

Management Strategy



Message from the Chairman and Representative Director

We believe human resources are the greatest, most powerful type of capital for corporate management.

Continuing to Advance by Maximizing Customer Value and Human Capital

Ozasa Yoshihisa

Chairman and Representative Director
Link and Motivation Inc.



Founding Spirit

As Japan's working population shrinks and the source of companies' competitive advantages shifts from tangible goods to intangibles, human resources and organizations will become crucial assets for corporate management. That was my conviction when I founded Link and Motivation in 2000, a time when the English word "motivation" was still largely unknown in Japan. No matter how marvelous a strategy, product or service may be, it is impossible to execute strategies, or to continue creating new products and services, without employee motivation. I founded the Company with that thought in mind, and my conviction has only grown stronger as we have helped resolve organizational and personnel issues at companies of all kinds as a pioneer in organizational and personnel consulting.

In recent years, attention has increasingly turned to fulfillment in work, employee engagement, and human capital. The Japanese government's strategy is to radically strengthen investment in human capital, stating that "In an era of progress from the tangible to the intangible, the source of added value is people, who generate creative ingenuity and new ideas." We see this national strategy as a major opportunity for the Link and Motivation Group. Furthermore, I feel once again that the conviction I had at the time of the Company's founding was correct.

Progress toward Accomplishing Our Mission

The Link and Motivation Group has set forth a mission to create a more meaningful society, and our business has continued to grow. The expression "a meaningful society" may sound somewhat philosophical, but we mean a condition in which organizations and individuals derive meaning from society by pursuing their ambitions and finding fulfillment in life. Three unique aspects of Link and Motivation provide us with advantages for accomplishing our mission.

1. Management That Prioritizes Human Capital
2. A Business Model That Fully Utilizes Motivation Engineering
3. Linkage between Business and Organizational Strategies

See "Key Points of Our Value Creation Process" on pages 10-13 for details.

A Spirit Driving Further Growth

Now, 23 years have passed since I founded the Company. Both society and conditions for organizations and individuals continue to change at a dizzying pace. Business in Japan has transitioned to intangibles, with the service industry now accounting for about 70% of GDP. Moreover, the declining working-age population is making productivity improvement essential, and attitudes are diversifying regarding the meaning of life and of work. As a result, social issues related to individuals and organizations—including promoting human capital management, improving labor productivity, and providing high-quality education—have come to the fore and are growing increasingly complex. We are committed to helping resolve these social issues and fulfilling our mission.

Accomplishing our mission of creating a more meaningful society will require us to accelerate our growth. We still have a distance to go. But our hope is that someday, we will have helped to build a Japanese society so replete with fulfillment, both in work and in life, that people laugh in disbelief to find out that there was once a time when Japan was ranked 128th out of 129 countries in employee enthusiasm. We also intend to take on the challenge of helping to resolve the major issues Japan is confronting ahead of other countries. We want to continue delivering our value to society decades into the future.

In this era when some eight out of ten companies go out of business within three years of their founding, I would like to express my sincere gratitude to everyone involved in the ongoing growth of Link and Motivation. Together with stakeholders who share our vision, we will continue to make further substantive progress with our mission of creating a more meaningful society. You can look forward to the continuing growth of the Link and Motivation Group in the years to come.

March 2023



Value Creation Process

for Creating a More Meaningful Society

By investing capital, primarily human capital, in a business model that fully utilizes Motivation Engineering, we will continue to generate value to create a more meaningful society through a cycle that provides organizations and individuals with opportunities for transformation.

