

**Report of the Study Group on
Improvement of Sustainable Corporate Value
and Human Capital**

September 2020

Ministry of Economy, Trade and Industry

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Introduction

Amid the acceleration of remote working in response to COVID-19 infections, the development of environments in which people can choose to work without any constraints in terms of time and place is progressing rapidly. In parallel, there are cases where the conventional forms of employment are being switched to job-based employment. However, we should not lose sight of what is essential by focusing on superficial phenomena.

The essence of the problem is that various new issues we face today have not emerged abruptly due to the COVID-19 crisis and although organizations and individuals have been required to take drastic actions to address issues in the environment of the times in which events arise non-continuously and are difficult to predict, organizations and individuals have put off working on the issues in a full-fledged manner. The unexpected shock from the COVID-19 pandemic has not actually generated new issues but prompted the whole of society to address issues to be solved at the level of organizations and individuals. Now we are facing an unprecedented challenge and that's the time when we should change the crisis into an opportunity by confronting it proactively to advance toward the future.

However, once a large force is applied, momentum (inertial force) to return to the original state will almost surely be generated. We do not deny the intention of “Building Back Better” from the COVID-19 crisis, but we should instead use this crisis as a springboard for “Building Forward Better.”

To achieve an improvement of sustainable corporate value, corporate governance reform has been progressing in Japan since 2010. An important fact is that a major determinant of corporate value makes a shift from tangible assets to intangible assets. Among intangible assets, human capital should be regarded as the foundation of business management. In that sense, value creation with human capital is positioned at



the center of activities to create corporate value. Nonetheless, under normal or favorable circumstances, organizations and individuals assumed a lukewarm attitude toward capturing the essence of problems related to human capital and drastically revising the approach to the problems. However, with such attitude, they would not survive in global competition of corporate value creation. In a sense, the COVID-19 crisis is a good opportunity for questioning “common knowledge,” resisting “inertial thinking” and initiating a movement for significant change. Going forward, a difficult-to-fill gap in corporate strength will develop between companies who can make a creative and flexible transformation to make the maximum use of human capital and companies who cannot.

It is said that in the labor market, adoption of remote interview practices has already been progressing in the recruitment process and there is a more than five-fold gap in the number of job applicants between companies that support teleworking and those that do not. In addition, there is a widespread awareness among Japanese and overseas institutional investors that with regard to ESG (Environmental, Social and Corporate Governance) investments, the S factor is essential in improving sustainable corporate value. As such, a movement to place a further emphasis on the S factor in dialogue with companies in the future is emerging.

Under these circumstances, the executive team of each company needs to lead the way to return to its corporate philosophy and *raison d'être* (purpose), plan backward from its ideal future business models and management strategies and reconsider whether management resources it possesses go well with such models and strategies. From the perspective of human capital in particular, a gap between the resources and the business models needs to be visualized and filled. By going beyond a unilateral perspective of adapting the people strategy to the corporate strategy, note should be taken of the fact that talents and the people strategy themselves can widen the potential of the corporate strategy. Through this process for synchronizing the people strategy and the corporate strategy, efforts need to be made to improve corporate value on a medium- to long-term basis.

This report proposes the “3P/5F Model” that describes characteristics of people strategies that should be pursued in the future. We recommend that executive teams formulate and implement their people strategy that leads to sustainable growth of

corporate value by taking into account three perspectives and five common factors.

The Study Group is characterized by the fact that CHROs (Chief Human Resources Officers) of representative companies in Japan, institutional investors that play an active role at the forefront of the capital market, well-experienced personnel consultants, academics and related persons from government bodies gathered together to discuss human capital issues. The COVID-19 crisis occurred soon after the Study Group started its activities in January. The Study Group was not established with the main aim of thrashing out measures to overcome the crisis, but the COVID-19 crisis heightened our sense of danger and problem consciousness regarding the work style reform and the whole concept of human capital. As a result, solidarity among the members of the Study Group and their dedication to discussion increased.

How should executive teams move away from their past successes and build a people strategy for the future? In such process, what role should the board of directors of a company play from the perspective of corporate governance? And how should executive teams proceed with dialogue with institutional investors? We truly hope that executive team members including CHROs, persons in charge of personnel affairs, members of boards of directors, institutional investors, and those who are deeply concerned about and acutely aware of issues associated with a future relationship between organizations and human capital will read this report and use it as a guide for their future actions.

September 2020

The Study Group on Improvement of Sustainable
Corporate Value and Sophistication of Human Capital

Kunio Ito, Chairperson

Objectives of this report

- Under circumstances where the source of corporate competitiveness are talents, this report discusses improvement of sustainable corporate value and human capital on the basis of the recognition that talents are valuable assets.
- To achieve an improvement of sustainable corporate value, a business model, a corporate strategy and a people strategy must be coordinated. Meanwhile, as the speed of changes surrounding companies and individuals is increasing, there is a widening gap between business models and corporate strategies to be pursued, and talents and people strategies. Major business management issues are how and in what timeframe such gap should be filled. Such issues are emerging more clearly as a result of the spread of COVID-19 infections and measures taken to respond to the infections.
- People strategies of companies need to fill such gap, enable new business models and corporate strategies to be implemented, and lead to an improvement of sustainable corporate value. For this purpose, the executive team of a company, in particular the CHRO (Chief Human Resource Officer), should take the initiative to formulate a people strategy, and core members (5Cs: CEO [Chief Executive Officer], CSO [Chief Strategy Officer], CHRO, CFO [Chief Financial Officer] and CDO [Chief Digital Officer]) of the executive team need to work together to implement the strategy. In addition, the CHRO has an important role to play in actively providing information on the people strategy to employees and investors and holding dialogues with them. Furthermore, the role of the board of directors to supervise and monitor the efforts made by the executive team and the role of investors to hold dialogues with the executive team about a corporate strategy and a people strategy are also important.
- People strategies differ depending on industries and companies, but from a higher point of view, there are the following three perspectives for such strategies: (i) Whether the people strategy of a company is coordinated with its corporate strategy, (ii) whether a gap between a business model and the corporate strategy to be pursued, and talents and the people strategy is ascertained, and (iii) whether the people strategy encourages organizations and individuals to change their behavior in a desired direction and is established as a part of corporate culture.

- In addition, five common factors are extracted as specific contents of a people strategy. First, (i) the factor (of whether a workforce portfolio that allows a diverse range of individuals to play an active role has been constructed to realize a business model and a corporate strategy to be pursued is extracted. We named it dynamic workforce portfolio. On the other hand, even if a workforce portfolio has been constructed, if each diverse individual and teams/organizations are not vitalized, such portfolio will not lead to improvement of productivity and creation of innovation. From this viewpoint, the following factors are extracted: (ii) diversity and inclusion of knowledge and experiences: the factor of whether a workplace environment is created so that diversity of each individual leads to dialogues, innovation and the output and outcome of businesses, (iii) re-skilling and continuous learning: the factor of filling a gap between skills for realizing the future vision and the current skills, and (iv) employee engagement: the factor of whether a diverse range of individuals work in a proactive and highly motivated manner. In addition, (v) the factor of working without constraints in terms of time and place (this factor has emerged more clearly amid the response to the COVID-19 infection) is extracted. Executive teams need to formulate and implement people strategies that lead to improvement of corporate value, taking into account those three perspectives and five common factors.
- This report consists of three chapters. , Chapter 1 describes a direction of reformation which can be used as a guide for future actions, taking into account significant changes in environments surrounding companies and individuals, such as a change in industrial structures due to the fourth industrial revolution and a change in attitudes of individuals to career development, and also taking into account the recent situation including the response to the COVID-19 infection.
- Chapter 2 summarizes roles and actions that are expected to be carried out by each of the following parties: executive teams who lead the reformation described in Chapter 1; boards of directors that supervise and monitor executive teams; and investors who hold dialogues with executive teams.
- In Chapter 3, the above three perspectives and five common factors are summarized and presented as the 3P/5F Model in association with people strategies that executive

teams take the initiative to formulate and implement and people strategies that are coordinated with corporate strategies.

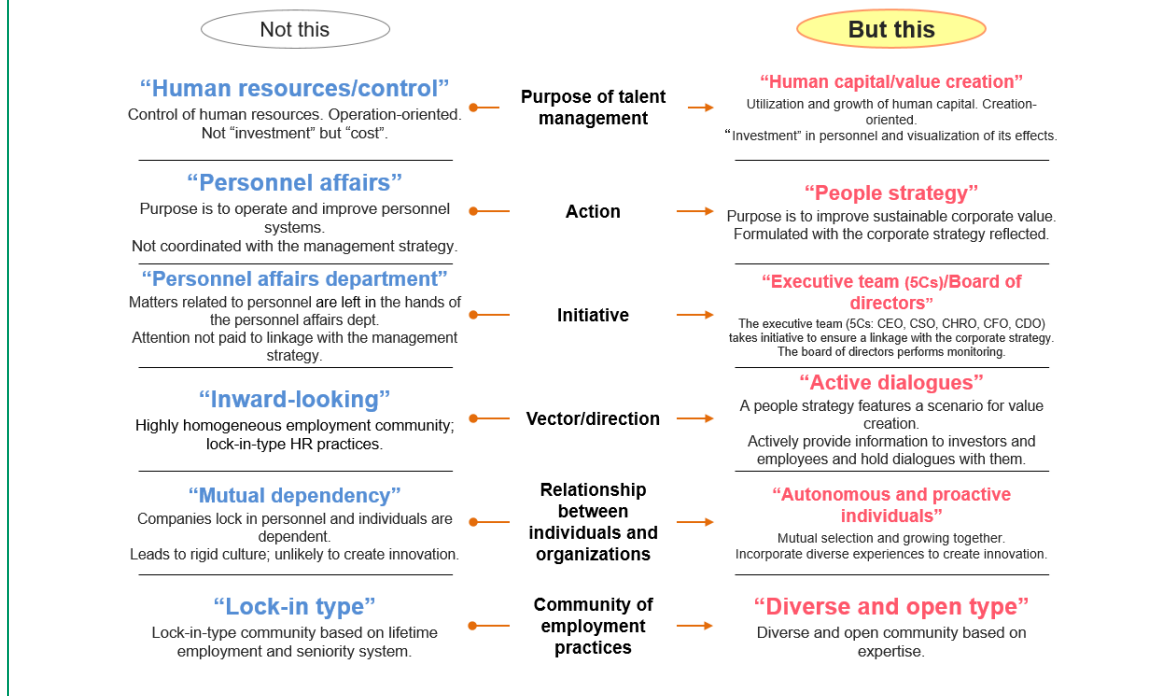
- We hope that this report will be used as a guide by executive teams that formulate and implement personnel strategies and boards of directors that supervise and monitor executive teams. It is also our hope that this report will be referenced by institutional investors at the time of their engagement activities.
- Listed companies, in particular those that compete in the global market, are assumed as readers of this report. However, as with those companies, non-listed companies also aim to improve sustainable corporate value by formulating and implementing a people strategy that is coordinated with a business model or corporate strategy, taking into account the business environment surrounding them, and therefore we consider that non-listed companies will also find basic approaches described in this report informative.

Chapter 1. Improvement of Sustainable Corporate Value and Human Capital

Executive Summary

- Amid the response to the COVID-19 infection, the question of what people strategies including work styles should be like has attracted renewed attention. However, such response shares a substantially identical direction with responsive measures for environments surrounding companies and individuals, such as a rapid change in industrial structures due to the fourth industrial revolution, etc., a declining birthrate and aging population, arrival of the era of longevity where a 100 years of age is a common thing, and a change in attitudes of individuals to career development.
- Amid these changes, companies face a variety of management issues, but these issues and issues related to talents are inextricably linked together. Both issues require a speedy response. Therefore, it is necessary for each company to return to its corporate philosophy and raison d'etre (purpose) and reform its people strategy with the aim of improving sustainable corporate value.
- There is a trend for Japanese and overseas institutional investors to think a lot about ESG factors in relation to improvement of sustainable corporate value. Among those factors, the importance of the S (Social) factor has been reaffirmed.
- In an era of rapid change, companies and individuals are required to have the reformation ability to flexibly respond to changes and enhance their resilience to unexpected shocks, regardless of their past successes.

