

Part 3

**Corporate Transformation
for Realizing Our Vision
for the Future of Japan**

I. Current Challenges Facing Businesses

In Part 1, the major changes in the environment surrounding Japan were reviewed—namely, declining birthrates and the aging of society, globalization, and the emergence of various global-scale problems. Needless to say, these changes have a serious impact on corporate behavior. Against this backdrop, Japanese companies are being pressured to find viable solutions to the following problems.

1. Declining International Competitiveness

(1) Stagnation in value creation and productivity

A tectonic shift is occurring in the world economy as the engine of global economic growth moves from the countries of Europe and North America to emerging economies located primarily in Asia. In the course of this process, Japan has experienced a marked decline in its international competitiveness. Throughout all industries, the pace of development of high-value products and services required by customers is becoming bogged down and improvement in productivity is stagnating. Among manufacturing industries, the slowdown in the transition to high-value products has been noted as a serious problem. Similarly, among service industries, the slow pace of transition to new business models and improvement of productivity has been cited as critical issues. In other words, all Japanese enterprises are facing difficulties replacing the old with the new in terms of products, services, and businesses. Moreover, Japanese companies have not been able to muster sufficient exporting power in the service sector. The continued upward trend in the value of the yen exposes Japanese companies to extreme cost-cutting pressures both within Japan and overseas. A key challenge in this environment is to make a transition to management structures that are resilient to exchange rate fluctuations.

(2) The rising “risk of not taking risks”

The prerequisites for survival and victory in rapidly changing global markets include the ability to move away from the memory of past successes, and to make speedy management decisions that are founded on bold strategies. In many companies, however, the decision-making process remains too

time-consuming and management exhibits a marked preference for cautious approaches to new challenges and to risk-taking. In the past, growth could be achieved without taking big risks. In the current environment, however, not taking risks stands out as the biggest risk.

(3) Corporate relocation and outflow of human resources add to hollowing-out

There are many factors that encourage Japanese companies to relocate abroad, including rapid growth in the emerging economies, the appreciation of the yen, Japan's relatively high effective corporate tax rates, and the Japan's slow progress in EPA/FTA negotiations. These factors combine to promote an unnecessary hollowing-out of Japan's domestic industries. In addition to this, the outflow of Japan's manufacturing skills and know-how to foreign countries is increasing as the companies of other advanced countries and emerging economies effectively recruit highly skilled and capable Japanese retirees as well as persons with cutting-edge technologies and knowledge who are not being fully utilized due to Japan's rigid employment practices.

2. Need to Globalize Corporate Governance and CSR

Generally speaking, foreign investors do not necessarily give high marks to Japanese companies for their corporate governance, nor are Japan's governance mechanisms and structures fully accepted in the world. Thus, one of the urgent challenges facing Japanese companies is to create systems that ensure appropriate levels of management transparency, objectivity, fairness, speed, and disclosure.

Similarly, Japanese companies are lagging behind in corporate social responsibility (CSR) and have not responded fully to the demands of globalization in this area. Corporate stakeholders are becoming increasingly multinational and diverse. This development requires companies to acquire a knowledge and appreciation of the culture and history of the countries and regions where they operate and to engage in initiatives aimed at coexistence and coprosperity with local communities and societies.

3. Slow Diversification of Personnel and Shortage of Global Human Resources

The decision-making practices and other management systems common to Japanese companies presume a monocultural environment based squarely on highly homogeneous groups of Japanese males. As such, Japanese companies have a long way to go to accomplish the goal of fully diversified corporate personnel, which implies the exchange of personnel with domestic and foreign companies and academia and recruitment from a broad cross-section of society, including women, foreigner citizens, and the elderly.

As a result of globalization and Japan's shrinking population, increasing importance will be attached to securing quality instead of quantity in the labor markets. The training of young executives who can operate on the global stage and the nurturing of personnel capable of propelling the processes of innovation stand out as issues of extreme urgency for Japanese companies.

4. Delayed Commercial Application of World-Leading Environmental Technologies

Japanese companies have failed to adequately leverage their outstanding environmental technologies to achieve business expansion and growth. While the corporate sector is expected to provide the driving force for building low-carbon societies, initiatives in this area remain sluggish, in part due to poor economic conditions. Thanks to its world-leading environmental technologies, Japan is in a strong position to contribute to countering global warming, one of the most serious global-scale challenges confronting the world today. However, here again, the goal of utilizing these technologies on the stage of the world markets to undertake ambitious and challenging projects remains unmet.

5. Obsolete Policy Framework Limits Freedom in Business Activities

In the dynamic arena of global competition, Japanese companies find themselves hindered by a wide range of regulations in such critical areas as corporate taxation, antimonopoly laws and regulations, and labor practices. Japan's regulatory environment and legal system must be broadly reviewed and revised. Areas where changes are needed include the following: lowering the effective corporate tax rate to international levels; adoption of competition policies that will not hinder M&A activities undertaken to promote global

strategies and to strengthen international competitiveness; and, enactment of laws designed to promote and accelerate the diversification of corporate personnel.

II. Role and Responsibilities of Businesses in Realizing Our Vision for the Future of Japan

Our vision for the future of Japan is buttressed by two basic concepts: “A country that motivates and gives hope to its young people,” and “A nation that contributes positively to international society and is widely trusted.” As companies and as corporate executives, we shall do our part and perform our responsibilities to ensure the realization of these two basic concepts.

