INTERNATIONAL ASSOCIATION OF FINANCIAL EXECUTIVES INSTITUTES
www.iafei.org

IAFEI Weekly Update

Knowledge, Resources, News, and Announcements

This is an issue of IAFEI Weekly Update for the week of March 18, 2024.

Valued All IAFEI Board members, ExCom members & Advisory Committee members:

Friday, March 8 was the International Women's Day 2024 (IWD 2024). On that occasion, this issue features two special articles related to the advancement of women.

The following interesting and useful articles and information await you in this issue. I hope you enjoy reading them.

My special thanks to Piergiorgio, Conchita, Yaguchi-san, and Taga-san for their contributions.

- **Keidanren** (Japan Business Federation)
  BUSINESS PRIORITIES FOR THE 13TH WTO
  (Contributed by Mr. Piergiorgio Valente) → Read the article online

- **DBA** (Confederation of German Employers' Associations)
  The education system must convey the joy of teaching and learning: Achievement is worthwhile!
  (Contributed by Mr. Piergiorgio Valente) → Read the article online

- **BDI** (Federation of German Industries)
  TDI 2024 - DAY OF INDUSTRY - Hybrid Conference - Motto : Cohesion in Polarized Worlds
  (Contributed by Mr. Piergiorgio Valente) → Read the online article

- **HR** **Hard to swallow "Human Capital" Series No.3**
  (Contributed by Mr. Yaguchi; Translated by Mr. Mannari) ... Page 4

Please feel free to circulate this within your organization. I am hoping that this Weekly Update may increase the value of IAFEI membership. If you have any suggestions, or recommendations, or would like to participate to provide articles. Please do not hesitate to contact me.

Thank you for your continuous support and I would love to hear from you.

Tsutomu Mannari
Chairman of IAFEI

(Total 6 pages)

Deloitte. Insights Women in the boardroom, eighth edition

A Deloitte Global report on gender diversity on boards and women in leadership |

Executive summary

Gender parity on boards will be elusive without greater focus and action

The business case for diversity has been established for some time. Companies with more diverse boards have shown that they tend to perform better financially. 1 What's more, organizations that are more diverse as a whole with respect to gender—from top executives and board members to managers and employees—tend to outperform those that are less gender-diverse. 2

What remains in question, however, is this: With women still underrepresented on company boards globally, why aren't organizations and investors doing more to realize the benefits that diverse boards bring?

The eighth edition of the Deloitte Global Boardroom Program's Women in the boardroom: A global perspective finds that women hold less than one-quarter of the world's board seats (23.3% in 2023). … …

→ Read more

(Source: Deloitte Insights)

Regus How women benefit from hybrid working |

Women are shattering the glass ceiling of corporate boards, yet chairmanships remain elusive.

In the last few years, many businesses have adopted a flexible approach – one where employees split their time between working from home and the office.

It's been highly beneficial for a number of reasons, but women – especially those in minority groups – have really reaped the rewards. We spoke to over 1000 women and found that:

- 53% feel empowered to apply for more senior roles
- 66% say flexible working has opened up new opportunities
- 44% feel hybrid working has improved their efficiency
- 32% of women in minority groups feel more seen by senior leadership

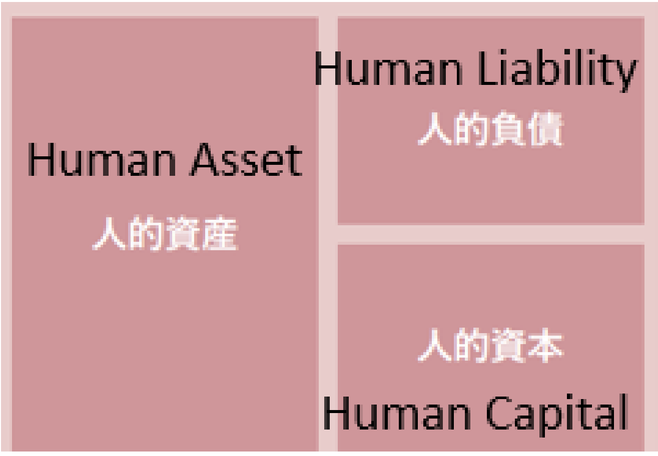
Why is the hybrid approach working so well for women? Find out in our exclusive white paper. … …

→ Read more

(Source: Regus)

Hard to swallow "Human Capital" Series No.3

This HR Balance sheet concept was first invented by Mr. Hiroshi Yaguchi & introduced at IAFEI Webinar on the 27th of Feb. IAFEI Chairman Mr. Mannari.
IAFEI Weekly update will introduce his concept as a series of 4 weeks by translating into English from the original Japanese article.