Figure 1: Direction of reformation



1. Issues to be tackled

- Amid the response to the COVID-19 infection, approaches of people strategies have been questioned again so that a stable and flexible community of employment practices can be secured and a diverse range of individuals can play an active role even in a remote-work environment.
- However, this trend shares an essentially identical vector (direction) with the trend of changes in environments surrounding companies and individuals, such as a rapid change in industrial structures due to the fourth industrial revolution and globalization, a declining birthrate and aging population, arrival of the era of longevity where a 100 years of age is a common thing, and a change in attitudes of individuals to career development. What is important is that amid the response to the COVID-19 infection, the whole of society is required to have the reformation ability to swiftly respond to changes.
- Companies face various management issues, such as responding to rapid progress in technology, meeting increasingly diversified customer needs, and continuing business

with safety of employees ensured. These issues and issues related to talents who actually conduct business activities are inextricably linked together, and companies are facing a pressing need to review approaches of their people strategies, while simultaneously transforming their corporate strategies and business models.

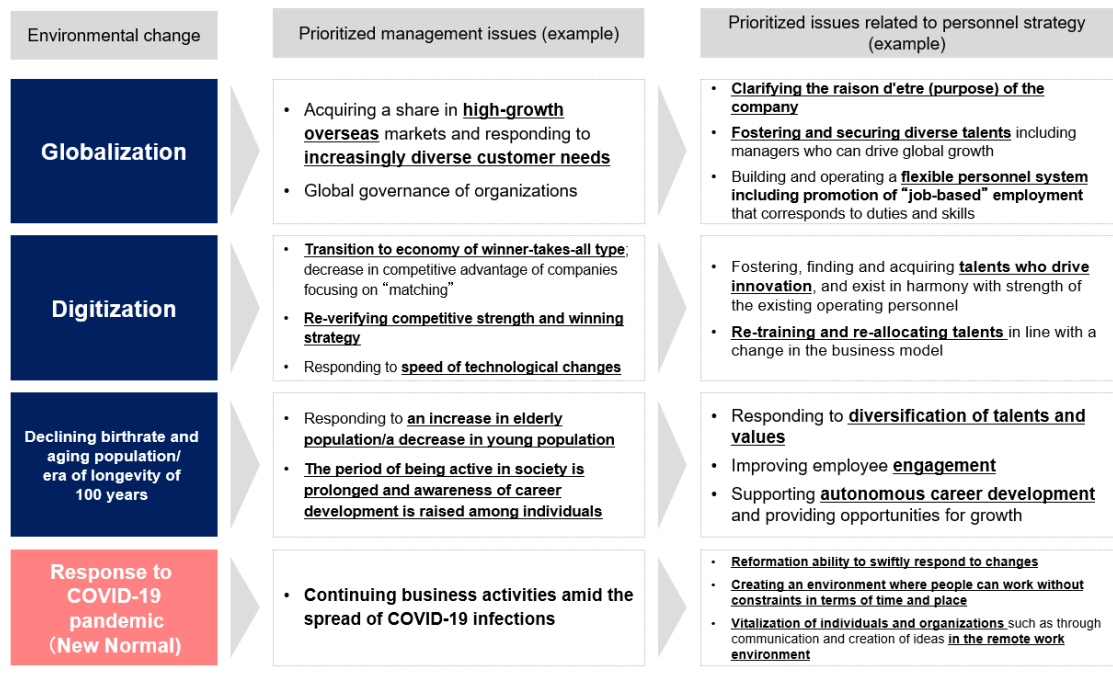
- In addition, a diverse range of talents including women, the elderly, the disabled, and foreigners have been playing more active roles than before, and attitudes of individual workers to career development and their values are becoming increasingly diversified. For companies, there are major issues, such as meeting individual needs of workers and providing attractive experiences and opportunities (Employee Experience; hereinafter “EX”), from the perspective of securing excellent and diverse talents.
- Also, as indicated in “Ito Review 2.0”¹, the ratio of tangible asset values to market values of U.S. S&P500 companies is decreasing year after year, and the amount of investments in intangible assets (percentage relative to the total amount of added value) by U.S. companies has surpassed that of investments in tangible assets since the late 1990s with the difference widening. In addition, there is data indicating that among ESG factors, the S (Social) factor in particular is closely linked to corporate value, and stocks of companies that are highly rated in terms of the S factor perform strongly².
- As intangible assets including human capital have become the source of corporate value, the importance of talents and people strategies for business management becomes larger than ever before, and top executives in Japan and abroad recognize that issues such as securing talents who are important for business management are important agenda items. Meanwhile, many Japanese companies share the necessity of responding to changes and risk awareness, but have not succeeded in effectively implementing people strategies linked to corporate strategies.

¹ Ministry of Economy, Trade and Industry “Ito Review 2.0 Report of the Study Group on Long-term Investment (Investment Evaluating ESG Factors and Intangible Assets) toward Sustainable Growth” (2017)

² George Iguchi “Presentation Material for OECD Private Finance for Sustainable Development Conference” (2020)

- Due to the response to the COVID-19 infection, the whole of society is currently exploring ways to adapt to the New Normal, and there is a high probability that companies that swiftly respond to the changes and companies that hesitate about taking a step towards change will be differentiated in the labor market and the capital market.
- Each company needs to return to its corporate philosophy and raison d'etre (purpose), and reform its people strategy so that human resources that provide a competitive advantage for the company and drive creation and acquisition of a new market through innovation can be secured and fostered and an environment that helps generate innovation can be developed for the purpose of improving sustainable corporate value.
- In addition, from the perspective of promoting such reformation, it is necessary to take measures such as to increase mobility among talents in society as a whole and develop rules for enabling choice from among a diverse range of work styles.

Figure 2: Direct linkage between management issues and issues related to people strategy



2. Direction of reformation

- Driving forces for providing a competitive advantage to companies and improving sustainable corporate value and supporting economic growth through creation of innovation are “talents.” Therefore, it is important for the whole of society to work to achieve an improvement of human capital. Especially, in the times in which changes occur non-continuously and are difficult to predict, both companies and individuals need to flexibly respond to changes and enhance their resilience to shocks, and the reformation ability to swiftly respond to changes is closely linked to productivity and competitiveness. This is an issue, the importance of which has been reaffirmed amid the response to the COVID-19 infection.
- To tackle such issue, companies need to modify their approaches to human capital management and their relationship with individuals according to changes in society, and make a shift to an open and equal relationship with the aim of creating value, regardless of past successes.

(1) Purpose of human capital management: from “human resources/control” to “human capital/value creation”

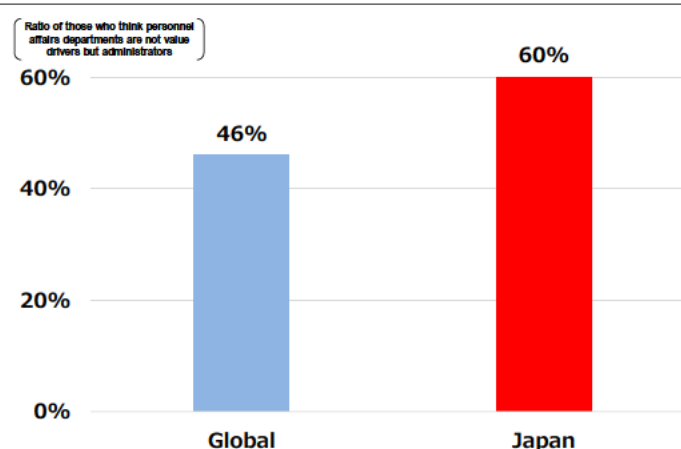
- To date, talents are often regarded as “human resources.” This expression implies “something that has already been possessed is used and something currently available is consumed.” For this reason, if the concept of “human resources” is used as a starting point, the direction of management will be based on an approach to “how such use and consumption are controlled” and funds invested in personnel are regarded as “costs.”
- However, while receiving education and training and conducting day-to-day operations, etc., talents grow and play a role in creating value. In addition, what companies should pay attention to is not limited to talents that currently belong to them. There is naturally a possibility that companies may need to recruit and secure necessary talents from outside, as a result of changes in business environments and radical changes in management strategies.
- For these reasons, it is necessary to regard talents as “human capital” and make a shift to an approach to “securing necessary human capital according to the

situation.” If talents are viewed in this way, the direction of management is shifted from “controlling” to “creating value” through growth of talents and funds spent for talents are regarded as “investments” for value creation.

Figure 3: Personnel affairs departments in Japan are not regarded as “value drivers”

- The ratio of those who think that personnel affairs departments are not value drivers but administrators is 60% in Japan, which is 15 points higher than the global average.

Ratio of those who regard personnel affairs departments as administrators



(Note) Responses to the question “Do you think the personnel affairs department is not a value driver but an administrator?” are aggregated.

(Source) Prepared based on KPMG “Future of HR 2020: Japan’s HR departments facing a crossroads; one method of reformation” (April 2020).

(2) Action: from “personnel affairs” to “people strategies”

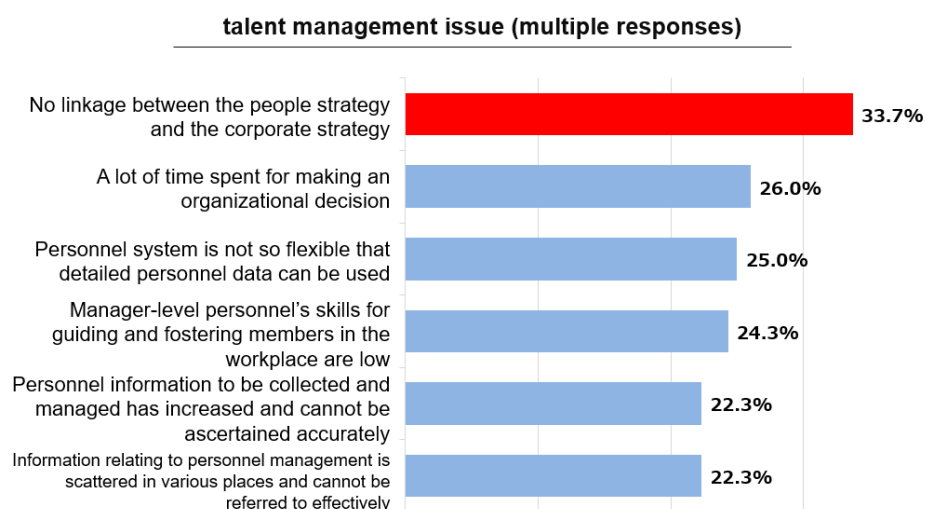
- In the past, Japanese employment practices and personnel strategies represented by simultaneous recruiting of new graduates, life-time employment and seniority-based wage systems were consistent with the direction of business models and corporate strategies of Japanese companies and functioned as the source of their competitiveness.
- However, as the business environment and the direction of business models and corporate strategies have been changing, the conventional employment practices and personnel strategies have been maintained, and as a result, many companies face the issue of inconsistency between their people strategy and their corporate strategy.
- Even if a company invests a large amount of funds in talents or adopts an advanced personnel system, such investments or personnel system will not lead

to improvement of its corporate value if not coordinated with its business model or corporate strategy and not positioned appropriately within the model or strategy.

- By planning backward from the final goal of improving sustainable corporate value, each company needs to formulate and implement a people strategy from the perspective of how to realize its corporate strategy to achieve its medium- to long-term business model that provides a competitive advantage in a sustainable way.

Figure 4: The most important issue is a linkage between a people strategy and a corporate strategy

- The ratio of those who cited “no linkage between the people strategy and the corporate strategy” as a talent management issue came first, exceeding 30%.



(Note) An online survey of 300 managers who work for a Japanese company with at least 300 employees and who hold a position equivalent to or higher than a section manager of the personnel affairs department was conducted in June 2019. Responses for each of top six items were aggregated.

(Source) Prepared based on Persol Research and Consulting Co., Ltd. “Survey on Actual Status of Talent Management” (HITO REPORT October 2019 issue).

(3) Initiative: from “personnel affairs department” to “executive team/board of directors”

- In the case of a company that has operated based on the same employment practice and personnel strategy, the human resource department has been mainly in charge of operations related to personnel measures as an administrator. Going forward, it is necessary to drastically revise this role and have the human resource department take charge of leading the creation of business value.

- On the other hand, there are cases where the existence of a high-performance business division hinders the progress of reformation or where an executive team does not deem talents to be an issue of business management, resulting in the human resource department being unable to get involved in planning a corporate strategy³.
- Each executive team needs to take the initiative to break through this situation and re-build a people strategy so that it can lead to improvement of sustainable corporate value. In doing so, core members (5Cs: CEO [Chief Executive Officer], CSO [Chief Strategy Officer], CHRO [Chief Human Resource Officer], CFO [Chief Financial Officer] and CDO [Chief Digital Officer]) of the executive team need to work together so that strategies relating to talents, funds, technology and information are formulated and implemented in an integrated fashion, rather than in a separate fashion. The CHRO in particular can play an important role in formulating and implementing a people strategy that leads to accomplishment of a corporate strategy as a member of the executive team.
- Taking into account the importance of a people strategy that is coordinated with a corporate strategy from the perspective of feasibility of the corporate strategy, the board of directors of a company needs to discuss talents and its people strategy, supervise and monitor whether the direction of its people strategy is coordinated with the direction of its corporate strategy, and lead the company in the right direction.