1. Generating Growth and Employment through Corporate Transformation

Keizai Doyukai was formed in April 1946 by a group of up-and-coming business leaders drawn together by their high aspirations for the future of Japan. Their enthusiasm and commitment to the postwar reconstruction of the Japanese economy is eloquently expressed in the prospectus that they drafted at that time.

“Old forms must be discarded and totally new frontiers must be opened up that can withstand the gales of confusion and overcome today’s economic, moral, and ideological collapse. This indeed represents a grand enterprise requiring extraordinary measures of creativity, intelligence, will power, and patriotic zeal.”

“We stand ready as members of the business community to dedicate all our efforts to the construction of a new Japan... Now is the time for all likeminded colleagues to come together to strain our bodies and minds and expend all our energies on the path to the reconstruction of this nation and economy.”

More than sixty years after the end of the war, signs of system fatigue are seen everywhere in our political, economic, and social institutions, signaling unmistakably that the time has come for making bold new choices. Today, we must revisit the high aspirations and zeal expressed in the prospectus of Keizai

Doyukai and remind ourselves of the aspirations and unwavering efforts of our predecessors, who devoted themselves equally to the reconstruction of Japan from the ashes of the war and to the rehabilitation of their own companies. With this in mind, we shall do our part and perform our responsibilities for the creation of a new nation..

First and foremost, this implies generating economic growth and employment by accepting the challenges of boldly transforming our companies for the purpose of the achievement of economic rehabilitation.

2. Practicing and Deepening the New Style of Japanese Management

What must companies do to become the driving force in the achievement of autonomous and sustained economic growth that remains unshaken by the ongoing dramatic changes in the external environment? A key requirement is to build business foundations that rise to the challenges of the new age, a task that must be performed with the spirit of independence, self-reliance, and self-responsibility. This implies the practice of the new style of Japanese management advocated by Keizai Doyukai in its “16th Corporate White Paper: Creating a New Style of Japanese Corporate Management” (July 2009). The goal before us is to build companies that are trusted and looked to by the world with high expectations on account of their contributions to international prosperity. This is a goal that will require us to hone Japan’s many outstanding strengths and to develop business foundations that suit the requirements of globalization.

(1) Putting Japan’s strengths to the best use

Japanese companies possess numerous strengths nurtured in the course of the country’s unique history. It is necessary to develop a keen awareness of what these strengths are that they must be maintained and bolstered in the future. By further developing and honing these strengths, Japanese companies will be able to maintain their international presence in the age of global mega-competition.

The first of these strengths is corporate management based on a well-defined set of corporate principles and philosophy. Successful Japanese companies have been able to develop unique “genetic codes” that are centered

on their own corporate principles—a genetic code that is passed down to succeeding generations to form a solid support for the company’s core competencies. As businesses become increasingly globalized, the unique corporate values that have been developed through this process must permeate not only the business activities that take place within Japan but also those that are being pursued in other parts of the world.

Japan’s second strength is rooted in a style of corporate management that takes the long-term perspective and is not bound by myopic pursuit of short-term profits. In order to bolster innovation, which is the driving force in corporate growth, long-term commitments must be made to investment in R&D and to constant and unmitigated investment in the development of human resources.

The third strength originates in customer-oriented management and the strengths of the frontlines of Japanese companies. The development of new technologies and products starts with the very exacting needs of Japanese consumers and is carried forward by highly motivated frontline personnel with a strong sense of ownership. These constitute the most valuable assets for Japanese companies. Frontline strengths must be maintained, bolstered, and channeled by corporate executives who understand their value. Positive rivalry and competition among employees should be encouraged and wider opportunities should be created for developing the capacities of all employees and prompting their maturation as individuals.

(2) Rectifying weaknesses

(a) Enhancing Japan’s presence in emerging markets

Japanese companies must constantly pursue innovation and must capitalize on these innovations to enhance their presence in emerging markets and other overseas markets enjoying robust growth. Unlike in the past, innovations no longer originate solely from the advanced industrialized countries. In this age of “reverse innovation,” numerous innovations are being born in the emerging and developing countries. Japanese companies must free themselves from attachment to past models of success and must take a fresh approach in formulating strategies in the areas of product development, business models, and marketing.

(b) Focusing on the training of global human resources

The diversification of personnel should be seen as a new driving force in promoting corporate globalization. The key to success in this area is the ability of a company to recruit and train talented personnel from throughout the world. Speedy action must be taken to establish global human resources management and to train global leaders that can serve as core personnel.

(c) Active use of M&A in growth strategies

Japan's domestic markets are caught in the throes of excessive competition. To escape the wars of attrition dictated by price competition, businesses must move toward higher-value products and services and actively enter into overseas markets. To acquire the management resources that may be lacking for taking this course of action, such as local presence or experience and technological capabilities, companies must be prepared to make extensive use of M&A strategies involving both domestic and foreign companies. In addition to acquiring necessary management resources, M&A has an important role to play in the selection and concentration of resources and in the process of business consolidation. To ensure successful management integration following M&A, it is vitally important to accelerate the training of global leaders.

(3) Contributing to international society and gaining trust and hope

(a) Implementing proactive CSR management

The Japanese expression *sanpo yoshi* calls attention to the importance of ensuring the satisfaction of three parties: the seller, the buyer, and the community at large. As the globalization of corporate activities renders corporate stakeholders (shareholders, employees, customers, local communities, etc.) increasingly multinational and diverse, the Japanese corporate concept of responsibility to society as symbolized in this expression should be spread throughout the world, while duly respecting the history and culture of individual countries.