In 1989, he graduated from the Faculty of Economics at the University of Tokyo and joined Sumitomo Banking Corporation (currently Sumitomo Mitsui Banking Corporation). After experiencing business research, human resources, and corporate finance at the bank, he established the Japan CFO Association in 2000. CFO, develop an education business to build a network of management and finance departments and train corporate finance professionals. He has served as the Asian representative and president of the International Federation of Financial Executives (IAFEI). Established the Japan CHRO Association in 2018 and the Japan CLO Association in 2020 to strengthen the corporate functions of companies including human resources and legal affairs.

The following article is a continuation of the previous article (Series No. 2).

Raising human capital is a Management responsibility

Even though it is important to have dialogue with investors, there are investors who are not interested and simply aim for the assets that the company has. There is no need to interact with all investors, but it is fine if investors who sympathize your company's management philosophy, management vision, business strategy, and even financial policy based on the disclosure and invest to your company. You may need to choose the person with whom you want to have dialogue.

Human capital is the same. There are also various people in the labour market. Some people aim for a return in the short term, while others have a long-term life plan and overlap the growth of the company with their own growth. The company only needs those who sympathize with its management philosophy, management vision, business strategy and personnel policy to join.

Raising human capital is the job of the management as well as raising capital. In order for them to choose what kind of investors and human resources, it is essential to have a deep understanding of the management philosophy, vision, and strategy. The recruitment of people (in Japan) used be focusing on a Group as a resource, but needs to be more focused on the ability and personality of each individual. It's not a job of HR department to make a recruitment plan only from its past experience and recruitment results. You may realize the importance of recruitment. This job should be carried out by the management. This is the reason why it is so called as human capital management. It is not an ambiguous definition of human capital because people are important. If you position it correctly like a balance sheet, you can see that human capital is the result of people investing in the company. Similar to the capital market, you can see the essence of the job of raising human capital by confronting the labour market

People-centered engagement

The word "engagement" became to be more popular as a human resources terminology than before. It is often used to evaluate the company's HR policy and measures, such as increasing engagement or the engagement index has dropped. But investors are the ones who engage. In the case of the capital market, “engagement” means a constructive dialogue between the companies and their investors or potential investors. Similarly, it is people who engage in the labour market, and people are the protagonists. Employee engagement should be dialogues between the company and the employees about management philosophy, management vision, specific work, and colleagues who work together as judgement material for investors (employees). If the working people don't have this understanding, an engagement index can merely be at the same level as the satisfaction survey.

Liquidity of the labour market

When the essence of human capital comes to be visible, the necessity of increasing the liquidity and efficiency of the labour market and upgrading it become to be more visible. Along with the corporate governance reform, the stewardship code has also been established. The principle of action has been introduced that institutional investors put the interests of investors and beneficiaries first, with a view to both investors/beneficiaries and investee companies. In addition, although it greatly betrayed expectations, capital market reforms have also been carried out in Japan and many companies are forced to bring up its PBR above 1.

The same thing will be needed in the labour market. The era of indirect finance under bank control so far actually overlaps with the era when companies played the leading role and people were positioned as resources and costs. Although the equity of human capital does not have "holding" as expected, it has been sealed by the rigidity of the labor market, which has been maintained by Japanese-style human resources practices such as lifetime employment and family like management.

In the corporate governance reform, the introduction of outside board of directors became a major highlight, but company management will not be revitalized by bringing an external perspective only in the board of directors. If the executive team, including young employees, does not have opportunities to gain various experiences and grow through many difficulties, the company's performance will not increase.

In the view of corporate finance, investors have no choice but to wait for the management to allocate investment in which business and how much and how much to return after investing in the company's stocks. Although It was a long time ago, it became a hot topic when Sony raised capital by each business unit called tracking stock. I haven't heard this kind of story since then, but originally, it is rational for investors to invest in a business unit. In recent years, under the name of conglomerate discount, there is a strong tendency to dislike to diversify investment funds in multiple businesses.

