the post-retirement total compensation would be around 400,000 yen per month: that is, around 70 per cent of the pre-retirement compensation at the end of the career.

However, with the change in the public pension eligibility age companies have to reset elderly employees' wages in taking into account the new environment. The situation is not clear because no precise data are available. It seems that many companies have problem to cope with the issue of the pension deferment. It is difficult to cover more than about 50% of the loss of the pension part but representative cases show that nowadays companies aim to set the wage at a level between the initial and retirement age wage at 60. The change in cost and lifetime earnings that result from the extension of retirement age is taken much in consideration (Sueki, 2012b).

So far the Ministry of Health, Labour and Welfare has not regarded the decrease in wages for employees over 60 as a problem. This is because employees over 60 are not supposed to keep the same job with the same responsibilities. However, it is not as clear-cut as it seems. There are many companies where over 60 employees do the same work as before mandatory retirement and where they are treated as temporary

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employees in term of wage. In that sense, employment of the elderly is largely related to the regular versus non-regular employee issue. The increase in non-regular employees is an international trend and the common point is instability of employment. However, treatment is different between Japan and Western countries. In the latter countries, wage differential between regular and non-regular employees is small and wage discrimination is forbidden in many European countries (Sueki, 2012a).

In Japan, on the other hand, there are large differences in term of wage differential between regular and non-regular employees. Periodic rise in salary system does not include non-regular employees in general. Moreover, regular employees receive one-third to one-fourth of their annual income as bonus. But many non-regular employees do not have a bonus. Even if they receive one, the amount is small. Also, non-regular employees generally do not receive any retirement allowance. Consistency in treatment of non-regular employees and regular employees is required if most employees do not change their duty after 60 in term of equity balance lest companies become unable to keep motivated those elderly workers and to optimize their talent and experience.

Conclusion

The changes and evolution evident in the Japanese wage system reflect globalization and the growing fluidity of domestic labour markets. Wage structures in Japan have been strictly regulated because of government intervention and a relatively closed labour market – at least, in direct comparison to other nationally defined contexts for HRM. Only limited issues such as those related to the initial salary and to the temporary employees were affected. So, the Japanese wage system was strongly affected by management philosophy and HRM system in companies. HRM was based on personnel changes and wage management policy remained vague.

Under pressure of globalization, Japanese wage management is developing systems that appear more strongly related to actual jobs or performance achieved. Market changes all over the world are bound to have a growing impact on wages. As a result market rate for each type of occupation will appear also in Japan and further changes in wage management systems in response to labour market fluctuations will ensue. From now, companies are likely to proceed with wage administration on the assumption that employees are not generalists but specialists. However, the policy followed thus far appears to reflect the intent to retain what are perceived as strongly and uniquely Japanese features of a system targeting long-term human resource *development* as opposed to human resource management *per se*. For while employers in Japan must rethink their management of wages for employees aged fifty and over, they should link this thinking to a consistent wage system that takes account of the interests of younger employees. This represents a distinctive and perhaps unique expression of Japanese 'corporate social responsibility' (cf. Debroux, 2014; Witt, 2014).

In order to survive, wage systems targeting older employees in Japan need to establish deeper connections between ability and skills, and be adapted to accommodate to cater for younger segments of the workforce: for example, by including regular wage rises and a more performance-driven system adopted for middle-aged and elderly managers such the impact of periodic wage hikes can be moderated. It will take time for HRM practitioners and policy makers in Japan to move towards a wage curve that

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shows small gaps between employee or manager responsibility, performance, and wages. However, in order to satisfy younger generations of employees while simultaneously creating productive and respectable job openings for older employees, there appears currently to be no other alternative.

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