(4) Vector/direction: from “inward-looking” to “active dialogues”

- Amid an increase in importance of talents and people strategies for improvement of sustainable corporate value, it becomes increasingly necessary for a company to send out information on its talents and people strategy to its stakeholders within and outside the company and hold active dialogues with them.
- Turning to a relationship with employees, the above measures provide a company with an opportunity for fostering an environment where employees

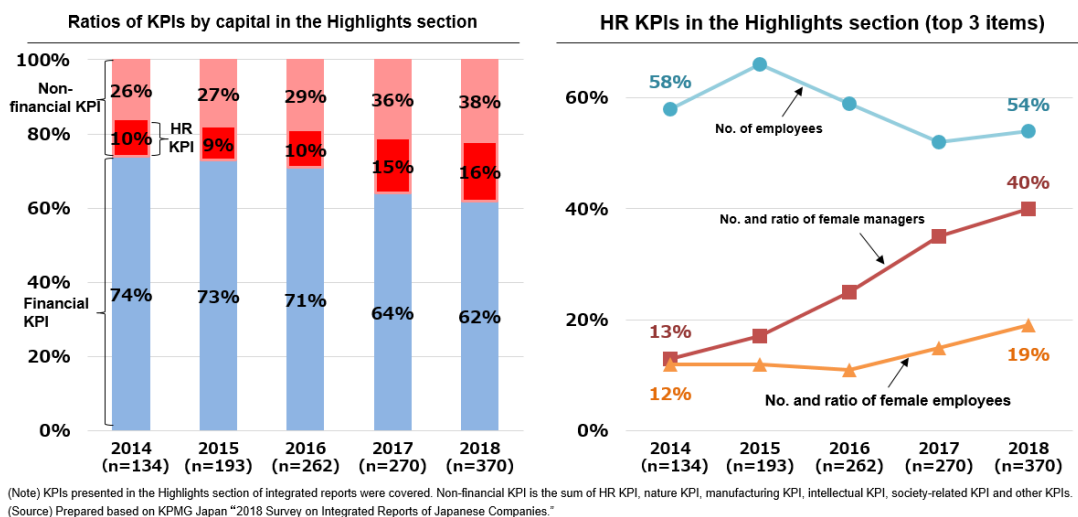
³ According to “White Paper on Personnel Affairs 2019” by Japan’s Human resource department, the total number of companies saying that their human resource department “is involved” and “is somewhat involved” in a decision-making process for their corporate strategy was less than half the number of respondents.

themselves can understand how their contribution leads to realization of the corporate strategy that aims to acquire customers, earn profits and improve corporate value by solving social issues, and an opportunity in which not only employees but also individuals in the external labor market are attracted to the company.

- In a relationship with investors, companies fulfill their accountability by explaining that the corporate strategy is not a pie in the sky and can be accomplished because the strategy is backed up with talents who are in charge of businesses. Actually, there are institutional investors who consider that it is talents that drive productivity, and institutional investors who actively discuss people strategies with companies they invest in.
- Therefore, executive teams should take the initiative to send out to outside parties information about how their talents and people strategy lead to accomplishment of the corporate strategy and improvement of sustainable corporate value, and should hold active dialogues with stakeholders. As a precondition for such measures, companies need to visualize information about talents and people strategies, such as information about how their corporate strategy is coordinated with their talents and people strategy and how the people strategy is progressing.

Figure 5: Status of disclosure of talent-related information at companies

- Among KPIs presented in integrated reports, the ratio of non-financial KPIs is on an upward trend. The ratio of HR KPIs is also on an upward trend but did not exceed 16% even in the most recent survey.
- Top three HR KPIs are limited to the number of employees, the number and ratio of female managers and the number and ratio of female employees.



(5) Relationship between individuals and organizations: from “mutual dependency” to “autonomous and proactive individuals”

- Based on Japanese employment practices and personnel strategies, Japanese companies created a community of employment practices with high stability and homogeneity and have achieved growth by taking advantage of coordination and teamwork abilities derived from such community. However, currently, the excessively high stability and homogeneity make it difficult to adapt to rapid changes in some cases.
- In addition, against the backdrop of intensified global competition and advancement of digitization, changes have occurred, as exemplified by a change in business environments that makes non-continuous innovation an important factor for improving corporate value on a medium- to long-term basis, and diversification of values and work styles of individuals. Under these circumstances, even if Japanese conventional personnel strategies simply continue to be implemented to pursue stability and homogeneity, this will likely

not lead to creation of new value through innovation. Thus, a major issue is how to ensure that diverse individuals are motivated to play an active role.

- Looking at a relationship between organizations and individuals at Japanese companies, employee engagement is significantly low in Japan compared with other countries in the world⁴, and the situation in Japan is not that employees are highly motivated to make autonomous and proactive contributions. Employee engagement means that “employees understand and feel sympathy for the vision and direction pursued by the company and are motivated to make active contributions to achieving the vision and direction”⁵. Employee engagement differs from employee satisfaction. In the case of satisfaction, employees evaluate an organization they belong to, the situation of the workplace, their superior, their work, etc., by using “their own yardstick.” In the case of engagement, employees “use the direction and vision pursued by the company as a yardstick” to evaluate the degree of their understanding, the degree of their sympathy and their motivation⁶.
- Instead of providing a uniform career path, companies need to ensure the diversity of work styles and give workers a push to develop their career autonomously, upgrade their skills and develop a new skill set. Along with these efforts, companies need to accept diverse talents and values, create an environment where such values can be expressed and embodied, and offer attractive experiences and opportunities (“EX”) to employees. Furthermore, to enable talents with high expertise including talents in the field of artificial intelligence(AI) to play an active role, companies need to actively interact with external talents and endeavor to take measures such as offering diverse forms of employment and opportunities (including a concurrent business, side job, freelance job, etc.).
- Instead of leaving career development in the hands of companies, individuals need to take career ownership and make their own independent decision to select a company to work for. At the same time, in the era of longevity of 100

⁴ According to the “State of the Global Workplace” survey conducted by Gallup (2017), the ratio of “engaged employees” in Japan is 6%, coming 132nd among 139 countries subject to the survey.

⁵ Willis Towers Watson “Engagement: back to basics! – Why have employee surveys focused on ‘engagement’ for the past 10 years? –” (October 2019)

⁶ Willis Towers Watson “Engagement: back to basics! – Why have employee surveys focused on ‘engagement’ for the past 10 years? –” (October 2019)

years, assuming that people will play a role in society for a longer period than before, individuals need to continue to perform re-learning even after becoming a working member of society and acquire skill sets that meet the needs of the times.

(6) Community of employment practices: from “lock-in” to “diverse and open ”

- In Japan, due to employment practices and personnel strategies centered on simultaneous recruiting of new graduates, life-time employment, and seniority-based wage systems, many companies have created a community of employment practices to lock in individuals, and have developed so-called “membership-based” employment practices based on simultaneous recruiting of new graduates (with a focus on their potential) and life-time employment, thereby driving the growth of the companies.
- In a business environment where the main objective is to efficiently offer products with highly homogeneous quality, the membership-based practices have been beneficial. Meanwhile, as values and needs of individuals become increasingly diversified amid the rapid change in business environments and the frequent occurrences of non-continuous innovation, issues, such as development and acquisition of talents adapting to the changes and improvement of expertise of employees, are becoming apparent.
- With regard to what a community of employment practices should be like, each company needs to make managerial decisions while formulating and implementing its people strategy suitable for its corporate strategy. Given that individuals will become autonomous and proactive and have an equal relationship with companies, instead of locking in individuals, each company needs to promote a community of diverse and open employment practices based on mutual selection by companies and individuals.
- In these kinds of communities of employment practices, nationalities and attributes of talents will become diverse, and there will be an increase in cases of hiring of mid-career and experienced talents, promotion and acceptance of concurrent businesses and side jobs, and utilization of gig workers and freelancers. As a result, a community of employment practices will consist of

talents with a diverse range of values and expertise, and therefore motivation drivers of individuals will also become diversified. To access and acquire talents with diverse values and high expertise and have them play an active role, companies that compete in the global market in particular need to clarify the content of work assigned to job positions and promote “job-based” employment practices⁷ where talents with necessary skills for performing the work are encouraged to play an active role.

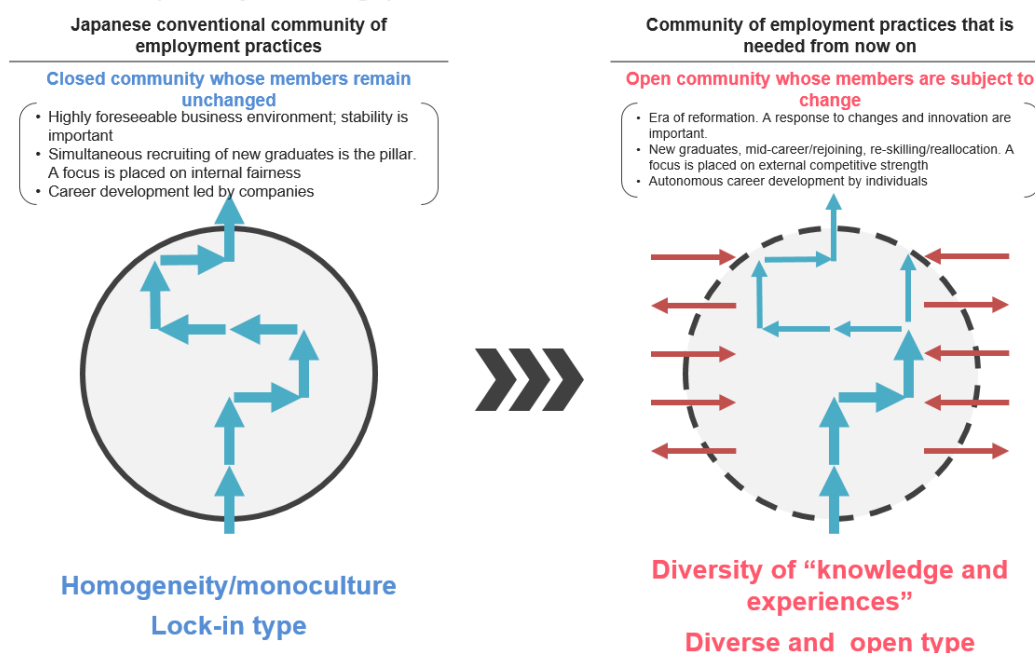
- Even now, in the case of hiring of mid-career and experienced talents, employment practices where the job description is clarified are often performed. However, even in the case of hiring of new graduates, some companies perform employment practices where job description is clarified. For example, with regard to AI, computer science and other job categories for which what expertise is required is clear, job-based forms of employment are adopted from the phase of hiring of new graduates, and the scope of such forms of employment is expected to be expanded to include other types of talents. In addition, long-term internships and other programs where the content of work is clarified are also useful in promoting career development of individuals and are expected to increase in the future.
- When making a shift to job-based forms of employment, each company needs to make managerial decisions on their own according to the industry types and the situation of the company, taking into account what specific direction should be driven in what timeframe, from the perspective of enhancing its competitive advantage including creation of innovation and the perspective of workers’ expertise and awareness. In that case, it is also assumed that some companies will take a step towards the direction of making a hybrid use of membership-based and job-based practices as a transitional measure toward job-based practices. For example, it can be assumed that, taking into account workers’ expertise and awareness, a company takes the following approach: a person joins the company, assuming a career-track position, improves his/her expertise while

⁷ In the U.S. and Europe, “job-based” employment generally refers to employment practices where duties, work hours and workplaces are limited in a contract. In this section, however, job-based employment practices include employment categories close to the specialized job and professional-type employment category where employees with necessary knowledge and abilities for performing relevant work, etc., are deployed, transferred and encouraged to play an active role, with reference to the “2020 Report of the Keidanren Special Committee on Management and Labor Policy” by Keidanren.

experiencing a job rotation, etc., in his/her 20s, and makes a shift to the job-based form of employment in his/her 30s; an open application system is adopted for all managerial positions, thereby beating the seniority system. In other cases, a company may choose the method of successively shifting an employment portfolio of the whole organization from membership-based to job-based employment, depending on the types of growth phase, business line, etc., of the company.

- Note that in promoting a diverse and open community of employment practices, it is also important to design growth opportunities and experiences (“EX”) of individuals, such as secondment for personnel development between companies (exchange program), secondment to an portfolio company, and promotion of concurrent businesses and side jobs, while using organizations as pivots without being obsessed with the organizational framework.