The first important step is to create Japanese styles and structures of corporate governance that ensure appropriate levels of transparency, objectivity, fairness, speed, and disclosure, and to make sure that these are fully understood and appreciated by the diverse range of stakeholders. To accomplish this objective, corporate executives must approach the question

of corporate governance with an open mind and must develop governance systems that suit the needs of their respective companies by choosing to incorporate various elements from a range of options that would include the appointment of multiple outside directors, the adoption of requirements concerning the independence of outside directors and external auditors, and the adoption of an executive officers system (separation of supervisory and executive functions). Having established the framework of corporate governance, companies must act to win the confidence of consumers and the public at large by ensuring responsible behavior on the part of managers and employees through the introduction of a code of conduct, by making a firm commitment to education on business ethics, and by enhancing internal audit functions and governance. At the same time, companies must implement proactive CSR management, which implies contributing to the solution of various domestic and international social problems through the operation of their businesses.

(b) Sharing the fruits of success with society and expanding employment

The most important corporate social responsibility is to increase employment. This means that companies must make the greatest effort possible to create new businesses and to engage in the process of replacing the old with the new. These are indispensable requirements in the achievement of sustained corporate growth, which marks the path to becoming the object of society's trust and hope.

3. Evolving toward Value Creation through Innovation

(1) High value-added management: From “how to” to “what”

Price competition has been intensified in Japan as a result of deflation. To rise above the fray of price-cutting competition, there are a number of things that must be done. First, companies must concentrate their management resources in their respective areas of strength. Second, companies must develop robust management foundations by engaging in a bold course of corporate reorganization. Third, and most importantly, companies must opt for high value-added management, which means transitioning from a “how to” style of management, which draws its strengths from constant revision and incremental improvement, to a “what” style of management, which focuses on

identifying and creating new values that customers want to acquire. The achievement of success in this transition depends on a variety of factors that include the following: pursuing technological excellence plus business excellence (from excellence in manufacturing [*monozukuri*] to excellence in product-driven innovation [*kotozukuri*]¹); taking advantage of global vitality by actively utilizing human resources, funds, and know-how from overseas (for example, transforming potential demand in Asia and other emerging economies to real demand for low price-range and high-value products and services based on the outstanding technologies of Japanese companies); promoting open innovation in R&D activities (transitioning out of self-contained and linear styles of innovation); creating customer-oriented value and implementing customer segmentation; providing lifecycle solutions; and, developing product brands.

(2) Efficiency management: Balance sheet management emphasizing return on capital and assets

Next, Japanese companies must make the transition from “all is good as long as we are making money” to “making money efficiently.” This transition implies moving away from a style of management that relies on changes in profit levels as the principal business indicator. Instead, Japanese companies should adopt an approach that focuses on balance sheet management and such indicators as return on capital and assets and changes in cash flow. The adoption of these indicators of efficiency will accelerate the process of replacing the old with the new among products, services, and businesses. To improve return on capital, companies should strive to enhance profit margins through such means as lowering fund procurement costs, utilizing low-cost locations, and improving operating efficiency. In the area of operating efficiency, full use of ICT must be made to review existing operating processes and to eliminate unnecessary operations. Parallel to this, balance sheets should be consolidated through a constant process of selection and concentration that aims at focusing management resources on areas of strength and high profitability. Resources invested in other business areas should be liquidated and disposed of to reduce and streamline assets.

¹ In the past, Japanese companies have gained a competitive advantage mainly through excellence in manufacturing (*monozukuri*), in other words, by creating high-tech, high-quality products (physical goods). By shifting to the pursuit of excellence in product-driven innovation (*kotozukuri*), Japanese corporations will gain a competitive advantage and develop new markets by designing businesses and providing products and service packages inspired by the full range of product-related factors, for example, content for products (software) and frameworks for content provision (infrastructure and services).

One of the most important requirements in efficiency management is the creation of a new mindset among executives. In this respect, the following lines of action need to be pursued. First, corporate governance must be strengthened by enhancing the powers of the board of directors and revising the methods used in assessing and compensating executives. Second, quantitative controls must be introduced for monitoring and improving the return on capital (establishment of concrete standards for the measurement of investment impact, profitability computation by customer, by sales channel, and by product line).

(3) Top executive-led capacity building

One of the most valuable strengths of Japanese companies is their long-term commitment to capacity building in individual employees. The following points should be emphasized in making the transition to personnel management approaches that conform to the needs of the age of global competition.

(a) Training and recruiting global leaders

To train the next generation of global leaders, top executives must take responsibility for creating necessary structures and mechanisms based on their company's own management principles and philosophy. Positions for global leaders should be filled by searching both within the company and throughout the world for the best available candidates. Special efforts should be made to increase the placement of women and foreign citizens in management positions. As part of the training process of global leaders, it is very important for overseas personnel to gain first-hand experience of the management style of Japanese companies. As the principal venue for this form of training, it is vitally important to adopt measures designed to promote the globalization of the head offices of Japanese companies.

(b) Promoting and maintaining diversity

Japanese companies should search throughout the world to recruit personnel capable of responding to the needs of the present age of rapid and dramatic changes. Having recruited such overseas personnel, Japanese companies must then establish channels for intercultural communication based firmly on their corporate principles and philosophy, and must pursue the creation of new value to be achieved through the integration of diverse

values and ideas. Promoting employee diversity will help Japanese companies work toward achieving greater transparency and efficiency. This process can also be instrumental in prompting Japanese companies to move away from an inward-looking and conservative approach to corporate management and will nurture the culture of innovation and the pursuit of ambitious goals. In addition to increasing the number of women and foreign employees, companies should endeavor to “visualize” their operations as an important step in transitioning from a style of work geared to a monocultural environment to a style of work that supports a sound work-life balance acceptable throughout the world.