Outcomes

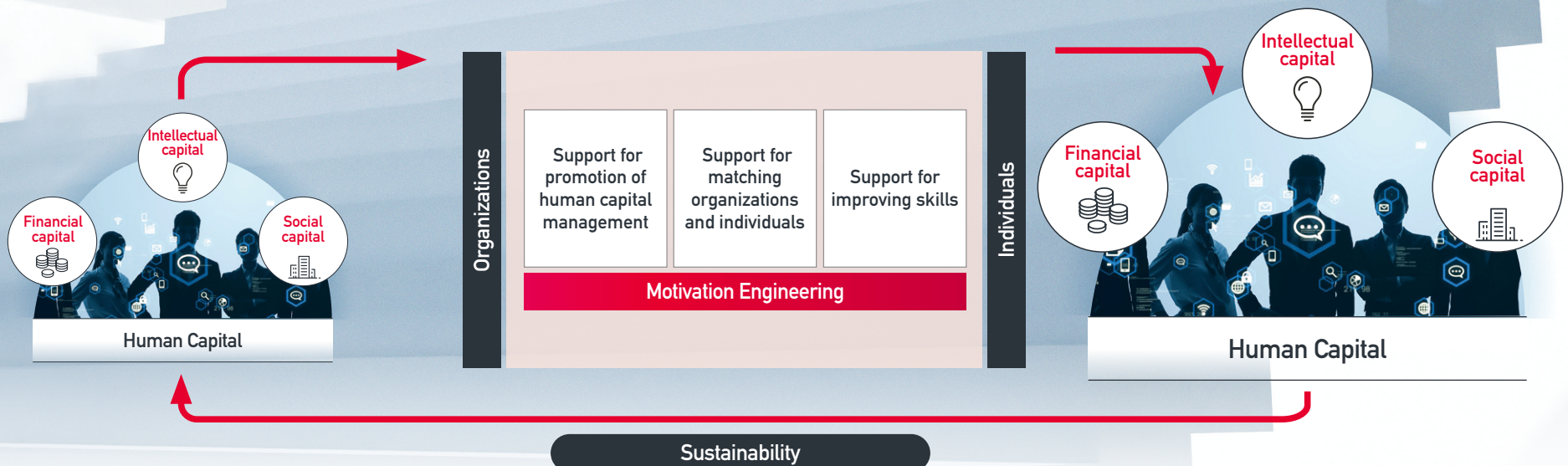
A society filled with **organizations** that link employee job fulfillment to business growth

A society filled with **individuals** who are independently designing their own lives and careers

Input: Capital

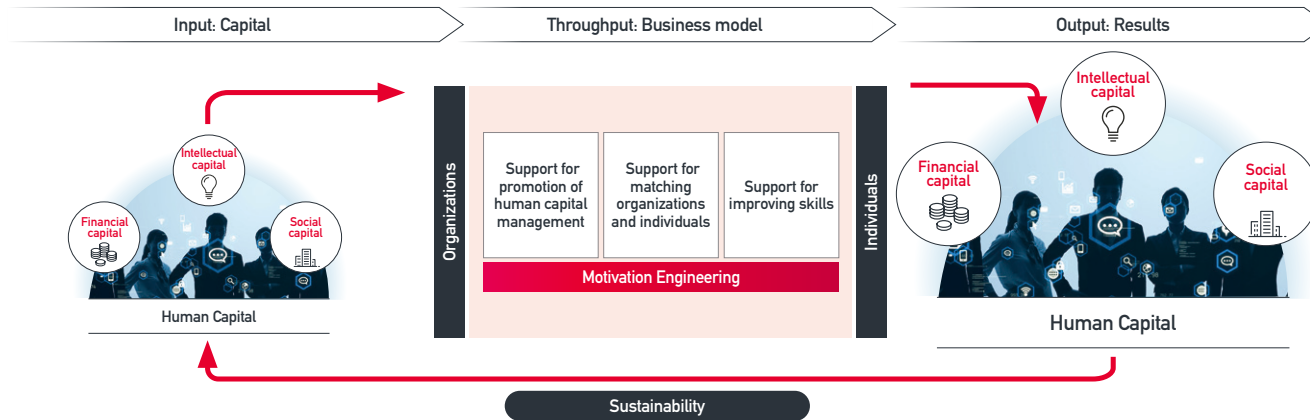
Throughput: Business model

Output: Results



Key Points of Our Value Creation Process

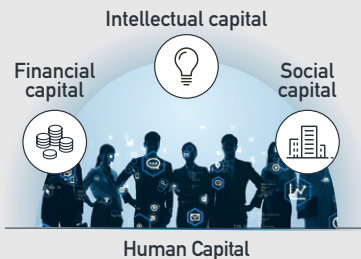
There are three key points in the Link and Motivation Group's value creation process.