Figure 6: Necessary change in a community of employment practices (conceptual image)

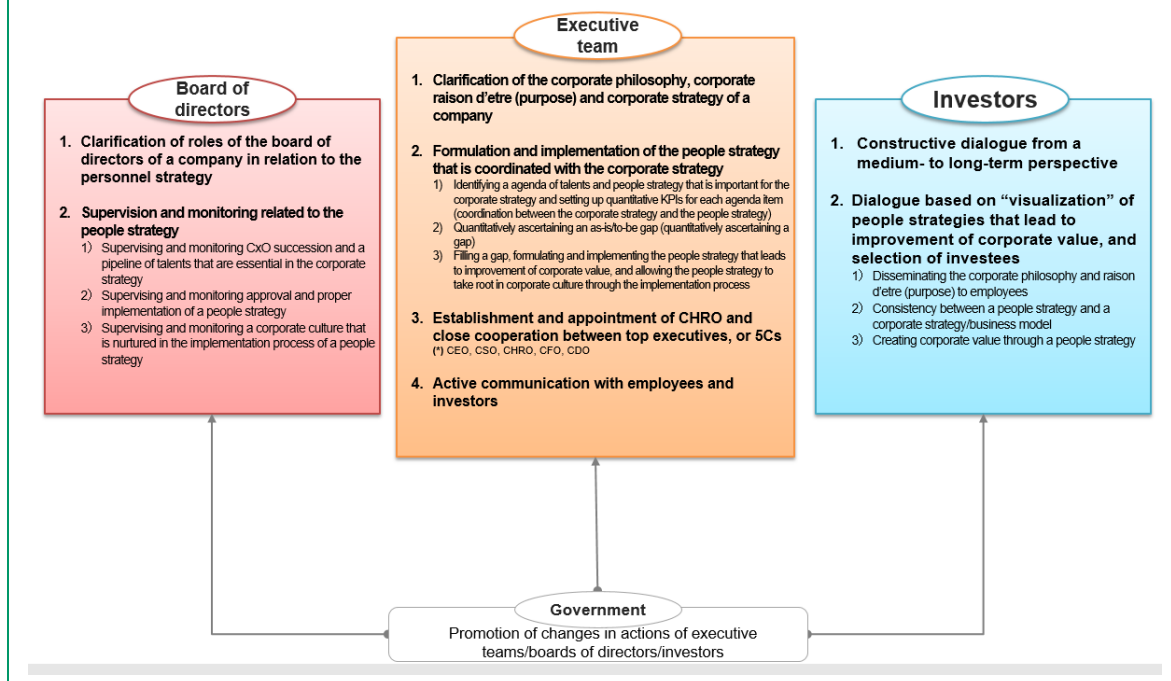


Chapter 2. Roles to Be Fulfilled by Executive Teams, Boards of Directors and Investors

Executive Summary

- In reforming the people strategy, it is important to ensure that the executive team takes the initiative, the board of directors performs governance functions, and dialogues between the company and investors are strengthened.
- After clarifying the corporate philosophy, raison d'etre (purpose) and corporate strategy, the executive team should formulate and implement the people strategy that is coordinated with the corporate strategy. At the time of the implementation, the role of CHRO is important and coordination between top executives, or 5Cs (CEO, CSO, CHRO, CFO and CDO) is also important. Additionally, it is necessary to actively send out information on the people strategy to employees and investors and hold dialogues with them.
- Taking into account factors such as the fact that talents and the people strategy that are coordinated with the corporate strategy are important from the perspective of feasibility of the corporate strategy, the board of directors needs to discuss issues related to talents, supervise and monitor whether the direction of the company's people strategy is coordinated with the direction of the corporate strategy, and lead the company in the right direction.
- Regarding a people strategy that leads to improvement of medium- to long-term corporate value, investors need to hold dialogues with companies, taking into account information disclosed and visualized by companies, and select a company to invest in.

Figure 7: Roles and actions of executive teams, boards of directors and investors



1. Roles and Actions to Be Carried Out by Executive Teams

(1) Clarification of corporate philosophy, raison d'etre (purpose) and corporate strategy

01. Clarification of corporate philosophy, raison d'etre (purpose)

- Each executive team should clarify the corporate philosophy and raison d'etre.
- As a focus is placed on improvement of sustainable corporate value, it is necessary to ask for what purpose the company exists, question its raison d'etre in society, and redefine and clarify it. Such clarification of the corporate philosophy and raison d'etre leads to clarification of the company's competitive advantage and is also important in identifying core factors of the corporate strategy.
- Remote working will continue to take root in society as a response to the COVID-19 infection in particular, and under these circumstances, a company should make efforts so that each employee will not become isolated and will share values centered on its corporate philosophy and raison d'etre and engage in work, facing in the same direction as the company.

- In addition, through these efforts, a company can respond to an increase in employees with various nationalities and backgrounds, employees in the millennial generation, and other individuals who place an emphasis on the purpose of work and the impact they can make on society, when engaging in work.

02. Clarification of objectives to be achieved in the corporate strategy

- Each executive team should clarify objectives and goals to be achieved in the corporate strategy.
- In considering coordination between the corporate strategy and the people strategy, if objectives of the corporate strategy are not clarified, objectives of the people strategy will also become ambiguous and the people strategy may not lead to any specific action.

<Example initiatives>

- Asahi Group Holdings, Ltd. acquired a business in Europe and the business foundation of the Group changed significantly and structurally, with the ratios of overseas operating income and employees being more than 40% and 50%, respectively. Due to this, the Group considered that in order to improve corporate value in a sustainable manner, it was critical for employees to share group-wide values and the direction to be driven and implement such values in that direction by overcoming differences in languages and habitual practices. As such, the Group has established a new corporate philosophy.
- Sony Corporation considered that in order for the company to continue to be a significant presence in the future, it is important for approximately 110,000 employees of the Group around the world to unite as one to create new value from a long-term perspective. As a result, the company defined its purpose as “Fill the world with emotion, through the power of creativity and technology.” Based on this purpose, the direction of business management has been determined and value creation models have been organized.

(2) Formulation and implementation of a people strategy in coordination with a corporate strategy

03. Identification of agendas of people strategy that is important in the corporate strategy

- Each executive team should identify agendas of people strategy that is important in achieving the objectives of the corporate strategy.
- Such agendas in the corporate strategy differ depending on the corporate strategy of each company and should be set up with the company's corporate strategy and value creation approaches in mind.
- An important agenda of people strategy can include, for example, recruiting and developing talents with digital skills in the case of companies that face an urgent need for digitization in order to implement the corporate strategy. In the case of companies that need to drastically change their business portfolio, such agenda can include re-skilling employees, having them acquire a new skill set, reallocating them inter-departmentally, etc.

04. Set-up of quantitative KPIs for the future to-be state of the company

- Each executive team should set the future to-be state of the company for each important agenda of people strategy by using quantitative KPIs.
- In many cases, a future to-be state tends to be defined qualitatively, but identification of an important agenda of people strategy and set-up of a future to-be state are essential in assuring coordination between the corporate strategy and the people strategy and quantitative KPIs should be set.
- In the case of companies that define acquisition and development of talents with digital skills as an important agenda item, KPIs can include the number of talents with digital skills who are necessary for accomplishing the corporate strategy. For example, a Japanese manufacturer has set and announced a specific goal of having 30,000 personnel with digital skills and 3,000 data scientists by FY2021.
- Furthermore, in the case of companies that define re-skilling employees, having them acquiring a new skill set and reallocating them as important agenda items, KPIs can include the per-employee amount of investments for

education and training, the ratio of talents reallocated inter-departmentally, etc. For example, an overseas manufacturer invests 50 to 60 billion yen in personnel every year and set KPIs for inter-departmental mobility of talents who will become candidate executives in the future.

05. Ascertaining the as-is state and quantifying an as-is/to-be gap

- With regard to KPIs that are set for each important agenda of people strategy, each executive team should ascertain the as-is state accurately and quantify as-is/to-be gaps.
- An as-is/to-be gap for each important agenda serves as an indicator of the degree of coordination between the corporate strategy and the people strategy. However, what is important is not the size of a gap but the strategy of how to fill a gap in what timeframe.

06. Formulation and implementation of a people strategy that fills a gap and leads to improvement of corporate value

- Each executive team should fill an as-is/to-be gap quantified for each agenda item and formulate and implement the people strategy that leads to improvement of corporate value.
- In considering the people strategy, it is necessary to clarify in what timeframe actions will be taken. In particular, it is important to plan backward from the goals of the corporate strategy, and the executive team should be careful not to put together a series of the current personnel measures. For this reason, it is important for the executive team (CEO and CHRO) to take the initiative to formulate and implement the people strategy.
- In addition, taking into account the fact that corporate culture is fostered through the implementation process of the people strategy, the people strategy should be formulated and implemented by anticipating that such strategy will take root in corporate culture.

<Example initiatives>

- To create new value amid globalization and digitization, at Hitachi, Ltd., the CHRO takes the initiative to identify an important personnel agenda (such as development of a human capital management foundation common to the Group and its global businesses) based on the corporate strategy and promotes reformation by using KPIs.
- Sony Corporation defined “Attract (acquisition of personnel),” “Develop (development of personnel)” and “Engage (employee engagement)” as elements of a people strategy framework that is common to its operating companies. Additionally, considering that in order to enhance the competitive advantage of each business, an optimum people strategy should be designed for business units where different personnel, expertise and management methods are required for creating value, each business is allowed to draft and implement a detailed strategy based on the common framework on its own.
- At Siemens, a KPI for inter-departmental mobility of personnel who will become candidate executives has been set as one indicator of development of management leaders, and is discussed by the executive team.

(3) Establishment and appointment of CHRO and close cooperation between top executives, or 5Cs

07. Establishment and appointment of CHRO who leads the people strategy together with CEO

- The executive team should act as a strategic partner of the CEO and establish and appoint a CHRO who formulates and implements the people strategy together with the CEO, and the CHRO should be involved in an agenda that is important in the corporate strategy.
- The role to be fulfilled by the CHRO differs from that of the manager of a conventional human resource department. Therefore, it is necessary to appoint a person with a wide range of experience in operating divisions, etc., and /or expertise to link the corporate strategy with the people strategy, without requiring candidates for the CHRO position to have experience in a human resource department.

- In addition, because a people strategy is closely related to strategies for respective businesses, technology and information, the CHRO needs to be widely involved in an important agenda. Based on this, the CHRO him/herself needs to actively provide investors with information on the people strategy that is essential in achieving the corporate strategy and hold dialogues with them. Furthermore, with regard to findings and points of improvement acquired in that process, the CHRO needs to take the initiative to reflect such findings and points in the people strategy and personnel measures.
- Even companies that have already established the position of CHRO need to review the role of CHRO once again and revise it if necessary.

08. Close cooperation between top executives, or 5Cs

- To implement strategies for personnel, funds, technology and information with the strategies closely linked to each other, each executive team should ensure daily close communication and cooperation among main executives (5Cs) including the CEO, CSO, CHRO, CFO and CDO with a central role being played by the CEO in relation to projects that are important in the corporate strategy.

<Example initiatives>

- Based on the idea that all CxOs are CEOs, the CEO in charge of matters related to human resources is the CHRO and the CEO in charge of finance is the CFO, Hitachi, Ltd. requires the CHRO to have expertise and experience related to not only personnel strategies but also business. In addition, the CHRO periodically holds a 1-on-1 meeting with executives of corporate divisions, such as the CFO, CSO and CLO.
- CyberAgent, Inc. holds a two-hour meeting of officers every week to discuss the progress of KPIs and results of employee questionnaire surveys. Officers who attend the meeting vary depending on agenda items, but the President, the Vice President, officers of management headquarters, and the officer in charge of personnel affairs attend all of such meetings as core members.

(4) Active communication with employees and investors

09. Active communication with employees

- Each executive team should actively provide information to employees and hold dialogues with them with regard to the company's corporate philosophy, raison d'etre (purpose) and the people strategy.
- Talents are the source of human capital. Unlike funds, they have a heart and mind and will not be motivated if they are simply ordered to perform work or simply notified of the content of the people strategy. Information on the raison d'etre of the company, what social issue the company aims to solve, and other matters should be actively provided to employees and dialogues actively held with them.
- Amid the response to the COVID-19 infection in particular, many employees feel uneasy about the direction being driven by their company or their career path and feel isolated as a result of remote working. Each executive team itself should hold dialogues with employees at town hall meetings or through online means after clarifying the corporate philosophy and raison d'etre and people strategy including work styles.