(c) Training and recruiting innovative personnel

Mechanisms and structures must be developed for training and recruiting innovative personnel who are capable of creating new business models, businesses, products, and services that capitalize on the outstanding technologies of the company. For the purpose, companies should promote diversity by placing greater emphasis on recruiting individuals with overseas experience and individuals with backgrounds in volunteer work and other forms of social contribution. Parallel to this, mechanisms should also be created to facilitate overseas assignment of employees and personnel exchange with other organizations, such as other companies, universities, and nonprofit organizations. Companies should also actively participate in outreach programs designed to encourage and nurture future generations of innovative personnel, such as the acceptance of interns and the dispatch of lecturers and instructors not only to institutions of higher learning but also to primary and secondary schools.

III. Key to Corporate Transformation:

Ten Decisions and Actions

For companies to effectively perform the roles and responsibilities outlined in the preceding section, we as corporate executives shall pursue the following ten-point action plan (decisions and actions). It should be noted that the action plan does not call on all companies to uniformly implement all of the ten points, and it is understood that the initiatives adopted by individual companies will represent a highly diverse range of options and choices. More importantly, the action plan is intended to be used in identifying and recognizing the weaknesses that exist within a company and promptly adopting necessary decisions and actions. The government's "Realizing the New Growth Strategy 2011" says, "We must realize that we stand at a divide: we can be resolute with the courage to face difficulties, or we can put things off until we atrophy." These words of describing the position of the country are equally applicable to us as individuals.

◀1. Practicing a New Style of Japanese Management▶

Action 1: Implement a style of management that makes the optimum use of strengths

◀2. Creating Value through Continuous Innovation▶

Action 2: Achieve higher value-added and accelerate the replacement of the old with the new

Action 3: Make dramatic progress in service industries and financial services

◀3. Achieving Fairness and Transparency in Management▶

Action 4: Innovate Japanese style of corporate governance

◀4. Exploring New Methods in Training and Recruiting Human Resources▶

Action 5: Diversify and further open recruitment practices

Action 6: Strategically strengthen human resources training

Action 7: Contribute to nurturing socially mature and internationally minded young people

◀5. Maintaining Vitality in Low Birthrate and Aging Society▶

Action 8: Contribute to society where people can work until 70

Action 9: Transform consciousness of male-oriented society to promote active role for women

Action 10: Develop environment for hiring foreign employees

1. Practicing a New Style of Japanese Management

Action 1: Implement a Style of Management That Makes the Optimum Use of Strengths

Principal Elements of Action Plan

- Reaffirm and further hone the strengths developed by Japanese companies.
- Corporate executives: Take the lead in making sure that corporate principles and philosophy permeate all aspects of corporate operations and are used as the basic framework for corporate decision-making.
- Practice a style of management with a longer perspective and continues long-term investment in R&D and human resources development.
- Reaffirm the importance of frontline strengths and practice a style of management that maintains and enhances these strengths.

As part of practicing a new style of Japanese management, Japanese companies should reaffirm the various strengths that they have nurtured over the years and work to further develop and hone these strengths.

Corporate executives must take the lead in ensuring that corporate principles and philosophy are understood and appreciated throughout all parts of the company. This involves creating opportunities for constantly reminding employees of these principles, ensuring that they permeate all areas of corporate operations from top executives to employees and are regularly used as a framework for corporate decision-making and as a reference point in employee behavior. In line with the globalization of corporate activities, companies should train leaders as “missionaries” in countries where they operate with the mission to ensure that corporate principles and philosophy are understood among local employees and that they permeate the companies operations in that country.

Companies should not be beholden to the pursuit of short-term profits and

should adopt a long-term perspective in management. As part of this approach, companies should focus on long-term investment in R&D and human resources development to bolster innovation as the driving force in corporate growth.

The greatest asset for Japanese companies is the strength of the frontlines, which comes from the high motivation and sense of ownership of frontline employees. The importance of this strength must be reaffirmed and measures taken to maintain and enhance these strengths by involving all employees in capacity development and encouraging positive rivalry and competition among employees.

2. Creating Value through Continuous Innovation

Action 2: Achieve Higher Value-Added and Accelerate the Replacement of the Old with the New

Principal Elements of Action Plan

- **All industries: Strive to achieve excellence in product-driven innovation. (Manufacturing industries in particular: Transition from excellence in manufacturing to excellence in manufacturing + service.)**
- **Invest management resources in R&D activities with an eye to development and commercialization in emerging markets.**
- **Carefully analyze and constantly improve productivity.**
- **Engage in proactive M&A aimed at improving operating efficiency and strengthening business foundations.**
- **Recruit and train innovative personnel capable of creating value through excellence in product-driven innovation.**
- **Major corporations in particular: Promote spin-offs based on internal human resources, and train and support social entrepreneurs.**

To create high-value products and services in all industries, efforts must be made to promote R&D and the wider use of ICT, and management resources must be invested in excellence in product-driven innovation to develop new markets, including markets in ancillary services. From the perspective of enhancing international competitiveness, all industries must work toward improving productivity. This process should not focus solely on raising the level of efficiency but also on raising the level of value-added.