Point 1

Management That Prioritizes Human Capital

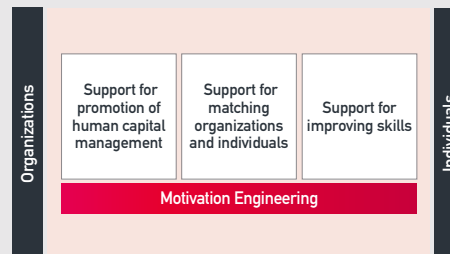
We maximize human and other types of capital, placing the highest emphasis on human capital.



Point 2

A Business Model That Fully Utilizes Motivation Engineering

In our business model, employees (human capital) fully utilize Motivation Engineering, our core technology, to maximize customer value.



Point 3

Linkage between Business and Organizational Strategies

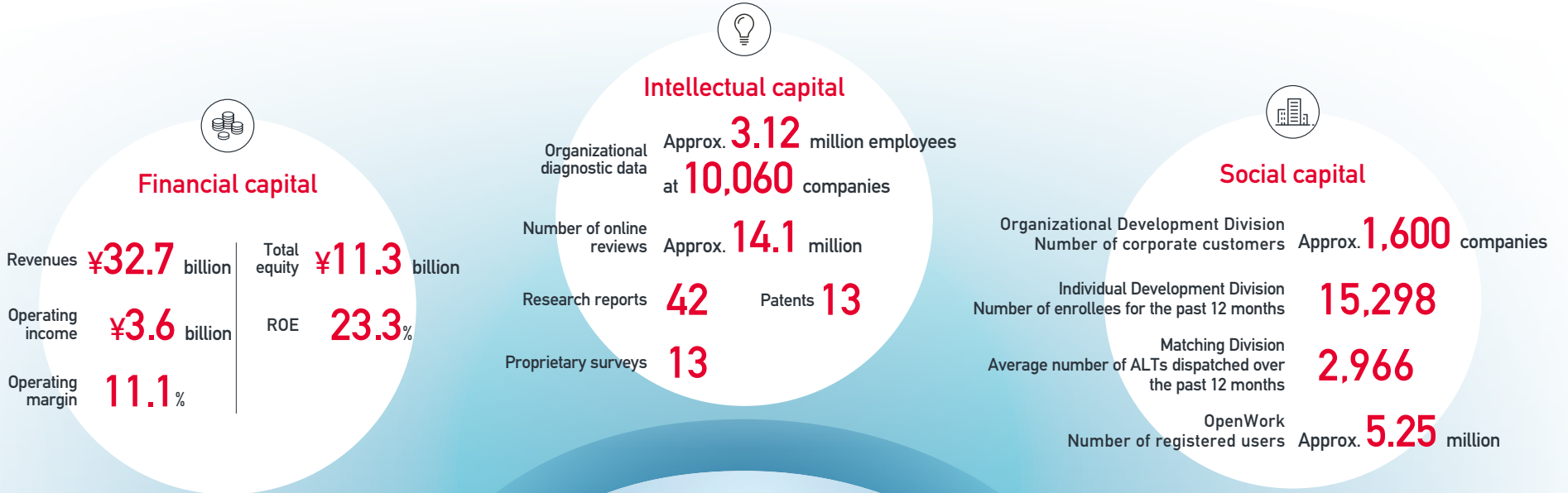
We consistently link business and organizational strategies to simultaneously maximize customer value and human capital.