10. Active communication with investors

- Each executive team should visualize information, such as how the company's people strategy is coordinated with its business model or corporate strategy and how the measures under the people strategy are progressing, actively provide such information to investors and hold dialogues with them.
- Information such as the fact that the people strategy leads to accomplishment of the corporate strategy and improvement of sustainable corporate value, what is the current status of talents and the people strategy that provide a competitive advantage to the company and serve as a driver of innovation, and how the people strategy is coordinated with the corporate strategy should be actively disclosed along with how the people strategy is linked to results and value creation.
- In particular, it is important to actively discuss the people strategy with investors who evaluate it from an external, objective perspective. For this reason as well, it is important to visualize and disclose information on the

direction driven by the company, the purpose and significance of its efforts, the progress of measures under the people strategy, etc.

- In doing so, it is important for the CEO and CHRO to provide investors with more detailed information along with adequate quantitative data, with respect to what talents and people strategy are optimal to accomplish the corporate strategy, from what perspective the board of directors and other parties discuss the validity of the people strategy, and what are issues.

<Example initiatives>

- Hitachi, Ltd. considers that the S (Social) factor in ESG constitutes the people strategy, and provides information focusing on the people strategy at an ESG briefing session. In addition, information on circumstances behind reformation and the details of measures in relation to the people strategy is provided in an integrated report.
- Company A, a Japanese IT service provider, considers that in order to provide high-quality services and technical capabilities to customers, it is important to foster employees as valuable assets of the company, so has built a fine-tuned educational system and provides detailed information on the results of training and the status of qualifications acquired on its website.
- Under the philosophy of “creating the world's most entertaining games,” Capcom Co., Ltd. regards acquisition and development of excellent developers as an important issue and has set and disseminates the number of content developers as a KPI.
- At Chugai Pharmaceutical Co., Ltd., officers visit offices to hold dialogues on a new medium-term management plan including approaches to management of personnel as valuable assets. In addition, opinions expressed by employees in such dialogues are posted in an integrated report.

2. Roles and Actions to Be Carried Out by Boards of Directors

(1) Clarification of roles to be fulfilled by the board of directors with regard to the people strategy

01. Clarification of roles to be fulfilled by the board of directors with regard to the people strategy

- From the perspective of improving sustainable corporate value through creation of innovation by maintaining and strengthening a competitive advantage and the perspective of feasibility of the corporate strategy, it is necessary to clarify that the roles of the board of directors include approval, supervision and monitoring in relation to the people strategy.
- The people strategy is essential in accomplishing the current corporate strategy and adapting to a new business model and should be discussed by the board of directors as well. In addition, persons with expertise in human capital management should also be appointed to the board of directors so that a people strategy can be discussed sufficiently at meetings of the board of directors.

(2) Supervision and monitoring related to people strategies

02. Approval of a people strategy formulated by the executive team, and supervision and monitoring to ensure appropriate implementation of the strategy

- The board of directors should approve a people strategy formulated by the executive team, after checking that the people strategy is coordinated with the corporate strategy and that the people strategy leads to improvement of corporate value.
- In the case of diversified companies in particular, a corporate strategy includes a business portfolio strategy as an important element of the corporate strategy, and what is important for sustainable growth of the companies is to link the business portfolio strategy to the people strategy.
- In addition, while coordination is made with diverse stakeholders, the direction of a people strategy is changed frequently and the current practices of human capital management are rubber-stamped in some cases. In such cases, the board

of directors, outside directors in particular, are encouraged to make the most of their independence and lead the discussion on the people strategy in the right direction without feeling restrained by past bonds.

- Not only at the time of formulating a people strategy but also periodically, the board of directors should hold discussions on the implementation status of the people strategy and use KPIs for supervision and monitoring. It is necessary to discuss with the executive team what is the current status of indicators used as KPIs, what efforts will be made in the future, and other matters.

03. CxO succession, and supervision and monitoring of a talent portfolio that is essential for a corporate strategy

- CxO changes and the appointment of a successor greatly affect corporate value and these are important occasions when corporate governance is put to the test. Therefore, the board of directors (especially, outside directors who are separated from the execution of business) needs to be fully aware of the importance of the succession plan and provide effective supervision so that the plan is formulated and implemented properly⁸.
- At the same time, monitoring by use of KPIs, etc., and evaluation of initiatives (evaluation of factors, such as not only the range of ages but also whether talent mapping has been performed by expanding a talent portfolio) should be performed with regard to not only CxO succession but also a pipeline of candidates for future executives and talents in business fields that are essential for the corporate strategy.
- For example, some Japanese manufacturers select approximately 50 to 70 candidates for future executives and monitor members of their board of directors.

04. Supervision and monitoring of corporate culture that is nurtured in the implementation process of a people strategy

⁸ See supplementary principles 4-1(3), 4-3(1) and (2), and 4-10(1) of “Corporate Governance Code” by the Tokyo Stock Exchange (formulated in June 2015; revised in June 2018); and “4. Appointment of Executives and their Remuneration” and “Appendix 4” of “Practical Guidelines for Corporate Governance Systems (CGS Guidelines)” by the Ministry of Economy, Trade and Industry (formulated in March 2017; revised in September 2018).

- The board of directors of a company should discuss not only a people strategy that is coordinated with the corporate strategy, a talent portfolio, and other matters but also how to establish corporate culture⁹ in organizations and among individuals.
- Since corporate culture has an influence on the behavior of organizations and individuals, the board of directors of a company should also discuss corporate culture that is nurtured in the implementation process of a people strategy. Particular attention should be paid to the case of an M&A deal with a company with a different corporate culture and the case of a rapid increase in the ratio of overseas employees as a result of acquisition of a large-scale company.

<Example initiatives>

- At Hitachi, Ltd., the board of directors has held active discussions about the status of the people strategy, including the results of engagement surveys and improvement of employee engagement; acquisition, retention and development of personnel with digital skills; and the corporate strategy including the people strategy in the new normal with an eye to the COVID-19 pandemic. In addition, the nominating committee discusses a succession plan and conducts individual and group interviews with candidates for the next-generation executives and young employees.
- At Sony Corporation, the board of directors discusses a common framework for the people strategy. Also, scores of employee engagements are reflected in remuneration of the executive team.
- Company B, a Japanese food manufacturer appoints a director with expertise in personnel affairs, labor and personnel development, regularly holds discussion on the status of personnel and organizational culture at the board of directors and reflects non-financial information KPIs in officer remuneration.
- HSBC re-skills employees in order to promote digitalization and the board members closely discuss the status of personnel with digital skills.

⁹ In the UK, a revision to the Corporate Governance Code in 2018 has clarified that boards of directors should consider corporate culture (Section 2 of the revised code).

3. Role and Actions to Be Fulfilled and Taken by Investors

(1) Constructive dialogue from a medium- to long-term perspective

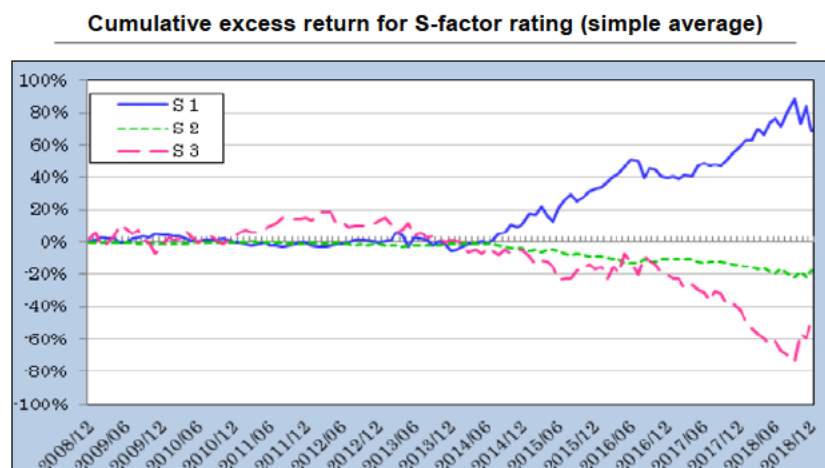
01. Constructive dialogue from a medium- to long-term perspective

- Institutional investors should hold dialogues with the aim of promoting sustainable growth of their portfolio companies from a medium- to long-term perspective.
- To improve corporate value in a sustainable manner amid an increase in social uncertainties, it is important from a medium- to long-term perspective to recognize the ESG factors and other social requirements for sustainability as both risks and opportunities related to maintenance and enhancement of a medium- to long-term competitive advantage of companies, and factor in such risks and opportunities in business management. In this respect, some point out that the S (Social) factor in the ESG factors is closely linked to corporate value. To date, the E (Environmental) factor in ESG has tended to garner attention. However, amid the response to the COVID-19 infection, the importance of the S (Social) factor has been re-affirmed, and the results of a survey showed that stocks of companies with a high rating for their social performance outperformed the TOPIX index by nearly 6% in a period from April to June 2020¹⁰. Going forward, it is desirable to, with a focus placed on the S factor as well, hold constructive dialogues from the perspective of whether a governance framework is in place so that risks and opportunities related to maintenance and enhancement of companies' medium- to long-term competitive advantages that are ascertained through the ESG factors, etc., can be appropriately reflected in their corporate strategy and such strategy can be implemented.
- As a people strategy will become increasingly essential in improving sustainable corporate value and accomplishing a corporate strategy, it is important for institutional investors as well to further enhance their literacy and knowledge relating to people strategies.

¹⁰ Nissay Asset Management Corporation "Stewardship Report 2020" (August 2020)

Figure 8: Importance of the S factor in stock performance

- Some analysis suggests that stocks of companies that are highly rated in terms of the S factor out of ESG factors are strong.



(Note) Cumulative stock performance was measured based on a survey universe covering analysts. Period: from October 2008

(Source) Prepared based on material submitted by Iguchi, a member of the Study Group at the 2nd meeting of the Study Group on Improvement of Sustainable Corporate Value and Sophistication of Human Capital.

(2) Dialogues with and selection of portfolio companies, taking into account visualization of people strategies that lead to improvement of corporate value

02. Dialogues with and selection of portfolio companies, taking into account visualization of people strategies that lead to improvement of corporate value

- To ensure sustainable growth of an portfolio company, it is very important to grasp the big picture of the portfolio company's business model and corporate strategy and evaluate their feasibility¹¹. Institutional investors need to hold dialogues with companies regarding their people strategies leading to improvement of corporate value, taking into account information disclosed and visualized by the companies, and select companies to invest in. Additionally, institutional investors that are external to companies have difficulty in understanding and evaluating the intent and purpose of a people strategy of a

¹¹ When doing that, it is effective to use the "Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation: ESG integration, Non-Financial Information Disclosure and Intangible Assets into Investment," formulated by the Ministry of Economy, Trade and Industry (May 2017).

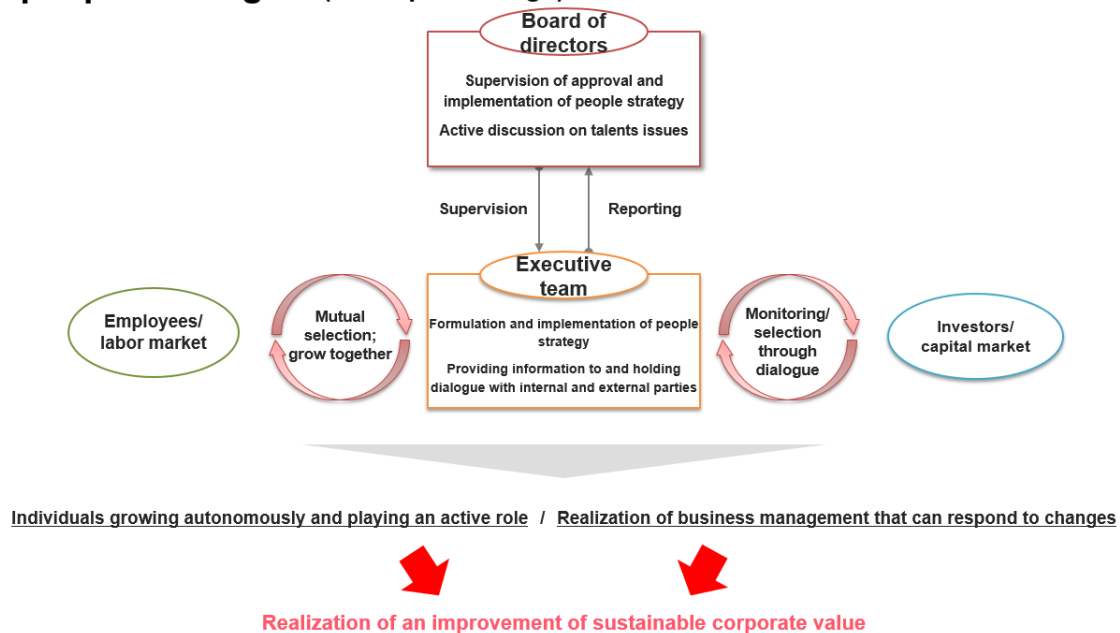
company by referring to materials disclosed by the company, and therefore it is desirable for institutional investors to hold dialogues with the company and discuss and confirm its people strategy with reference to indicators, etc., as well, which are used by its executive team and human resource department to manage the progress of its people strategy with a view to accomplishing its corporate strategy.

