



Long-term value: Monumental transformation of talent and institutions with a focus on Japan and the world in 2050

**EY Global Workforce and Mobile Talent
Virtual Webinar - Japan Round
Event Report (16 October 2020) - EY Japan**

EY Webcast

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On September 8, 2020, EY Japan held an online event on the theme of corporate institutions and talent management entitled "EY Global Workforce and Mobile Talent Conference".

This session's topic of discussion was "Long-term value: Significant transformation of talent and institutions with a focus on the world and Japan in 2050." The keynote panel discussion centered on important issues that talent and institutions will face 30 years from today. Joining us to share their diverse viewpoints on the subject were Hidenobu Nakahata, Senior Vice President and Executive Officer of Hitachi, Ltd.; Toshiko Oka, Outside Director of Sony; and Norihiro Sasaki, the CEO of NewsPicks.

EY Japan People Advisory Services Leader and facilitator of the keynote panel discussion, Shinichiro Uzawa, discussed the significance of thinking 30 years into the future: "I felt it was necessary to begin using a long-term, broad-based perspective to scrutinize the future, especially in the face of the difficult challenges brought by the spread of COVID-19."

Standardization of talent policies in anticipation of globalization

Mr. Nakahata of Hitachi began the discussion by introducing how the future of talent and institutions looks at Hitachi, including specific examples of initiatives at Hitachi undertaken in preparation for the changes underway in its business.

Mr. Nakahata identified the three trends driving development of operations at Hitachi. Those three trends were the transformation of global markets, the digital transformation of business operations, and the transformation of the nature of society as a whole.

Hitachi has been no exception to globalization over the past 20 years. It attributed 29% of its total sales in 1999 to overseas sales, a figure which ballooned up to 51% by 2018. Similarly, its ratio of international employees was 55% in 2018, a sharp increase from the 20% it was in 1999.

Its business activities have also undergone significant transformation in response to globalization. Over the last five years, Hitachi has modified a portion of its business activities, which accounts for approximately JPY 2.5 trillion in sales, thereby facilitating the expansion of its global business and the strengthening of its digital solutions. That sales figure represents approximately one quarter of its total sales. Mr. Nakahata also stated, "Hitachi is shifting from the conventional approach of simply offering products and systems that originally focused on Japanese consumers, to a new approach that searches out the needs of its consumers, regardless of locale, and proposes services and items that answer those needs.

He also stated the following in regard to the talent and institutional structures necessary for promoting operational transformation:

"It is essential to have a diverse institution comprised of self-sufficient individuals who understand the various values and diverse needs of their consumers and can actively propose solutions based on an understanding of the key issues at hand. If we do not immediately begin to develop talent with these skills and create institutions and frameworks to support them, we will not be prepared for the demands of the world in 30 years."

Hitachi has created a human capital management infrastructure for its human capital - standard across its global group - in order to promote diversity and inclusion. At the same time, it has also been standardizing its human resource systems. To be specific, Hitachi has created a human capital database, a rating system (global grades) that measures the difficulty of responsibilities for positions with manager-level or above duties and embarked on the standardization of its performance management system.

Mr. Nakahata explained the foundation for focusing on standardizing human resources systems as an essential switch to human capital management focused on job-types which create independent (autonomous) work styles.

Until recently, many Japanese companies used a "membership-based" human capital management style, which assigned duties to employees without clear distinctions or boundaries. Regardless, in a business environment that will rapidly change in the future, there is a growing call for "job-type" human capital management with a focus on determining compensation based on specific job descriptions and performance benchmarks. Mr. Nakahata expanded more on that point: "Evaluation criteria must be standardized in order to ensure the right individual from the diverse pool of human capital is allocated to the right place according to their capabilities. Transforming the mindset of both institutions and employees will require perseverance for a span of three to five years. It is critical to set a clear course and implement initiatives with a long-term perspective to ensure continuous growth in a market 30 years in the future.



Shinichiro Uzawa
EY Japan
People Advisory Services Leader



Hidenobu Nakahata
Hitachi, Ltd.
Senior Vice President and Executive Officer

The incubation of venture capital firms is a “safety net” for companies

The next speaker, Ms. Toshiko Oka, discussed corporate business strategies for 30 years in the future in the context of M&A.

Her introduction noted that Japan is home to many of the oldest companies in the world. Over 3,000 companies in Japan have been in business for more than 200 years. Germany, which ranks second, has just over 800 companies of the same length.