Point 1

Management That Prioritizes Human Capital

Based on our belief that human resources are the greatest, most powerful type of capital for corporate management—a principle that has remained unchanged since our founding—we conduct management that prioritizes human capital. Not only is human capital capable of increasing value on its own, human resources maximize other types of capital through product development, customer development and brand development.



Human capital

Employees **1,505**

Number of Group companies with AAA Employee Engagement Ratings **10** out of **11** companies

Level-specific role survey score
 Note: See "Organizational Strategies" on page 27 for details.

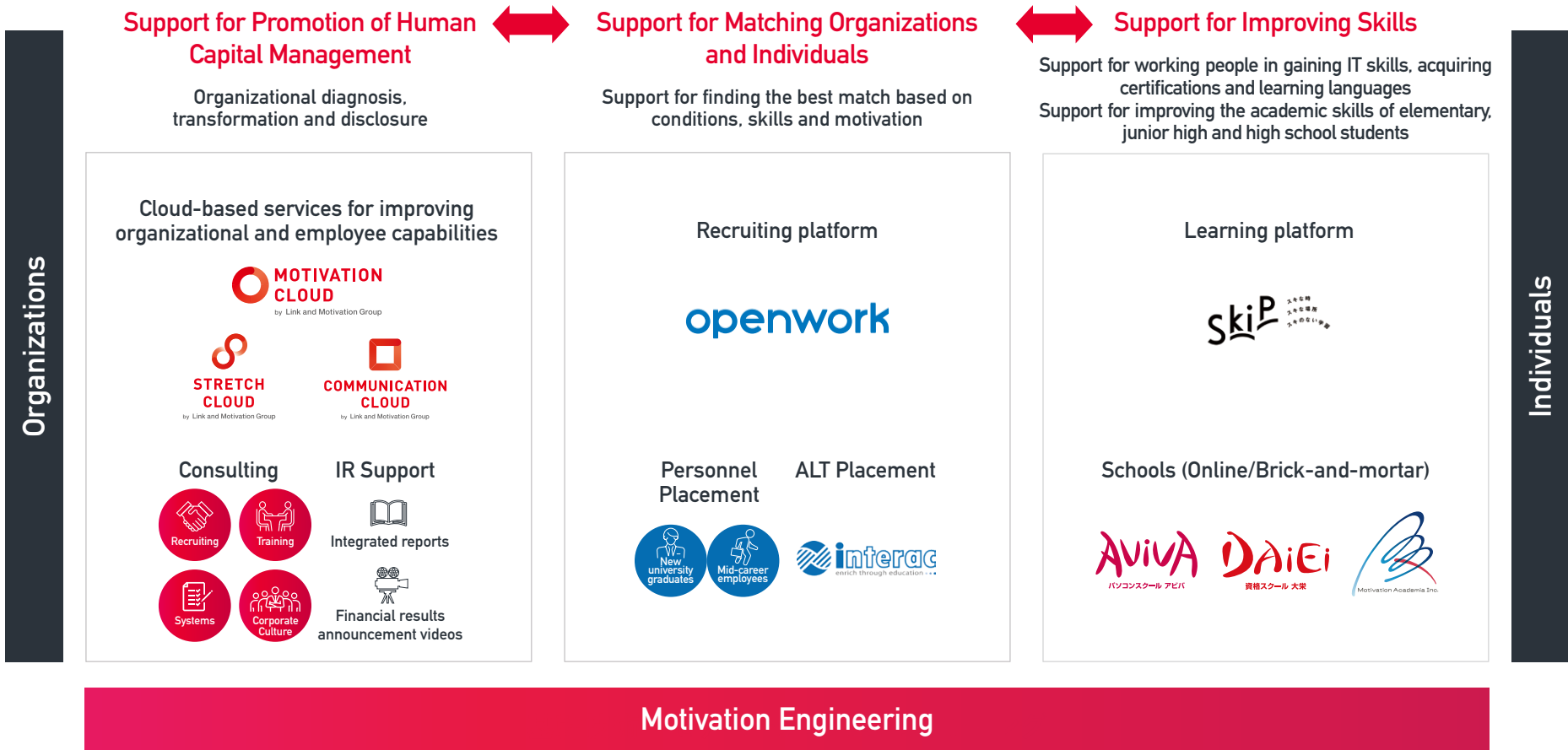
All employees Rank of "A" or higher **56.8%**
 Managers and above Rank of "A" or higher **75.3%**