To develop robust management foundations, companies must exit sunset industries and business areas subject to excessive competition and shift to business domains that provide higher returns on capital and assets. Companies should use this process to accelerate the replacement of old products and services with the new and enter into new growth areas. In order to enter overseas growth markets, Japanese companies should pursue proactive M&A strategies aimed at enhancing operational efficiency and strengthening management foundations. With regard to the creation of new businesses, major

corporations in particular should promote spin-offs utilizing their internal human resources and should contribute to the development of businesses that deal directly with finding solutions to social problems by training and supporting social entrepreneurs.

Manufacturing industries should use Japan's traditional strengths in manufacturing excellence to bolster their positions in products that can be manufactured only in Japan (integration and fine-tuning [suriawase] technology, design, and products with outstanding safety and security performance) and to thereby maintain their advantage in cutting-edge manufacturing domains. At the same time, Japanese companies must bolster their competitiveness in value creation by striving for excellence in product-driven innovation.

Action 3: Make Dramatic Progress in Service Industries and Financial Services

Principal Elements of Action Plan

- **Widely utilize ICT and adopt active M&A strategies to improve business and organizational productivity and to promote the replacement of the old with the new.**
- **Engage in creating new markets by calling on frontier spirit to develop and supply services that provide solutions to problems of an aging society with declining birthrates. Take positive action to transform service industries into exporting industries and to open up global markets.**
- **Financial institutions: Aim to nurture the next generation of leading industries from a long-term perspective and capitalize on abilities as “appraisers of business opportunities.” To avoid another bubble, utilize advances in risk management technologies to engage in rational control of overall risk-taking and credit intermediation. Contribute in this way to corporate growth and ultimately to improved competitiveness of the entire industry, and aim to make the transition to global financial institution.**
- **Promote research and analysis of service industries through three-way cooperation of businesses, government, and academia, and work to establish “service industry studies” as an academic discipline.**
- **Engage in recruiting and training innovative personnel to lead the way in the creation of high-value services and business models.**

Productivity levels in service industries are lower than those of the manufacturing sector and have ample room for improvement. To address this problem, service industries must restructure their businesses and organizations and accelerate the replacement of the old with the new by utilizing ICT, adopting active M&A strategies, and reviewing and revamping their businesses, their business models, and their operations in general.

Service industries based on Japanese traditions of hospitality are widely acclaimed throughout the world for the high quality of services they provide and can become an important pillar in supporting Japan's future economic growth. Companies in service industries must acquire an awareness of these possibilities and actively engage in developing and supplying services and systems that provide solutions from the perspective of the customer. Efforts should be made to transform high-value service industries into export industries. Finally, service industries should endeavor to globalize their operations and to utilize the vitality of Asian countries in particular.

The financial sector offers a growing number of domains where financial institutions can capitalize on their functions and capabilities. Financial intermediation is becoming increasingly globalized and the growing diversity of funding needs has opened up opportunities for offering a wide range of funding alternatives that combine direct and indirect financing approaches. For instance, in the area of infrastructure export, industries and financial institutions can collaborate in contributing to global and regional growth by combining Japanese technologies and funds. Therefore, to contribute to corporate growth and to improving the competitiveness of the entire industry, financial institutions must further enhance their expertise in industrial analysis and engage in forward-looking risk taking and in the intermediation of risk money. Efforts should be made to transform financial institutions into global players contributing in particular to Asian growth. At the same time, to avoid a repeat of unstable economic conditions caused by excessive risk-taking, financial institutions must engage in comprehensive and rational risk management.

Service industries currently account for approximately 70 percent of Japan's GDP and have an extremely important role to play as creators of employment. Therefore, it is necessary to stimulate the service industries and to enhance their productivity through three-way partnership and cooperation involving businesses, government, and academia. For instance, the business community can assist in establishing "service industry studies" at universities

and research institutes dedicated to conducting research and education related to innovation and productivity improvement in the service industries.

3. Achieving Fairness and Transparency in Management

Action 4: Innovate Japanese Style of Corporate Governance

Principal Elements of Action Plan

- **Establish a Japanese style of corporate governance to achieve harmony with various types of stakeholders and to thereby raise corporate value while gaining high assessment and trust.**
- **Optimize membership on board of directors to the appropriate size for speedy decision-making and substantive deliberations, and appoint several independent outside directors.**
- **Companies with a three-committee system or board of auditors under the Companies Act: Enhance governance functions by providing organizational support and assigning appropriate authorities to auditors, and by ensuring the independence of outside auditors.**
- **Establish a nomination committee, a compensation committee, and other advisory committees to ensure transparency in the nomination and compensation processes of directors. Adopt and appropriately disclose clearly defined standards.**
- **Fully separate supervisory and executive functions in executive officers system. Clearly define respective scope of authority and promote speedier decision-making.**

If Japanese companies are to receive high marks from an increasingly diverse range of stakeholders in the global business environment of ten years from now, they will need to have established corporate governance systems that ensure high levels of transparency, objectivity, fairness, speed, and disclosure. The share of foreign investors in Japan's stock markets is rising, meaning that listed companies are already under the rigorous scrutiny of foreign investors. Create companies that domestic and international investors

find more compelling, and build management frameworks that facilitate speedy decision-making and enable risk-taking from a variety of perspectives.

To improve the reputation of Japan's corporate governance, it is absolutely necessary to strengthen the function of auditors (board of auditors, audit committee), which implies the effective control of corporate risks. Therefore, companies adopting a three-committee system must develop a framework that will ensure full access to information by an audit committee maintaining a high level of independence. Companies with board of auditors must strengthen the mutual cooperation between company auditors and external auditors, and the four-year term of the board of auditors should be used to allow auditors to take the initiative in undertaking effective audits.

