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Approach to Human Capital Management

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Message from the CEO and CHRO

Theme

1

Our Human Capital Management

In Japan, a country with few natural resources, a company's competitive advantage used to arise from "hardware" such as factories, machinery or technology. In the era ahead, however, "software" associated with people, such as ideas, hospitality and motivation, will become the source of competitive advantage. I founded Link and Motivation with this conviction. Since then, we have been linking two concepts—the Motivation Company, which increases and unifies employee motivation and connects it to results, and the i-Company, in which each individual views themselves as their own corporation. We also have been linking actual Motivation Companies and i-Companies to conduct human capital management with the objective of continuing to produce both, in high quantity and quality.

Among the various characteristics of human capital, we particularly emphasize engagement, which is the degree of mutual understanding and affinity between a company and its employees. Engagement has been shown to have a correlation with corporate performance and labor productivity, and the Link and Motivation Group puts this finding into practice in improving engagement.

Chairman and Representative Director
Ozasa Yoshihisa

TOP MESSAGE



Message from the CEO and CHRO

Theme

2 The Value of Human Capital Management as an Executive

Because of our commitment to practicing what we preach, we have also been making ongoing investments in human capital throughout LMG. I can explain the value of doing so from the two perspectives of return on investment and my own experience. First, as a result of setting numerical targets for improving the skills of our human resources and increasing their engagement in the sense of unifying them, our human capital return on investment (ROI) has been extremely high. In terms of operating income, this means that the value created exceeds the capital invested.

Moreover, in my own experience, in organizations with a high level of engagement, intentions expressed by the leader are promptly communicated and put into practice throughout the workplace. Basically, in any workplace or company, there are times when people approach change with fear or hesitancy, but employees of the Link and Motivation Group instinctively adapt to change. I believe that in this dramatically changing corporate operating environment, improving human capital, and engagement in particular, will not only raise labor productivity, but will also facilitate more agile leadership.



Click here for a video version of this message (Japanese only).

Theme

3 Future Steps for Carrying Out Our Mission

We place business strategy and organizational strategy on an equal footing and conduct management that links them. Giving precedence to business strategy, followed by the organizational and human resource strategies to execute it, may be a common approach. From my experience, however, business and organization are two sides of the same coin. For example, seeking a certain type of human resources because of the kind of business you want to conduct is just one possible approach. It is also possible to first consider the human resources you have and then decide the kind of business you will conduct, choosing from the available options based on the personalities and skills of the people.