Note: Figures as of December 31, 2022

Point 2

A Business Model That Fully Utilizes Motivation Engineering

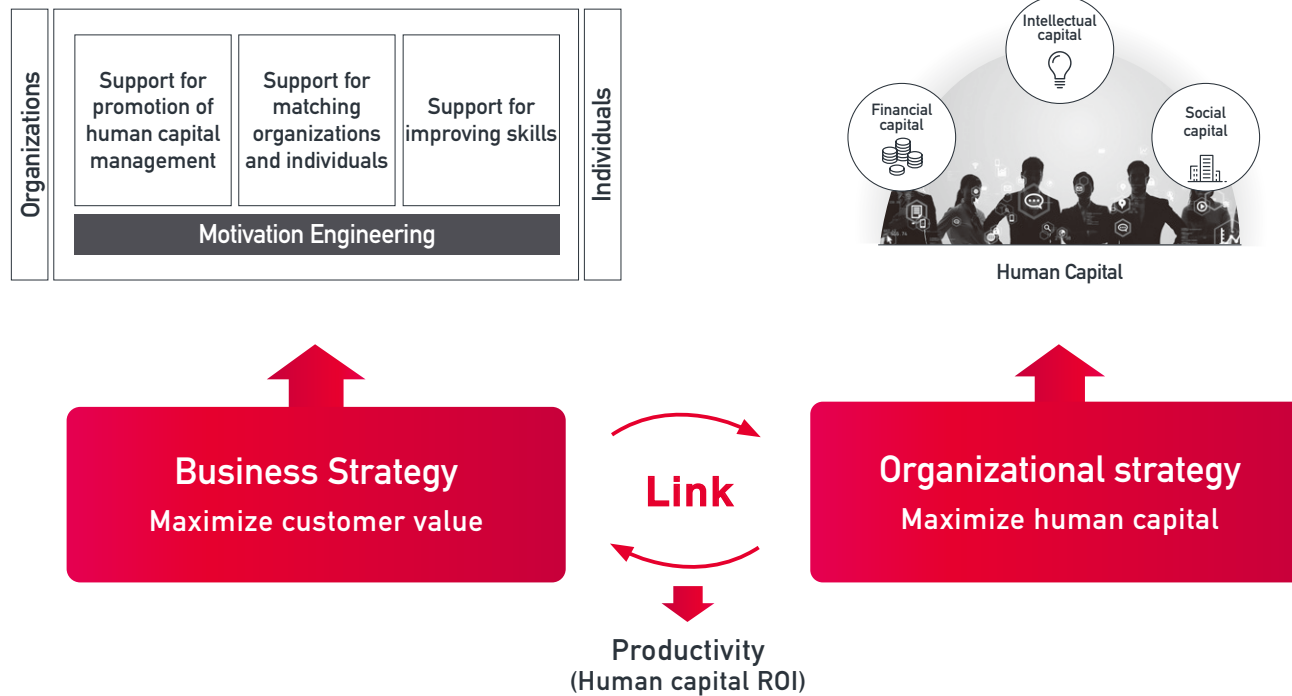
Our business model maximizes value for customers by incorporating Motivation Engineering, our one-of-a-kind core technology, into practical, reproducible diagnosis and transformation for organizations and individuals.



Point 3

Linkage between Business and Organizational Strategies

A company's organizations are determined by its business strategy. On the other hand, we also believe that a company's business strategy is determined by its organizations. We therefore give equal status to business strategies and organizational strategies. By constantly monitoring productivity (human capital ROI) as a management KPI, we conduct management that balances human capital investment and business results.