Given that the competitive capabilities of top executives have a decisive impact on the future of the company, companies should develop their own training and education processes for bringing up the next generation of executives, and should establish clear guidelines for the replacement of top executives. Furthermore, from the perspective of ensuring appropriate transparency in governance, clear standards should be established concerning the assessment and compensation of executives.

4. Exploring New Methods in Training and Recruiting Human Resources

Action 5: Diversify and Further Open Recruitment Practices

Principal Elements of Action Plan

- Diversify recruitment processes and expand the scope of recruitment from collective one-time-only recruitment of new graduates to include round-the-year recruitment and mid-career recruitment.
- Restrict the recruitment period of new university graduates to allow adequate time for the normal pursuit of university studies and to include academic records and various experiences in the evaluation of candidates. Specifically, the recruitment season for university and graduate school students should begin no earlier than the summer vacation of their last year in school. Persons who have graduated from university no more than three years ago should be offered the same recruitment environment and opportunities as new graduates.
- Clearly define qualifications required for hiring and ensure transparency in the selection process. Utilize university and graduate school academic records and resumes in selection process (fair evaluation of the candidate's capabilities).
- Positively assess the experiences and academic records of Japanese exchange students studying abroad and foreign exchange students studying in Japan.
- Cooperate with educational institutions to actively support career education and professional education in universities. Contribute to raising the job awareness of university students by engaging in internship and other programs. However, internship programs that are directly linked to recruitment selection processes should be prohibited.

Actively recruiting, training, and harnessing the potential of people from upcoming generations constitute one of the important responsibilities of

companies. At the same time, companies must recognize that improving the quality of higher education will contribute in a major way to enhancing the competitiveness of the corporate sector and the country as a whole. In light of this awareness, companies must realize that the current practice of collective and one-time-only recruitment of new graduates has the effect of seriously obstructing and distorting the process of higher education.

Collective recruitment practices should be combined with round-the-year recruitment and mid-career recruitment arrangements to facilitate the entry of a more diverse range of employees who have exposed and have accumulated various types of experiences. The early start of recruitment activities should be rectified to allow adequate time for the normal pursuit of university studies. To achieve this objective, the recruitment season for university and graduate school students should begin no earlier than the summer vacation of their last year in school. Persons who have graduated from university no more than three years ago should be included in the same recruitment process as new graduates. The selection period should be set at a later date than present, while taking into consideration the conditions affecting exchange students, the recruitment rate of students, and the possible impact on small and medium-sized enterprises.

Companies should clearly indicate the qualifications for hiring and should ensure transparency in the selection process. Needless to say, the candidate's academic record and research output at the time of graduation from university should be evaluated in the selection process. Moreover, similar treatment should be given to such experiences as study abroad and social contributions. Due consideration should be given to ensure that Japanese students studying abroad and foreign exchange students in Japan are not placed in a disadvantageous position in their job-seeking activities.

Today, the entire recruitment process is also subject to global competition. Universities must be fully aware that Japanese university students stand in the same arena of competition as foreign exchange students and language-proficient, highly motivated and excellent students studying in foreign universities. To alleviate the mismatch in the recruitment of new graduates, companies must be prepared to cooperate with educational institutions and to actively support career education and professional education at universities. Similarly, companies should contribute to raising the job awareness of university students by establishing internship and other programs. However, internship programs that are directly linked to recruitment selection processes

should be prohibited. On the other hand, companies should expand internship programs based on two-way cooperation between businesses and academia for training global leaders.

Action 6: Strategically Strengthen Human Resources Training

Principal Elements of Action Plan

- **Top executives: Make a personal commitment to training global leaders (next generation of executives).**
- **Train global leaders through frontline experiences and rigorous competition with rivals and others. Search and employ candidates for global leaders from around the world.**
- **Place emphasis on training personnel with excellence in product-driven innovation who are capable of comprehensive design of businesses and creating value.**
- **Managers in particular: Appreciate and support the self-development and self-improvement efforts of employees.**
- **Promote exchange of personnel with a wide range of organizations, including other companies and industries, universities and research institutes, nonprofit organizations, and social businesses. Actively support the social contribution and social entrepreneurship activities of employees.**

«Global Leaders»

Top executives should take responsibility for training employees who embody corporate principles and philosophy by implementing systematic programs for leadership training both inside and outside the company, including on-the-job training. The qualifications and general characteristics of the type of leaders sought should be clearly spelled out. The selection of candidates should be subject to competitive principles. Persons chosen for global leadership training should gain first-hand experience of frontline challenges and difficulties through assignment to overseas posts and the management of affiliated companies, and should also acquire intercultural communication skills that will prove effective and usable on the global stage. Assignment to

supporting staff for board of directors and board of auditors will also provide valuable first-hand experience. It should be understood that job experience limited to within the company is insufficient. To help candidates for global leadership develop comprehensive judgment and executive capabilities, various opportunities should be exploited for experiencing competition with rivals and others, including seconding to domestic and overseas companies, exchanges with leaders and professionals in a wide variety of non-business organizations, and participation in leadership training programs.