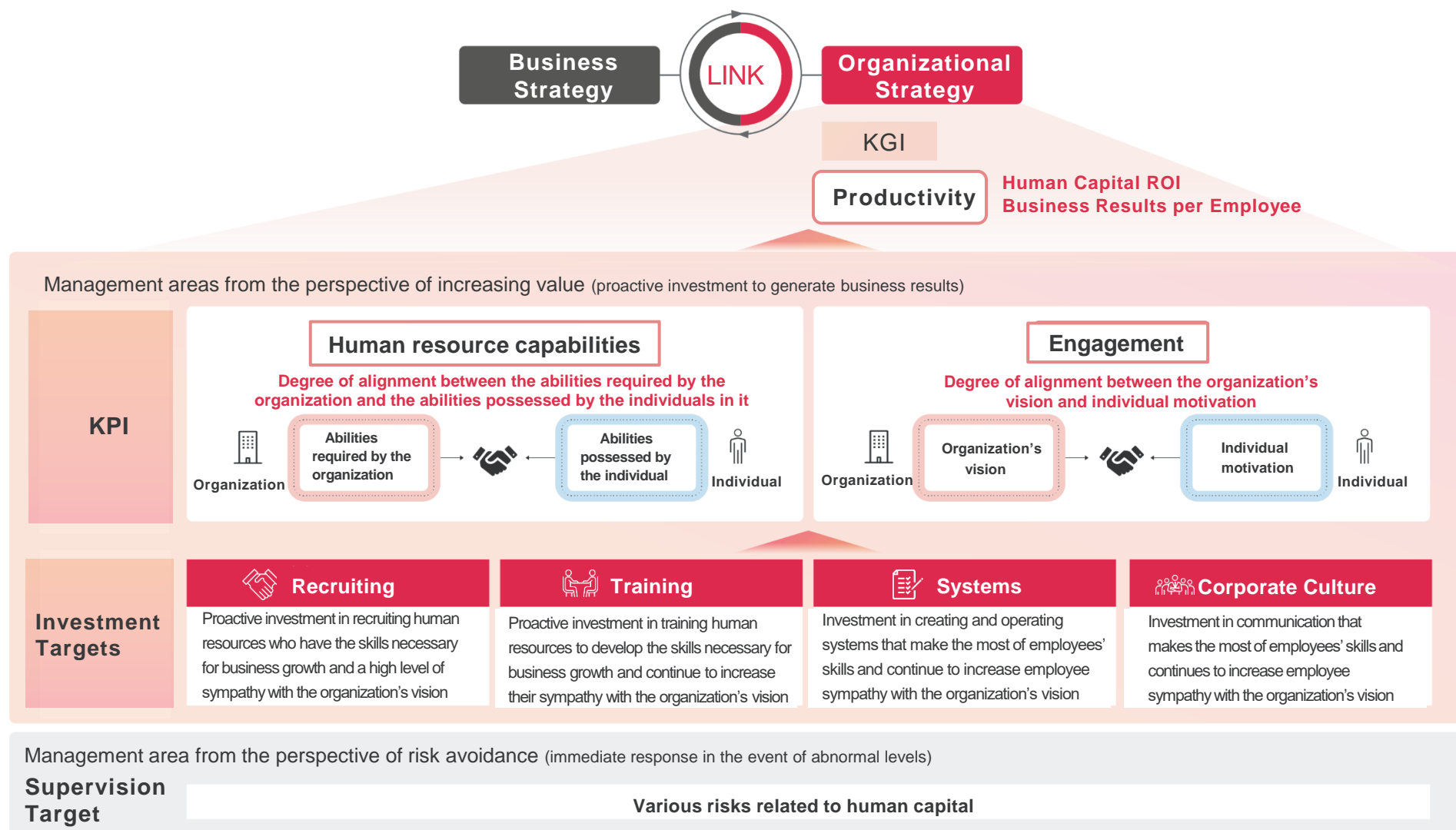
That is why we invest in human capital: to improve the skills of our employees, increase their engagement, and securely unify them. In this way, we have made and will continue to make human resources our greatest and most powerful asset. Naturally, as a member of the service industry, we consider this stance critical for our future growth, so we will continue to ramp up initiatives in order to carry out our mission.



An Organizational Strategy That Makes the Most of Human Capital

The Link and Motivation Group's Approach to Human Capital Management

The management of a Motivation Company, which uses employee motivation as its growth engine, places its business and organization on an equal footing. We believe that linking a business strategy that maximizes customer value and an organizational strategy that makes the most of human capital while investing an appropriate amount of time and money in both to obtain returns will increase corporate value over the medium to long term and enable us to carry out our mission.



A Discussion on the Nature of Human Capital

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 say yes 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.

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.

Hideki Sakashita

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 thought—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.

Kunio Itoh

Professor and DirectorCFO
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.



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.

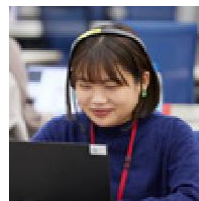
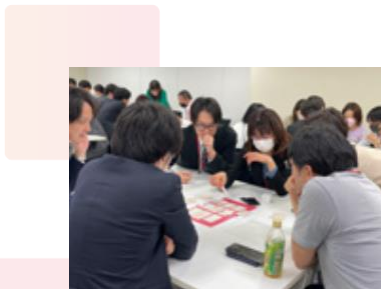
Enhancing Management through Human Capital Disclosure

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.

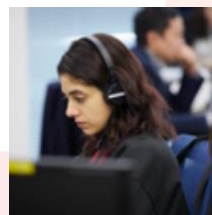
For example, companies in the manufacturing industry offer factory tours. People see the company in action, it leaves an impression, and they invest in it. The same is true for human capital management. For a company to talk about its recruiting without showing potential investors what they are talking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

Note: Click here for a video of the full conversation (Japanese only).