We monitor human capital ROI, an indicator of the return on investment in human capital, as a management KPI. In 2022, the Link and Motivation Group's human capital ROI was 41.1% (an 8.1% increase from the previous year).

Note: Human capital ROI = Adjusted operating income ÷ Human capital costs
 Human capital costs are calculated as total expenditures including employee salaries and bonuses, statutory internal and external welfare expenses, commuting expenses and other executive compensation.

Special Feature:

A Conversation between Professor Ito Kunio and President and Representative Director Sakashita Hideki on the Nature of Human Capital



Ito Kunio

Professor and Director
Hitotsubashi CFO Education and Research Center

Mr. Ito has a Doctorate in Commercial Science and has served as a professor and dean of the Graduate School of Commerce and Management, and senior vice president at Hitotsubashi University. He chaired the study group that published *Competitiveness and Incentives for Sustainable Growth: Building Favorable Relationships between Companies and Investors* (known as the "Ito Report") in 2014 as well as other government committees and projects on corporate governance, intangible assets and ESG. In September 2020, the *Report of the Study Group on Improvement of Sustainable Corporate Value and Human Capital* (known as the "Ito Report for Human Capital Management") published its findings for the Ministry of Economy, Trade and Industry.

Sakashita Hideki

President and Representative Director
Link and Motivation Inc.

In 1991, Mr. Sakashita joined Recruit Co., Ltd., where he was involved in organizational and personnel consulting as part of the Comprehensive Human Resources Services Division. In 2000, he participated in the establishment of Link and Motivation Inc. as a founding member, and has been serving as president and representative director since 2013.



Human capital management has been attracting attention. This management approach views human resources as a type of capital and emphasizes maximizing their value to improve corporate value over the medium to long term. We take a look at the nature of human capital management in this conversation between Ito Kunio, who chaired the study group that published the "Ito Report for Human Capital Management" and is promoting human capital management from an academic perspective, and Link and Motivation President and Representative Director Sakashita Hideki, who is promoting it from a business perspective.

Current State of Human Capital Management

Ito: When I talk to managers, they all say the same thing: Our people are important. But some data has emerged that presents a shocking state of affairs. For example, when asked if they want to continue working at their current company for a long time, employees in Japan answered "yes" at the lowest rate of all countries surveyed. At the same time, they were also least likely to agree when asked if they want to change jobs (move to another company). Efforts to restore the competitiveness of Japanese companies will not produce results as long as employee enthusiasm and engagement

remain low. That finding led to our publication of the *Report of the Study Group on Improvement of Sustainable Corporate Value and Human Capital* in 2020.

Sakashita: When Link and Motivation was established in 2000, efficiency was being heavily emphasized and expectations were high for IT. However, IT is used by people, and results will vary depending on the purpose of use. The Company therefore started with the intention to prove the effectiveness of management that focuses on people's motivation and engagement, and to support such management.

One way of approaching this issue is to look at the many companies where communication consists solely of exchanging figures without any deeper reflection—without any discussion of why the company exists or why it is engaged in a particular business or type of work. Even when those companies do such things, employees feel they are forced to do it, and consequently even if those companies do conduct an employee engagement survey, they find it difficult to improve. I think that improving motivation from within, rather than just external motivation such as raising salaries, will serve as the engine of growth for Japan.

Ito: I completely agree. Perhaps one reason for the low employee engagement at Japanese companies, which claim to value people, is their corporate philosophies.

I often hear it said that once those admirable sentiments are written down, Japanese corporate philosophies are treated as set in stone, and never again become the subject of a general debate.

However, as you mention, each employee should have a clear idea of why they are working at their company and doing the job they do, then reconcile that with the corporate philosophy. Those who are in basic agreement about their reasons will work at the company for many years and do good work, while those who are not in agreement will move on to another company. This kind of healthy turnover is important.