Companies should search throughout the world for global leaders and candidates for global leadership and recruit persons that are most qualified for such posts. Companies should develop a level field for competition among employees that transcends differences in citizenship, gender, and age. To accomplish this, companies should establish personnel systems that provide equal opportunities to all employees throughout the world and should create mechanisms to facilitate global interaction and exchange among management personnel. Furthermore, companies should take positive action to recruit and hire women, foreign citizens, and younger persons to join the ranks of corporate managers.

«*Personnel for Excellence in Product-driven innovation*»

Companies must engage in training personnel for excellence in product-driven innovation who are capable of picking up on new social developments and transforming these into new sources of value by designing products, services, and businesses that respond to such emerging needs. Employees on both the administrative and engineering side of businesses should be encouraged to obtain MBAs, and measures should be taken to improve educational opportunities in MOT (management of technology) and liberal arts. Companies must endeavor to make personnel assignments that rise above the division between administrative and engineering functions. Excellence in product-driven innovation requires the training of a new type of personnel with a broad range of knowledge and insight and capable of contributing to the creation of a new system of knowledge. To promote this training process, candidates should be given the opportunity to work and compete with people from other companies and industries, universities and research institutes, nonprofit organizations, and social businesses.

In order to raise the social awareness of employees and to provide them with greater opportunities to discover social problems, companies should

actively promote the social contribution and social entrepreneurship activities of their employees.

Furthermore, companies must bolster their cooperation and support for educational institutions. It is not enough for companies to merely dispatch employees to schools and educational institutions. Educators and researchers must be accepted into companies and given opportunities to experience the frontlines of business so that they can deepen their understanding of the type of human resources that businesses and companies are looking for. As part of an initiative to achieve higher levels of expertise and to broaden the scope of networking, companies should encourage employees who have gained a certain amount of business experience and developed a keener awareness of various problems on hand to return to universities for furthering their studies. Companies should also engage in global personnel management with the objective of including overseas experiences, such as overseas study and overseas assignment, in the career paths of larger numbers of employees.

Action 7: Contribute to Nurturing Socially Mature and Internationally Minded Young People

Principal Elements of Action Plan

- **Businesses: Contribute to nurturing socially mature and internationally minded young people.**
- **Improve day-on-the-job and company visit programs for elementary, junior high school, and high school students. Actively promote participation in volunteer activities organized by companies.**
- **Provide overseas internship opportunities and overseas study programs for high school and university students.**

As young Japanese face growing uncertainty and anxiety about the future, their tendency to be inward-looking is considered a problem. To address this, conscious efforts must be made to nurture social maturity and an international perspective by firmly establishing an awareness of social participation, social contribution, and social responsibility as an integral part of all aspects of education, including family education and primary and secondary education.

In all fields of politics, government administration, business, and

education, global society demands the training and participation of individuals who are socially mature and internationally minded. Similarly, in the corporate setting, contribution to society and a strong awareness of social responsibility are included in the essential qualifications for global leaders and innovative personnel. Therefore, the business community should act on the world of education to promote the nurturing of socially mature and internationally minded young people.

Many companies are already implementing day-on-the-job and company and factory visit programs as part of their CSR activities. These programs should be improved and expanded to allow a greater number of students to experience the workplace on a continuous and regular basis. The volunteer activities and environmental education programs organized and conducted within companies should be opened to the public, and local residents and students should be invited to participate in these programs. For instance, companies whose business domains include health and medical services and long-term care can establish partnerships with local schools, include work experience in school curriculums, and actively accept student volunteers. In this context, it is necessary for Keizai Doyukai to contribute to society by expanding and improving corporate programs for dispatching lecturers and instructors. It is also necessary to further deepen the exchange between the business community and educators.

Businesses should contribute to nurturing global human resources from a long-term perspective by establishing overseas internship programs and overseas study programs for students (high school and university).

5. Maintaining Vitality in Low Birthrate and Aging Society

Action 8: Contribute to Society Where People Can Work until 70

Principal Elements of Action Plan

- **Support employment training and capacity building programs for the middle-aged and elderly to realize a society where people can work until 70. Improve employability of employees by implementing programs for age management starting in their 40s.**
- **Support entrepreneurial activities of older employees and promote placement of older employees in nonprofit organizations and social businesses that the company is supporting or collaborating.**
- **Create “human resources banks” for older employees divided according to expertise with the participation of groups of companies or industries to support outplacement of employees and to introduce older employees to small and medium-sized enterprises, start-up companies, and social businesses.**

A “society where people can work until 70” does not imply “people working at the same company until 70.” Rather, the society that we envision is a society in which individuals have the opportunity to remain active members of society by putting their personal abilities and experiences to productive use in nonprofit organizations, small and medium-sized enterprises, and start-up companies, as well as in the world of education or as participants in regional and community organizations. Conversely, we envision a society in which people are constantly reeducating themselves and striving to raise the level of their competencies in order to be able to remain productive members of society. In a society where the elderly are able to continue contributing to society while bearing the costs of society, the burden placed on the younger generations is correspondingly reduced.

Based on the belief that employment must be supported by society as a whole, businesses should support capacity-building programs for middle-aged and older employees as a means to realizing a society where people can work

until 70. As part of these efforts, businesses should implement well-developed age management programs (business management that takes the element of age into consideration) from a long-term perspective. In the European Union, it is reported that age management benefits both the employer and the employees (middle-aged and older employees).² Reported benefits include better skilled workforce, more capacity for innovation, and better work-life balance, as well as lower pension costs resulting from delayed retirement.