- Topics of such dialogues may include the following examples: 1) whether the vision and raison d'être (purpose) of the company are well known to its employees; 2) whether the people strategy is consistent with the corporate strategy and a new business model; and from this viewpoint, whether measures for talent management, talent pooling, re-skilling and job mobility are adequate; and 3) whether corporate value is created according to the people strategy.
- In addition, some companies say that they are not sure whether institutional investors are interested in talents and a people strategy and what information institutional investors need. Therefore, it is important for institutional investors to communicate a message saying that they are interested in the people strategy of a company and think much of coordination between the corporate strategy and the people strategy.
- Furthermore, it is desirable to deepen dialogue on the corporate strategy and the people strategy with executive team members who lead the people strategy, such as the CEO and CHRO.

<Example initiatives>

- Nissay Asset Management Corporation clearly states its stance for personnel strategies from a viewpoint of holding dialogues with companies. In addition, amid the spread of the COVID-19 infections, the company disseminates its stewardship activity policy that requests disclosure of measures for maintaining and improving corporate value, such as the method of continuing business activities by use of remote work, etc.

Figure 9: Collaborative creation by stakeholders in relation to people strategies (conceptual image)



<Further enhancement of people strategies and governance>

1. Example case where the executive team of a company formulates a people strategy in coordination with the corporate strategy and the board of directors is involved in the formulation

- A company has a plan to revise its people strategy in line with formulation of its new management plan. Its management plan states that the company will make a shift to new business fields and it is necessary to review its personnel system and personnel. There is a need to integrate the business strategy and the people strategy that backs up the strategy.
- The company is the one with committees, etc., and the ratio of outside directors in the board of directors is more than 60%. Outside directors broaden the scope of discussion and provide a diverse range of perspectives for accomplishing the corporate strategy. The company had conventional lifetime employment and seniority systems and the new people strategy faced opposition. However, outside directors play a role in steering the company back on course. More specifically, they evaluate the sustainability of systems with an eye to the standard of society and from

the global perspective and also evaluate the validity of systems from the viewpoint of business strategies.

- In addition, a critical role of the board of directors is to properly monitor the executive team. The progress of important people strategy KPIs that are necessary for accomplishing the corporate strategy is reported to and periodically discussed by the board of directors. This is critical at the time of change of the executive team; in responding to strategies, the personnel system and investors; and because it is possible to supervise and monitor from the perspective of business continuity.

2. Example viewpoints for discussion by an executive team and a board of directors

- To perform highly effective supervision and monitoring, the board of directors of a company are encouraged to ask questions of the executive team and hold active discussion with reference to the following, etc.
 - (1) Why do you consider this agenda of people strategy as important for the business model and the corporate strategy?
 - (2) With regard to an important agenda related to talents and the people strategy, have you set quantitative KPIs wherever possible? Do you ascertain the progress periodically?
 - (3) Is an adequate explanation provided to respond to why-questions (e.g., why is this KPI selected?)?
 - (4) Is an adequate explanation provided to respond to how-questions (e.g., how is the KPI target achieved?)?

<Reference> Example of KPIs related with talents and people strategies, that are monitored by executive teams and boards of directors

- * Refer to the following examples, with attention paid to the fact that KPIs need to be utilized in conjunction with explanations that answer questions, such as “Why is this KPI selected to achieve the corporate strategy?” and “Is the KPI consistent with the overall direction of the corporate strategy and the people strategy?”

(1) Vitalization of individuals and organizations

- Kobayashi Pharmaceutical Co., Ltd. has set the ratio of contribution of new products to total sales as a KPI in order to indicate that individuals and organizations are vitalized and creation of new ideas is linked to corporate value.
- Company C, a Japanese IT service provider, manages changes in the number of employees with qualifications. As for qualifications acquired, the company also manages qualifications other than those required for work, thereby broadening the range of skills of employees and realizing the strategy for “resolving issues and making proposals.”

(2) Matters related to a dynamic workforce portfolio and a talent portfolio

- At Siemens, a part of its expanded businesses are spun off into a separate company in order to streamline its organizations. Meanwhile, from the viewpoint of strengthening the leadership that brings each department together, inter-departmental mobility has been set as a KPI and is used not only for portfolio management but also for development of leadership.
- To encourage collaborative activities and improve corporate productivity, NOVARTIS takes quantitative measurements of three types of qualities (passive, aggressive and constructive) and has set a KPI so that employees are assigned to each job rank in a balanced manner.
- To check the progress of leader succession, Schneider performs evaluation based on two axes (potential and performance), and has set the number of persons in the quadrant of growth as a KPI.
- To foster a learning culture among employees and respond to changes in the business

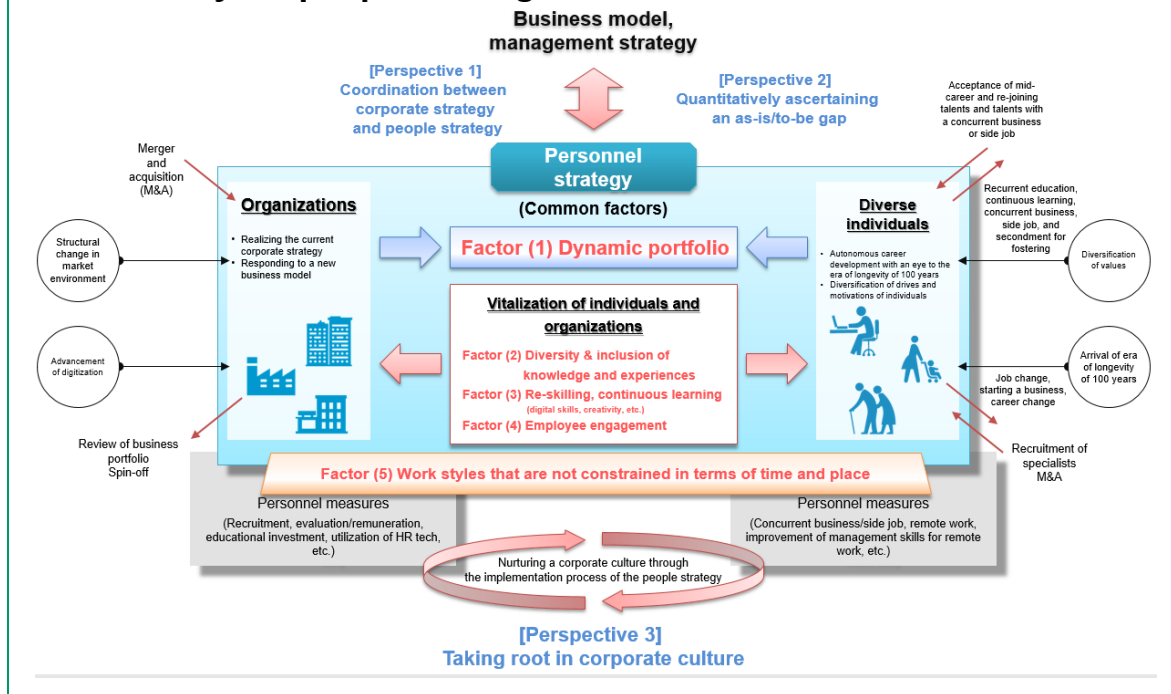
portfolio, IBM has set the progress of filling a gap in necessary personnel and skills and the success rate of succession of important positions as KPIs.

Chapter 3. Three Perspectives and Five Common Factors That Are Necessary for People Strategies

Executive Summary

- People strategies vary depending on individual companies and according to their corporate strategy and business model. However, it is possible to overview people strategies of all companies from the following three perspectives: (1) coordination between the corporate strategy and the people strategy; (2) quantitatively ascertaining an as-is/to-be gap; and (3) allowing a people strategy to take root in corporate culture through the implementation process of the people strategy.
- In addition, there are also the following five common factors for people strategies: (1) dynamic workforce portfolio, (2) diversity and inclusion of knowledge and experiences; (3) re-skilling and continuous learning; (4) employee engagement; and (5) work styles that are not constrained in terms of time and place. These three perspectives and five common factors can be summarized as the 3P/5F Model.
- It is effective for companies to consider their specific strategies, actions and KPIs by keeping in mind those common factors and a linkage between their corporate strategy and their own agenda of talents and a people strategy that is important in the corporate strategy.

Figure 10: Three perspectives and five common factors that are necessary for people strategies (3P/5F Model)



1. Three perspectives

(1) Perspective (1): Coordination between a corporate strategy and a people strategy

- To improve corporate value in a sustainable manner amid the significant and rapid change in the environment surrounding companies, it is absolutely essential to formulate and implement a people strategy that is inextricably linked to a corporate strategy and a business model and helps achieve the goals of such strategy and model.
- Similarly to the case where corporate strategies and business models vary depending on companies, people strategies also differ depending on companies. Therefore, each company needs to look squarely at its business model and corporate strategy and consider a people strategy that is suitable for the company.
- In addition, while people strategies vary depending on individual companies, there are common factors and perspectives to companies, such as filling out a

necessary workforce portfolio to realize a corporate strategy, vitalizing diverse individuals and organizations, etc.

- It is helpful for companies to consider their specific strategies, actions and KPIs by keeping in mind those common factors and a linkage between their corporate strategy and their own agenda of talents and the people strategy that is important in the corporate strategy.

(2) Perspective (2): Quantitatively ascertaining an as-is/to-be gap

- It is necessary to ascertain as-is/to-be gaps as quantitatively as possible in order to, among other purposes, judge whether a people strategy is coordinated with a business model and a corporate strategy. Each company needs to set a to-be state and ascertain an as-is state by using KPIs, and quantitatively ascertain a gap between those states, after identifying common factors and a personnel agenda that is important in the company's corporate strategy. In addition, it is important to quantitatively ascertain as-is/to-be gaps at not only the phase of formulating a people strategy but also the implementation phase and constantly review the people strategy through the PDCA cycle.
- Such ascertainment of gaps is important not only for formulating and implementing a people strategy but also for holding a dialogue with stakeholders. Until now, qualitative evaluation results, the number of employees and other figures have been disclosed in relation to human capital. However, in the era when human capital serves as the source of competitiveness, each company needs to quantitatively ascertain and evaluate its human capital and people strategy from the perspective of coordination with the corporate strategy and disclose and disseminate the data and results to stakeholders.
- Additionally, it is important to quantitatively ascertain investment effects (i.e., in what timeframe, in what manner and in what volume investment in re-skilling, or investments in human capital can produce returns) and disclose and disseminate such information to stakeholders.

<Example initiatives>

- Hitachi, Ltd. considers enhancement of personnel who lead the digital

business as an important agenda item and has set the goal of increasing the number of personnel with digital skills, the number of data scientists and the number of personnel with digital skills in the field of research on AI, etc., to 30,000, 3,000 and 2,000, respectively, by FY2021. The company publicized the current status and target values of its people strategy in a briefing session on the progress of its medium-term management plan.

- To respond to a change in the business environment and its business portfolio, IBM focuses on re-skilling employees and upgrading their skills. As for personnel deployment, the personnel dashboard has been created by taking measures, such as setting the target ratio of internal deployment by re-skilling employees at 75%, and the executive team holds detailed discussion.

(3) Perspective (3): Taking root in corporate culture

- Corporate culture is not a given situation and is nurtured through daily activities and efforts. It is important for each company to define its corporate philosophy, raison d'être (purpose) and corporate culture that leads to improvement of sustainable corporate value and endeavor to ensure that the people strategy takes root in corporate culture.
- In addition, corporate culture is nurtured through the implementation process of a people strategy and is generally the outcome of such strategy. Therefore, it is important for each company to keep its ideal corporate culture in mind from the phase of formulating a people strategy.
- Each company's top executives themselves need to make continual efforts to communicate its people strategy to ensure that it takes root in its corporate culture and need to review the corporate culture by setting appropriate KPIs.

<Example initiatives>

- Eisai Co., Ltd. conducts a survey of its approximately 10,000 employees around the world in order to grasp the extent its corporate philosophy has taken hold and the status of employee engagement with the company.

