

Report of the Study Group on Improvement of Sustainable Corporate Value and Human Capital (outline)

September 30, 2020

Objectives of this report (1/3)

- 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), COO [Chief Executive Officer], CSO [Chief Strategy Officer], 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.

Objectives of this report (2/3)

- 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.

Objectives of this report (3/3)

- 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

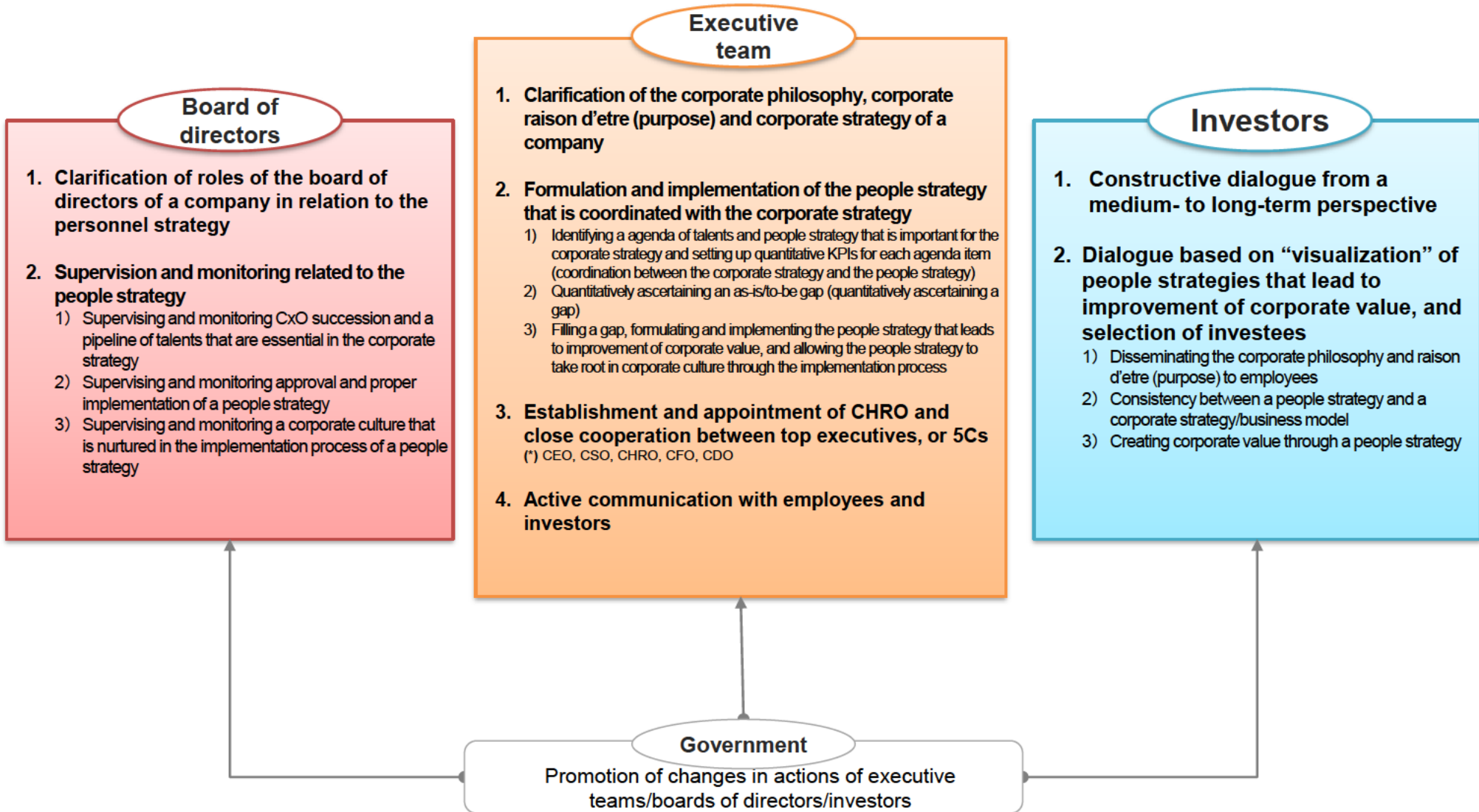


Chapter 2. Roles to Be Fulfilled by Executive Teams, Boards of Directors and Investors

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 2: Roles and actions of executive teams, boards of directors and investors



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