Findings from Research on Human Capital

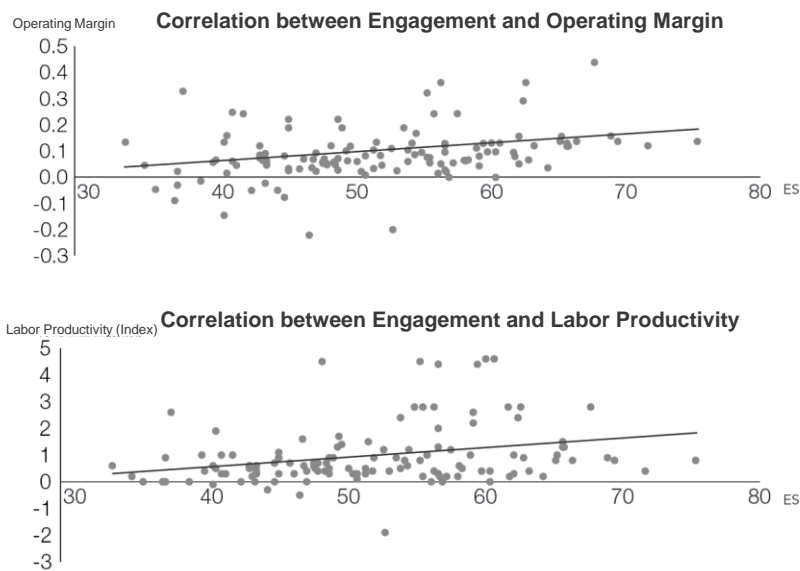
A study conducted by our research organization, the Motivation Engineering Institute, has shown the relationship between engagement and corporate performance and investment metrics.

Relationship between Engagement and Corporate Performance

In joint research with the Iwamoto Laboratory at Keio University's Graduate School of Business Administration, we analyzed the impact of engagement on management.

The results showed that **engagement has a positive impact on both operating margin and labor productivity.**

[Click here for details.](#)



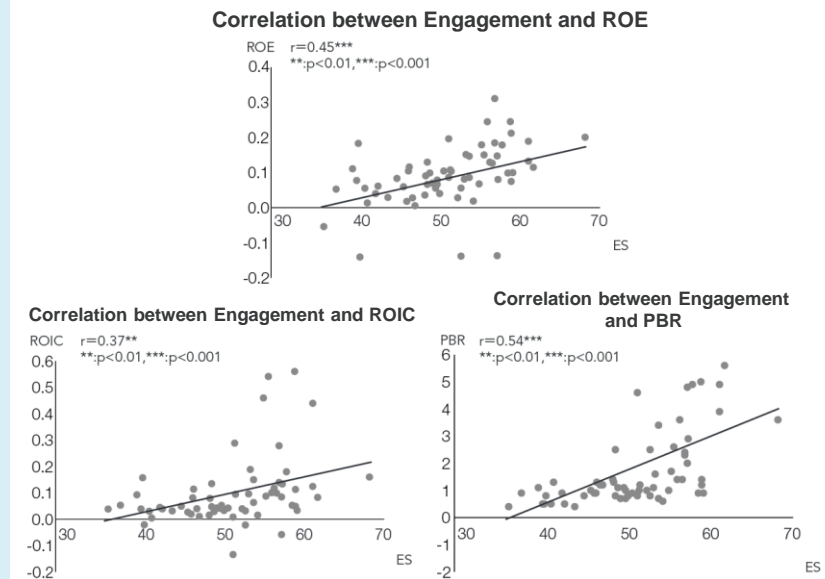
Note: "ES" stands for Engagement Score

Relationship between Engagement and Investment Metrics

We analyzed the quantitative relationship between engagement, which is an important element in human capital investment, and the investment metrics ROE, ROIC and PBR.

The results showed that **the higher the level of engagement, the higher the ROE, ROIC and PBR.**

[Click here for details.](#)



Note: "ES" stands for Engagement Score