2. Five common factors

(1) Factor (1): Dynamic workforce portfolio

- A workforce that is required for realizing the current corporate strategy of a company and responding to its new business model needs to be acquired and optimized in terms of both quality and size. For this purpose, it is necessary to define necessary talents not by making a plan based on the current talents and their current skills but by planning backward from the future goals of realizing the current corporate strategy and responding to a new business model, and acquire and foster talents who meet the requirements (Having the right people in the right seats).
- In that case, it is desirable to ascertain the current status of a workforce portfolio and accumulate data by using HR technologies, etc., in order to grasp a gap between the current status and the ideal status of the workforce portfolio¹².
- In addition, to achieve an improvement of sustainable corporate value, each company needs to, on a medium- to long-term basis, maintain coordination between its workforce portfolio and its business model and corporate strategy. For this reason, it is necessary to build a talent portfolio who are important in the corporate strategy and optimize a workforce portfolio in a timely manner (Having an appropriate number of talents in a timely manner).
- In the modern world where changes occur quickly, a lead time for filling a gap in a workforce portfolio is directly linked to competitiveness. Therefore, it is always necessary to make efforts for re-skilling, re-allocation, inter-departmental transfer, pooling of external talents including candidate executives, support for starting a business or changing jobs, etc. In addition, companies can opt to drastically optimize their workforce portfolio by engaging in an M&A transaction, a spin-off, etc.

<Example initiatives>

¹² With regard to the handling of personal data of employees by use of HR technologies, it is necessary to ensure protection of personal information and data of employees when using HR technologies, and ensure the proper use of them, taking into account such protection.

- To create value by meeting expectations from stakeholders in a rapidly changing business environment, Chugai Pharmaceutical Co., Ltd. has reset the personnel requirements and started to implement position management in April 2020 so that the practice of having the right people in the right seats can be promoted. By disclosing to employees the position profile in which duties, accountability and personnel requirements for each position, criteria for appointment and removal and processes and by determining the treatment of employees based on the work value of each position, the company promotes autonomous career development and encourages employees to take on the challenge of playing an upper role.

Figure 11: Status of how necessary talents for realizing a corporate strategy are secured

- 30% of companies have not yet recruited, allocated and fostered necessary talents for realizing their corporate strategy.
- If companies saying that those measures are somewhat incomplete are added, two-thirds of companies have not yet secured necessary talents for realizing their corporate strategy.

Recruitment, allocation and fostering of necessary people for realizing a corporate strategy



(Note) An online survey of members of "Japan's Personnel Affairs Department" was conducted from March to April 2019.
 (Source) Prepared based on "White Paper on Personnel Affairs 2019" by Japan's Personnel Affairs Department.

(2) Factor (2): Diversity and inclusion of knowledge and experiences

- To improve corporate value on a medium- to long-term basis, it is important to create non-continuous innovation and the drive of such creation is a combination of diverse individuals. As such, it is necessary to incorporate the diversity of knowledge and experiences including sensibility, values and expertise, and embody such diversity in practice.

- More specifically, it is important to incorporate the diversity of attributes such as women and foreigners, career paths including experiences in different industries, etc., and areas of expertise. In doing so, it is also important to go beyond achieving the diversity of attributes, actually incorporate a diverse range of experiences, expertise and values and put the diversity of them into practice. It is necessary to set KPIs for such activities, thereby achieving “diversity and inclusion of knowledge and experiences.”
- Additionally, although teamwork was the strength of Japanese companies in the past, as highly homogeneous teams are being replaced with teams consisting of diverse members, each company needs to review how teamwork should be done within the company and with outside parties.

<Example initiatives>

- Considering that a combination of strengths of employees with a diverse range of attributes, viewpoints, abilities and experiences is the driver of new value creation, Company D, a Japanese food manufacturer, has implemented measures to employ a diverse range of personnel in the recruitment process and promote diversification of viewpoints of individual employees through personnel exchange within the Group and with outside parties. To recruit a diverse range of personnel in particular, the company promotes mid-career employment of personnel with abundant knowledge or high expertise, rather than focusing on employment of new graduates, and has set the goal of increasing the ratio of such personnel to total recruits to 30% or more.
- Kobayashi Pharmaceutical Co., Ltd. has set the ratio of sales of new products to total sales in the past one year (10% of products sold in the past one year; 25% of products sold in the past four years) and the number of new products established in markets (establishment of four items in markets in one year) as KPI targets based on its business model of creating a new market. In addition, for many years, the company has in place a mechanism for generating ideas for new products, such as an idea proposal system in which every employee is allowed to propose ideas.
- To further utilize the diversity of its businesses and personnel as a value driver, Sony Corporation has set up a new space for supporting individual development (training facilities) in the head office so that personnel from

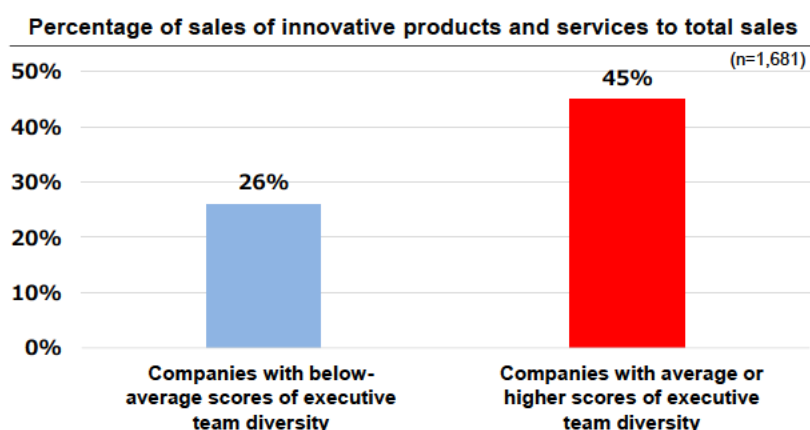
diverse business fields can gather, inspire each other, and learn and grow together.

Figure 12: Diversity of executive team members and ratio of contribution of innovation to sales

- Companies with average or higher diversity scores^(*) that were measured in 6 areas: gender, age, country of origin, career path, work experience in a different industry and academic background have a 19% higher ratio of contribution of innovation^(*) to sales than companies with below-average diversity scores.

*1: Measured based on average diversity scores in 6 areas (gender, age, country of origin, career path, work experience in a different industry and academic background) by using the Blau index.

*2: Sales of new products and services released into the market within the past three years



(Note) A survey of companies in various industries and with various sizes in 8 countries (U.S., France, Germany, China, Brazil, India, Switzerland and Australia) was conducted.

(Source) Prepared based on BCG "How Diverse Leadership Team Boost Innovation" (2018).

(3) Factor (3): Re-skilling and continuous learning

- To, among other purposes, respond to a rapid change in the business environment and diversification of values of individuals, it is necessary to promote re-skilling of individuals and encourage individuals to acquire a new skill set and improve their skills. In that case, it is important for each company to support autonomous career development of individuals so that they can look squarely at their career path and engage in continuous learning.
- In particular, it is essential for talents to improve their IT literacy and skills in order to increase the possibility of taking advantage of their expertise and strength in other fields, as the content of tasks and work styles are expected to be changed in the future. At the same time, humans that cannot be replaced with IT and AI and creativity and design skills that lead to creation of added value will become more important.

- In addition, executive team members themselves need to make efforts to build a re-skilling and continuous learning culture in organizations and take the initiative to re-skill themselves and perform continuous learning in order to implement organizational reforms including promotion digital transformation (DX).
- On the other hand, some point out that enhancement of skills and expertise of individuals will increase productivity but may induce them to leave their job. However, opportunities for acquiring not only abilities that are useful in limited companies but also highly versatile skills and expertise are an appealing point for individual job seekers.
- In addition, to build and maintain an equal relationship between companies and individuals, it is important for individuals to have an option of working outside their company by acquiring skills and expertise that can be marketable in the external labor market. A certain degree of mobility of talents of a company will increase opportunities for them to be active outside the company and is appropriate for companies as well from the perspective of incorporating diverse values and encouraging innovation that is important for improving medium- to long-term corporate value.

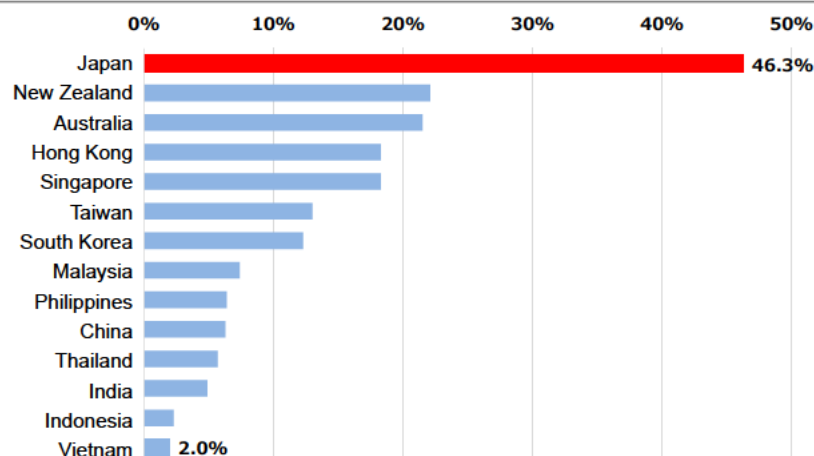
<Example initiatives>

- Sony Corporation has a system where if an employee at the age of 50 or older who invests in him/herself to acquire new skills, the company provides the employee with up to 100,000 yen of funds to cover expenses for such acquisition, with the aim of assisting experienced and elderly employees in acquiring new skills or re-learning.
- To fill a gap in skills resulting from the restructuring of its business portfolio, Siemens invests approximately 60 billion yen in education and training of personnel each year and thereby secures the mobility of personnel within the company.
- Amid a change in personnel requirements due to advancement of digitization, Amazon channels its energy into recruiting personnel with digital skills and re-skilling employees and provides job change support for them by re-skilling them.

Figure 13: Status of how individuals learn outside their company and educate themselves

- Nearly half of individuals do nothing regarding learning outside their company and educating themselves.

Ratio of those who do not learn outside their company and educate themselves

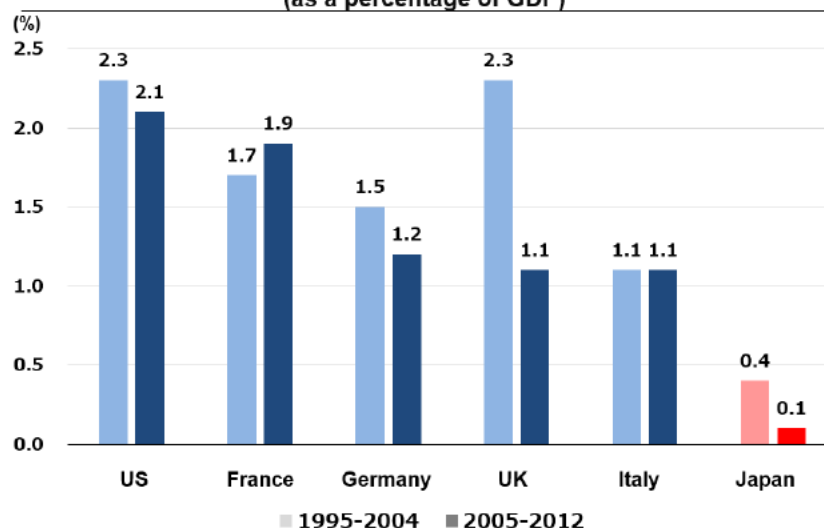


((Note) Surveyed regions were China, South Korea, Taiwan, Hong Kong, Japan, Thailand, Philippines, Indonesia, Malaysia, Singapore, Vietnam, India, Australia, New Zealand (1,000 samples from each country). Survey targets were men and women aged from 20 to 69 who perform work and live in a relevant country for at least 3 years. Note that in the case of Japan, data for Tokyo, Osaka and Aichi were taken from "2019 Fixed-point Survey of 10,000 Workers on Employment and Individual Development" separately conducted.
(Source) Prepared based on Persol Research and Consulting Co., Ltd. "Survey on Actual Status of Employment and Awareness of Individual Development in APAC (2019)".

Figure 14: Japanese companies' investments in education/training remain low

- Companies' investments in talents (other than OJT) are low by international standards.

**International comparison of investments in talents (other than OJT)
(as a percentage of GDP)**



(Source) Prepared based on "What is Productivity?" by Tsutomu MIYAGAWA (2018).