The average life expectancy of a company anywhere in the world is said to be 35 years or so. Ms. Oka explained, “Every business has a lifespan. A company cannot survive for an extended period of time by focusing on a single business. To survive, companies need to find a new business before the lifespan of the existing business expires. There are two options for obtaining a new business. The first is to develop a new business internally. The second is to absorb an external one via M&A. Ms. Oka had the following to say about these options:

“The internal institutional structure of a large company does not often allow for an environment that can develop new businesses. M&A is the more realistic option. Through M&A, the time and effort required to develop a new business can be bypassed with funding. However, Japanese companies are not accustomed to M&A, and many of them overspend on their endeavors. The big challenge for them in the future will be properly managing acquired businesses.” Ms. Oka also stated, “The fostering of venture capital firms is a ‘safety net’ for companies.

The introduction of new businesses keeps companies afloat. In order to achieve that goal, society as a whole must support the development of start-ups and venture capital firms and create an environment where new businesses and the ideas for them are constantly being born. This is also for the sake of large companies which perform M&A.”



Toshiko Oka
Sony
Outside Director

Creating a “Cool Japan” from scratch

Mr. Sasaki, the final speaker, gave his own opinion on Japan’s new national model while introducing his book “Japan 3.0: Life Strategy for 2020” (published by Gentosha).

Mr. Sasaki noted that there is a paradigm shift in modern Japan once every 70 years or so. The paradigm shift he is referring to is a phenomenon in which existing concepts, ideas, and social structures are fundamentally overturned by external factors. Mr. Sasaki describes the era from the Meiji Restoration to the defeat of World War II as “Japan 1.0,” the approximately 70-year postwar period to the present as “Japan 2.0”, and our current time as “Japan 3.0”. Given that this present moment in Japan is a major crossroads, he continues:

“The COVID-19 crisis will likely propel the third paradigm shift. In terms of how the business environment of companies has been affected, new technologies, industry restructuring, decline in population, and work style reforms are all examples of factors that overturn existing social systems.” Taking that into consideration, how might Japan transform after the third paradigm shift? Mr. Sasaki shared an interview of the late Taichi Sakaiya, to introduce the “Cool Japan” national vision for Japan.

Mr. Sasaki proposed that after the “strong Japan” envisioned during the Meiji era and the “rich Japan” which prioritized economic growth, the nation should next aim to be an “interesting and enjoyable Japan.”

He continued, “Until recently, the goal had been to increase GDP (gross domestic product), but the current era is focusing its attention more on improving quality of life (QOL). Going forward, businesses should be built on a foundation of super niche perspectives that take into account the current state of society and individual lifestyles, and not crafted around a presumed sense of belonging employees have toward the company. The next five years or so will surely see a growing demand for this new type of social model.”



Norihiro Sasaki
NewsPicks Studios
CEO

The audience asked the three speakers various questions in the Q&A segment at the end of the keynote speech.

When asked about the difficulty of changing (standardizing) the human resources system in a large company, Mr. Nakahata responded, "The company must display a clear vision and convince its employees why changes to the human resources system are necessary in the first place. It is important that employees see any changes to the system as being for their own benefit."

When asked why Japanese companies are not successful in their M&A endeavors, Ms. Oka noted that slow decision-making is the problem. In order to solve this problem, she continued, it is important to clarify which new business areas are necessary for the company and to be prepared to negotiate immediately if a good opportunity shows itself.

Furthermore, Ms. Oka emphasized that a company must always be thinking ahead when it comes to M&A. In other words, a company must analyze in advance how much synergistic effect a project will generate. In addition, it is important to compile existing M&A know-how and experience and utilize them in preparation for future M&A projects, such as how to handle the governance matters of acquired companies. The three guests also expressed their diverse views on the question of how to develop talent that possess a global perspective.

Ms. Oka responded, "It is not essential to have lived or studied abroad." "Communication with diverse set of people should be the goal, not putting a specific foreign country or location in the spotlight. It is important to attune your information-gathering receptors and expand the range of information you collect," said Mr. Nakahata.

In response to this, Mr. Sasaki shared his own experiences, "Communication with a diverse set of people and expanding your range of information are of course critical. However, considering we live in an era where any type of information is available on the internet, getting to experience a foreign country with your own eyes is also a valuable learning experience."