Enhancing Management through Human Capital Disclosure

Ito: Looking at many Japanese companies these days, they are all enthusiastically claiming that they will be making a major effort to disclose human capital information, but I sense that all they are really thinking about is the disclosure itself. Take the ratio of women in management positions, for instance. Their interest in the topic ends with somehow just making it look like they are meeting their targets, which has a different meaning from the original objective.

Rather than making it all about the disclosure, it would be better to create a positive cycle—to use the feedback on the information that is disclosed to improve



conditions at the company through human capital management, which will show up in the next disclosure.

Sakashita: The Link and Motivation Group conducts regular diagnoses of employee engagement, which is thought to have a high correlation with corporate growth in areas such as business results and retention of human resources. We then disclose the level of employee engagement as an Engagement Rating.

At the same time, as a business, we conduct a cycle of diagnosis, transformation and disclosure for our client companies that leads to improvement in their corporate value. We also try to make corporate conditions clear even without formal disclosure through the online employee reviews collected by OpenWork, one of our Group companies. By doing so, any discrepancies between the details in a company's integrated report or other disclosure materials and actual conditions are made clear.

As we work in this way for a more open labor market, we intend to promote and help spur human capital management by expanding the organizational and personnel consulting support for diagnosis, transformation and disclosure that we have offered since the Company was established.

People Turn Strategies into Reality

Ito: Companies communicate their management strategy externally through, for example, their medium-term management plan. Then, when investors see an appealing strategy, they want to know how feasible it is.

In considering feasibility, the responsibility for turning a management strategy into reality falls to the people in the company. But actually, until now virtually no information was disclosed about the human resources who carry out the management strategy.

When investors want to see whether a company is capable of executing its management strategy, if the disclosed information does not clearly address this issue, they will have doubts about the company's ability to perform sustainably. I therefore believe that disclosure of human capital information is crucial in the sense that it helps people understand a company's ability to execute its management strategy. Link and Motivation is a listed company. How is it for you?

Sakashita: To take an example from sports, I think that human capital disclosure is like showing not just the scores of games, but also details on the players' training.

Ito: That’s an interesting analogy. Admittedly, there is usually no way of knowing how seriously players are working on the various aspects of their game. However, disclosing information is a way for a company to show that it has a specific training schedule and its employees are highly motivated to train, and thus that its business results will improve.

For example, companies in the manufacturing industry offer factory tours. People see the company in action, it leaves an impression, and they invest in it. The same is true for human capital management. For a company to talk about its recruiting without showing potential investors what they are talking about is a wasted opportunity.

Human Capital Rather Than Human Resource

Ito: Until now, Japanese companies have managed their people as resources. Going forward, they will need to fundamentally change the way they view people. In other words, people are not a “resource” that decreases with use, but rather a type of “capital” whose value increases without limits when placed in the right environment. The value of all human capital is not identical across the board; that is something management and employees have to get together and discuss at each company. I think Link and Motivation already does this. Is that the case?

Sakashita: Since our founding, we have held that people are the greatest, most powerful type of management capital. Rather than simply adjusting people to fit a business, this management philosophy also adjusts the business to fit its people. I also think that corporate climate and corporate culture are important for understanding human capital.

Ito: Creating a corporate culture and climate for developing human capital to its full potential is essential. To give one example, Japan does not have a culture of giving praise. I think that makes it difficult to give employees the motivation to work hard and increase their own value.

Sakashita: At the Link and Motivation Group, it is important to management that members feel they are growing. When setting goals, for example, they set a goal for growth we call a “stretch goal” instead of just performance targets. It does not always lead to immediate results, but we use this stretch goal as a basis for ongoing



communication that gives the member a sense of accomplishment. By encouraging our employees to try various things in this way, we increase the value of our human capital.

Ito: That consistency between your words and your actions is admirable. Please keep me updated on your progress, including a look at conditions at your “training camp.”