(4) Factor (4): Employee engagement

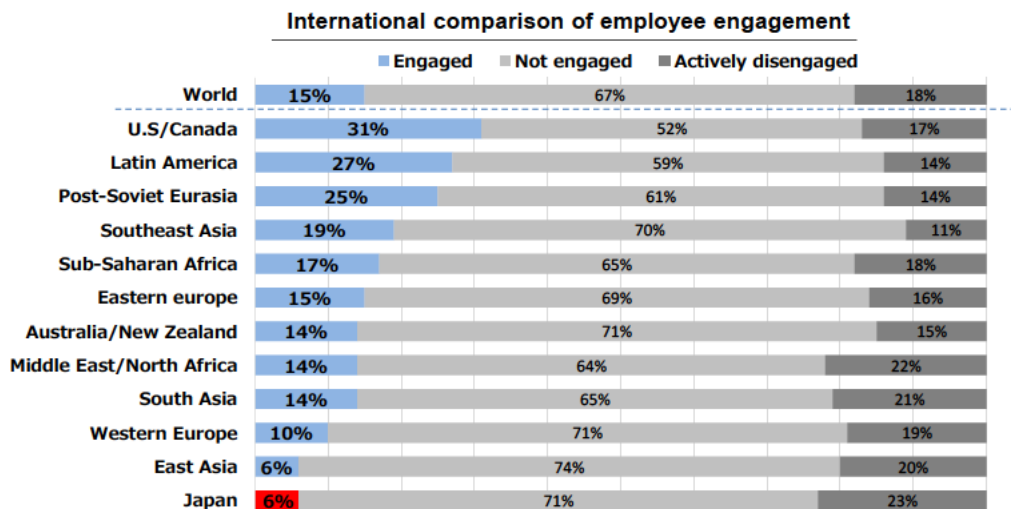
- To encourage necessary talents for realizing the current corporate strategy and responding to a new business model to demonstrate their abilities and skills, it is necessary to create an environment where employees can feel that their work is meaningful and rewarding and proactively engage in work.
- For this purpose, what is important is that companies and individuals unite as one on an equal footing with each other and that the direction of corporate growth and the achievement of organizational targets are consistent with the vector of development of diverse individuals. These are essential factors from the perspective of ensuring a virtuous cycle of business management, or improving sustainable corporate value.
- Each company needs to actively provide information including its corporate philosophy, raison d'être (purpose), corporate strategy and business model to employees, hold dialogues with them, move ahead with measures for ensuring that employees understand and feel sympathy with such ideas, and ascertain the situation on a regular basis. In particular, if asymmetry of information between companies and individuals is eliminated and information is made open, self-motivation of individuals will be promoted.
- In addition, each company needs to come face-to-face with each diverse individual and maximize value it creates by taking the following measures: developing a diverse and flexible work environment that allows employees to conduct a concurrent business and perform a side job and teleworking; providing attractive work experiences and opportunities (EX) such as diverse career paths within and outside the company; and providing a wide range of education and training to motivated individuals, instead of imposing employment conditions that basically require employees to come to the office, setting up the uniform career path and providing training according to the years of service of employees.

<Example initiatives>

- Sony Corporation has defined the relationship between Sony and each individual employee as the “partnership of choice where each party is accountable for being responsive to the needs of the other,” and also has defined “what Sony offers its employees” and “employees Sony looks for” to be shared across the Group.
- For some time, Chugai Pharmaceutical Co., Ltd. has proceeded with measures to implement the PDCA cycle for the purpose of strengthening the abilities of personnel by using the results of employee surveys. While aiming to achieve the highest competitiveness in the world, the company introduced a survey method that enables comparison between the company and other global companies in 2018. In addition to the talent management program the company started to implement in 2012, it endeavors to promote the right-person-in-the-right-place approach and provide growth opportunities.
- CyberAgent, Inc. has conducted a questionnaire survey of all employees with about three questions every month since 2013. Employees are asked to express their work results and performance and the degree of implementation of the mission statement in the previous month by using climate descriptions (such as sunny, cloudy and rainy) and the survey results are summarized as quantitative data. In addition, to manage this framework, a team that checks the results of questionnaire surveys of all employees, contacts employees whom the team is concerned about and proposes officers to make an improvement or move to another position was established at the same time when the questionnaire survey started to be conducted.

Figure 15: Employee engagement is low in Japan

- According to a survey (2017) by U.S.-based Gallup, the ratio of engaged employees in Japan was 6% and came in 132nd among 136 countries.

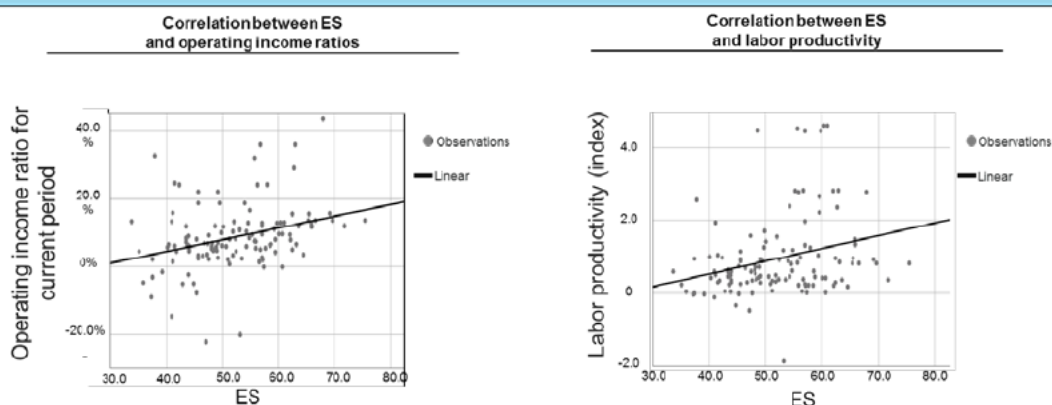


(Source) Prepared based on Gallup "State of Global Workplace 2017"

Figure 16: Employee engagement scores ("ES") and business performance

- A survey of Japanese companies by a private enterprise and a university revealed a correlation between employee engagement scores, operating income ratios and labor productivity (*).

(*) Labor productivity is defined here as the "amount of normal return (EBITDA) per yen paid to employees"



(Note) Survey targets are 66 companies that were subject to an employee engagement survey conducted by Link and Motivation Inc. and disclose their securities report.
The study period was from May to July 2018.

(Source) Prepared based on a press release of Link and Motivation Inc. (September 2018).

(5) Factor (5): Work styles that are not constrained in terms of time and place

- As exposed amid the response to the COVID-19 infection, from the perspective of business continuity and resilience, it is necessary to, even in ordinary times, have in place an environment where people can work anytime, anywhere, safely and comfortably.
- On the other hand, to bring together diverse individuals who do not work at the same time and place, leadership and management skills of managers will become more essential than before. In particular, as work processes themselves are becoming difficult to check, it is necessary to adapt the method of assigning tasks, fostering and evaluating employees to the new situation, and what is key is to foster and support managers who can adapt to this type of management.
- In addition, it is necessary to not just put into place a system that allows teleworking and remote working to be performed, but also revise work processes so that work can be completed even by remote working and handle issues related to communication.
- At the same time, it is necessary to take measures to handle issues related to essential workers who engage in work that is absolutely necessary for ensuring the stable livelihood of the people. Therefore, it is important to ascertain issues that emerge as remote work is actually performed, and respond to such issues on a trial-and-error basis.

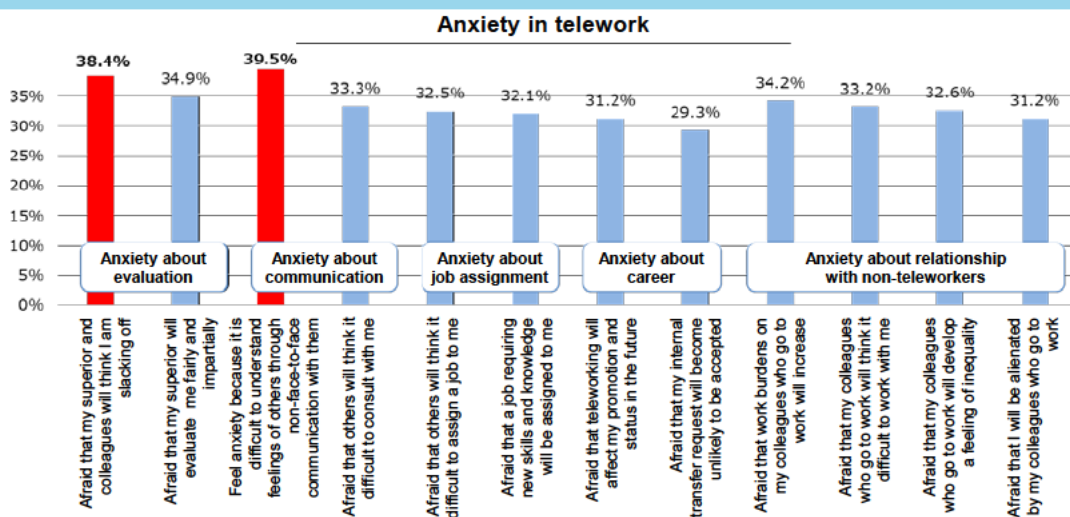
<Example initiatives>

- Fujitsu Limited has taken the following and other measures: adopting a system where approximately 80,000 employees of its group companies in Japan work remotely; extending the application of the flex-time system (with no core time) to all employees of its group companies in Japan; paying 5,000 yen per month as a subsidy for building a telework environment; and with regard to employees who work away from home and can perform the existing work by teleworking and making a business trip, switching the employment type to teleworking.
- As an interim response to the COVID-19 infection, Hitachi, Ltd. has provided a supplementary allowance for teleworkers to respond to the

infection, a subsidy for purchasing equipment for teleworking, and an allowance for employees who perform work in an environment where there is a high risk of being infected, in order to, among other purposes, maintain social functions. In addition, to respond to a prolonged period of teleworking, the company provides health support to employees, such as by establishing a contact point for remote consultation services by an industrial physician, etc.

Figure 17: Anxiety in teleworkers

- 40% of teleworkers said, "I feel anxiety because it is difficult to understand feelings of others through non-face-to-face communication with them" and "I am afraid that my superior and colleagues will think I am slacking off."



(Note) Numbers in the graph indicate sums of percentages of "Applicable" and "Somewhat applicable" on a five-point scale. n=teleworkers (1,000).
 (Source) Prepared based on Persol Research and Consulting Co., Ltd. ""Quantitative Survey on Anxiety and Loneliness in Telework" (2020)

Appendix The Study Group on Improvement of Sustainable Corporate Value and Sophistication of Human Capital

(Meetings held)

1st meeting: January 17, 2020

- Purpose of and issues raised by the Study Group

2nd meeting: February 10, 2020

- Roles of executive teams and boards of directors in relation to personnel strategies

3rd meeting: May 15, 2020

- Roles and actions of executive teams and boards of directors in relation to personnel strategies; perspectives required for personnel strategies
- Dialogues between companies and investors

4th meeting: May 29, 2020

- Dialogues between companies and investors
- Business portfolio management and personnel strategies

5th meeting: July 9, 2020

- Guest presentation by Hidenobu NAKAHATA, Senior Vice President and Executive Officer, CHRO, General Manager of Human Capital Group, Hitachi, Ltd.
- Outline of report (draft)

6th meeting: July 16, 2020

- Outline of report (draft)

(Participants of the Study Group)

*Titles are current as of July 16, 2020

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Research Professor, Graduate School of Business Administration,
Hitotsubashi University
- Members: Kazushi ANBE,
Senior Managing Executive Officer in charge of personnel affairs and
general affairs, Sony Corporation
- George IGUCHI,
Chief Corporate Governance Officer and Senior General Manager, Nissay
Asset Management Corporation
- Hiroaki EHARA,
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- Akitsugu ERA,
Head of Investment Stewardship, BlackRock Japan Co., Ltd.
- Keita KAKEHASHI,
Former Executive Officer, Nippon Sheet Glass Co., Ltd.
- Hiroki SAMPEI,
Head of Engagement, FIL Investments (Japan) Limited
- Tetsuhito SOYAMA,
Director in charge of human resources, CyberAgent, Inc.
- Chiharu TAKAKURA,
Director, ROHTO Pharmaceutical Co., Ltd.
- Tatsuya TAKEUCHI,
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Chief Economist and General Manager of Research Center for Policy and
Economy, Mitsubishi Research Institute, Inc.
- Rumiko NAKATA,
Director and Managing Executive Officer, Mitsubishi Chemical
Corporation
- Keiko HAMADA,
Executive Editor, Business Insider Japan

Toshiya MIYOSHI,
Director and Managing Executive Officer, Kirin Holdings Co., Ltd.

Guest speaker: Hidenobu NAKAHATA
Senior Vice President and Executive Officer, CHRO, General
Manager of Human Capital Group, Hitachi, Ltd.

Observer: Corporate Accounting and Disclosure Division, Policy and
Markets Bureau, Financial Services Agency

Secretariat: Human Resources Policy Office, Economic and Industrial Policy
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