Age management starts with the formulation of long-term career plans while employees are still in their 20s and 30s. For employees above the age of 40, companies provide health maintenance and improvement programs to ensure that they can keep working until 70. They also provide specific educational and career development programs to maintain the employability of workers. By supporting employees in their participation in social contribution activities and in their interaction with segments of society that differ from their work environment, companies can help employees find fields of non-work related activity, such as nonprofit organizations, social businesses, and education. This exposure and the consequent discovery of social problems can lead to the creation of new commercial businesses by the company or the individual.

Efforts should be made to encourage the social reentry of elderly persons with high-level skills and the reemployment of persons with a rich stock of technological capabilities. As part of these efforts, “human resources banks,” for persons above the age of 60 and divided according to fields of expertise, should be created with the participation of groups of companies or industries to support outplacement activities and to introduce registered individuals to small and medium-sized enterprises, start-up companies, and social businesses. Not only will this help meet the human resources needs of domestic companies, but it will also suppress the outflow of technology overseas.

Action 9: Transform Consciousness of Male-Oriented Society to Promote Active Role for Women

² In the International Longevity Centre-UK (ILC-UK) conference held in 2006, the benefits of age management were reported as follows.

- Benefits to employers: staff commitment, delayed retirement = lower pension costs, better skilled workforce, more capacity for innovation, enhanced share value, etc.
- Benefits to older workers: more job opportunities, experience valued, career development, better work-life balance, etc.

Principal Elements of Action Plan

- **Top executives: Present policies for unleashing the potential of women, including commitment to specific numerical goals and measures to be implemented (for instance, reduce turnover rate of female employees by 50 percent).**
- **Top executives: Review current salary scales and limits on work reflecting “dependent family” system, and design personnel systems, which maximize utilization of individual capacities and encourage pursuit of results.**
- **Businesses: Introduce and strengthen measures pertaining to male employees to increase time spent by men in childrearing and household tasks to three times the present level (equivalent to levels in Europe and North America).**
- **Transition to function-oriented personnel management based on assumption of sound work-life balance.**

Given the gradual decrease in Japan’s working-age population, the elimination of gender discrimination will have an increasingly important role to play in strengthening and maintaining growth potential and corporate competitiveness. However, current levels of utilizing female human resources cannot be said to be sufficient. Although progress has been made in developing the following systems, there are very few cases where the systems are being effectively implemented, or where corporate executives have adopted a new awareness and are making an organized and systematic effort to harness female employees’ potential more extensively.

Conventional Measures for Developing Female Human Resources

- Regular employees given non-full-time option for working reduced hours or reduced days.
- Reassignment of employees in consideration of spouse’s reassignment to different location.
- Flexible childcare leave in consideration of availability of nursery facilities.
- Development of in-company nurseries and nursery facilities located on commuting routes developed jointly by groups of companies.
- Promoting at-home working styles.
- Career support for employees returning from childcare leave.
- Priority rehiring of women taking early retirement for marriage, childbirth, etc.

As the first step, top executives must proclaim the adoption of positive policies for the more proactive utilization of female human resources in the workplace, including the announcement of specific numerical goals and commitments. As the appointment and training of women for management and directorship posts constitutes an important issue for the future, concrete initiatives should be launched affecting all aspects of personnel policy, such as recruitment and hiring, assignment, assessment, training, and promotion. In certain areas, it will be necessary to maintain positive actions until the program gets off the ground.

The resolution of problems related to this issue requires the development of a new consciousness among both men and women. Of particular importance is the adoption of a new consciousness among executives and managers. Greater diversity and flexibility must be allowed in the work styles of male employees so that, for instance, the level of men taking childcare leaves can be raised to the government's goal of 13 percent, and the time spent by men in childcare and household tasks can be increased to the same level as in Europe and North America. Businesses must reaffirm that differences in capacity are individual based, not gender based. It must be realized that businesses cannot avoid the development of new personnel systems that are based on work performance standards that are aimed at revision of work styles affecting the entire company.

We strongly appeal to the government for the adoption of tax and social security systems with neutral impact on women's choice of work.

Action 10: Develop Environment for Hiring Foreign Employees

Principal Elements of Action Plan

- **Businesses: Strengthen international competitiveness by actively recruiting and hiring expert foreign workers (highly skilled human resources) and foreign exchange students, and implement measures to encourage their remaining with the company (for example, revision and improvement of contents and languages used in corporate information and announcements, development of uniform global standard for personnel assessment, and livelihood support and assistance).**

- **Selection process for newly graduating foreign exchange students should be the same as for newly graduating Japanese students.**

The number of expert foreign employees (highly skilled human resources) working in Japan has been decreasing due to a shift to direct overseas hiring and slow progress in the development of English-based living infrastructure.³ According to a study conducted by Switzerland's IMD, Japan's labor market ranks 42nd in the world in terms of attractiveness to highly skilled foreign workers, placing it not only below Europe and North America but also below China and South Korea.

From the perspective of medium- to long-term measures for improving international competitiveness and in order to create concentrations of advanced knowledge, businesses must actively engage in utilizing highly skilled overseas personnel and foreign exchange students. Parallel to efforts made by businesses to develop a new consciousness and to revise personnel management and labor practices, the government should undertake to implement effective measures without delay in the following areas: easing the conditions for acquisition of permanent residency status; revising the rules for lump-sum pension withdrawal; improving English-based living infrastructure; improving the educational environment for dependent children; and, introducing qualification and certification testing conducted in English.

³ The number of visas issued to high-skilled workers during 2009 fell below 10,000. The ratio of foreigners in total population with higher education: UK, 16%; US, 13%; Japan, 0.7%.