Thinking about the Now, Next, and Beyond of talent and institutional issues

The latter half of the event was a hands-on session with experts from EY People Advisory Services. EY People Advisory Services is a professional consulting service for human resources and institutions. More than 13,000 specialists worldwide, with 180 of them in Japan, provide problem-solving expertise on a global scale with a full line of services. Issues related to talent and institutions were classified by "Now", "Next", and "Beyond" and plotted on a timeline, and the key points of each phase were explored in the session.

Yuji Nomura, Partner of EY Japan People Advisory Services HR Transformation, and Keisuke Takayanagi, Director of Organization & Workforce Transformation, discussed the theme of "the second dawn of work style reform." They touched on how work styles and human resources will look in the future, as well as a more strategic take on work force planning.

It is important to display more flexible institutions and diverse work style options in a future that is rife with uncertainty and difficulty. Mr. Nomura commented, "In order to achieve these goals, we must review the personnel systems in place until now. Labor management not tied to time or place, and communication that encourages employees to want to work are key. Becoming a company that people want to work for is also important."

Mr. Takayanagi added, "In this era known for employees having a plethora of options, it is especially necessary to understand the shortage of personnel in real time and create a foundation that can fill those gaps with expediency". Utilizing HR Tech to improve work efficiency and accurately gain perspective on talent needed in the future will lead to accomplishing that goal. Mr. Takayanagi also emphasized, "It is important to identify the talent gap in current ranks and take measures at an early stage." In addition, Nick Pond, an Integrated Mobility Partner of EY Japan People Advisory Services, and Megumi Fujii, also a Partner of Integrated Mobility,



Yuji Nomura

EY Japan
People Advisory Services Partner
HR Transformation



Keisuke Takayanagi

EY Japan
People Advisory Services Director
Organization & Workforce Transformation

spoke about the recent issue of talent transfers in preparation for the resumption of overseas travel. Mr. Pond provided an overview of the current situation of overseas travel being severely restricted due to the spread of COVID-19. He explained that "to cope with the situation at hand, existing transfer programs need to be revised from the ground up."

He stressed the importance of keeping an eye on the changes affecting both human resources systems and risk management policies and advocated for the centralization of personnel management. Centralization of personnel management would contribute not only to risk management, by preventing immigration and tax violations, but also to detailed analysis of the compensation of overseas employees and cost reduction across the entire company.

Ms. Fujii also pointed out, "Now is a good opportunity to review unaddressed inadequacies lying latent in overseas employee regulations." She noted that future measures must include uniform management of income taxes for overseas employees, and enhancements to the systems charged with efficiently managing and analyzing employee compensation. She also noted the need for systems that allow overseas employees to confirm any unclear points regarding the tax systems of their country of assignment, and which ensure there are no inaccuracies or omissions in their tax filings.

Akinori Mizuno, Partner of EY Japan People Advisory Services Organization & Workforce Transformation, and Nancy Ngou, Associate Partner of Change Experience and Culture, were the final speakers. They spoke about human resource operating models in the digital age and discussed how the role of human resource departments will be more significant in the new normal of a post-COVID world. With many companies tackling the challenge of digital transformation (DX), it is important for human resources to evolve into a "digital operating model."

DX in the HR department does not just entail digitizing analog work ("Doing Digital"), but also refers to Being Digital, a transformation of the operating model that includes using HR Tech to enhance employee services, an expert community providing swift problem solving, and the standardization of operations.

Mr. Mizuno stated, "If HR departments evolve into a digital operating model, it will allow the HR and business departments to collaborate to address project-type challenges. It will also enable the use of HR Tech to bring about the standardization of global business activities." He also suggested that HR Tech could be leveraged to provide insights in support of management decisions.

On the other side, Ms. Ngou stressed that people should be at the center of DX. Companies should strengthen their engagement with their employees, rather than trying to force them into the company's framework. Ngou emphasized that, "Involving employees from the beginning of the transformation is the most important factor in the success of any transformation."

Summary

Our current course makes it difficult to be optimistic about the Japan that exists 30 years into the future. Analysis by EY predicts Japan's share of global GDP will fall to 3.2% by 2050. Mr. Uzawa summarized the issue, "Japan's presence will decline against the backdrop of a rapidly expanding global GDP. One of the major challenges for the next 30 years hinges on the question of whether this period can be made into a 30-year period of renewed prosperity."



Nick Pond

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