Even if you invest to the company with not enough governance or not enough HQ/Corporate function, there is no guarantee that the funds will be successfully invested in the business as described by the company. This is the same for human capital investment. It is necessary to have a clear idea as a "human capitalist" about what kind of job he or she wants to do in which department, and to gain experience after making efforts to enhance their knowledge and skills so that the investment can achieve the desired results. Recently, more and more companies are getting their hands on the work that employees want, such as the posting system, but it is natural considering that this is a human investment. Just as two type of investors like professional investors (specific investors) and general investors, there are also professional investors and general investors in human capital investors. Post graduate new employees may not necessarily be general investors, but after gaining some experience, it is necessary to have responsibility and awareness as a professional investor. We have seen a lot of people who are suddenly forced to make decision without a choice by the company around the age of 50 after continuing to accept the opportunities provided only by the company, we should not increase the number of these sad people. On the other hand, if the company only regards employees as human resources or providing job to the employees or purchasing employees' labour at a low price, under the current trend of population decreases and labour shortage becoming more serious, highly conscious people will be out and taken by a foreign capital company. If not only financial capital but also human capital is taken to foreign capital, there is no future in Japanese society.

What is "human assets"?

Let's think about human assets when we can clearly see what human capital is. If there is human capital, it does not mean that it will function as a human asset immediately. Just because you raise capital from shareholders, the asset is only recorded as a cash, and what kind of asset will this cash be capitalized to, and how to increase the corporate value of that asset, as an asset It is depending upon the ability of the management and the executive team. In order for human capital to function as a human asset, it is depending upon whether people who are human capital will be able to work appropriately according to the management strategy or not after sharing the corporate philosophy and corporate culture. In order to do that, it is also important to create an environment where people can be actively realizing their abilities and individuality. As already mentioned, it goes without saying that it is necessary for people to be aware that they are human capitalists and make efforts to grow as independent individuals.

Jobs such as talent management, talent development, compensation system and education and training as the role of the human resources department can function only under these circumstances, In short, the big difference of the human asset from the physical assets is that human assets do not always depreciate after acquisition like physical assets, but rather are incremental assets. Human assets are not at the acquisition cost, but the value fluctuates at the market value evaluation. The unrealized gain is the required human capital disclosure and the future return.

"Human debt"

I have been talking about human capital and human assets so far. If you compare with the balance sheet in blue colour, one thing is missing. That is human debt [see Chart 6-5].

6-5

The typical debt is bank borrowing. The bank lends the funds necessary for business growth. The cost is interest. Fees may be added, but the procurement cost is much lower than the cost of shareholder capital. However, the money has to be returned.

What about human debt? Like human investment, instead of spending your life as an investor and capitalist, it would be a way of working to provide time and ability and get a stable money. There may be cases where people with professional licenses and people with high ability who have retired from the company should help several companies with their work. You can't get a return like human capital, but you can get a stable money and feel free to quit. From the perspective of working people, it is a "human creditor". Similar to repaying the loan to the bank, company can terminate the contract any time. Even if people want to work as a human investor, the human debt which was generated as a result of the current social system and company-dominated political measures must be resolved not only as an individual responsibility but also as a social problem. Efforts such as employment of people with disabilities, foreign workers, and women, prohibition of discrimination to those socially vulnerable and disclosure requirements are progressing. But if there are people who are not willing to work as a human debts but forced to work as a human debts, it would be our responsibility to change this society to where anyone can be an Human investor or human capitalist with own effort.

I have already pointed out that "Japanese-style human resources practices such as lifetime employment and family like management" are the cause of the rigidity of the labour market in Japan, but this also had an important meaning if you go back to the past. From the Edo period to the Meiji period, workers such as craftsmen and farmers worked according to demand in short-term employment, including day labor, and the human debt type was the mainstream. We cannot forget that the "modernization" due to the influence of the Industrial Revolution progressed, in addition to the need for a large amount of labour to work long-term and stably, together with the appearance of the new management people with people-oriented philosophy such as Konosuke Matsushita changed this norm and made the human capital type of employment general with a philosophy of developing employees like family members.

Because of stable employment and income, employees were able to increase their knowledge with peace of mind, hone their skills, and improve their humanity through their work. Since the collapse of the bubble, which led to the so-called lost decades, by partially been influenced by overseas investors in recent years, the ratio of non-regular employment has greatly expanded due to the emphasis on efficiency and liquidity in human resources to increase the company's profits. These would have been a historical background and reason why the human debt is expanding again. The expansion of human debt causes not only a social and political issue, but also raising the cost of recruitment and training for the company. The turnover or the replacement of human resources has already caused wrinkles in the inheritance of corporate culture and know-how. If you take human resources from the perspective of whether it is human capital fixed in long-term employment or human debt with liquidity, you can see that it is important to adjust the balance between immobilization and liquidity according to the state of the company and the state of the labour market. You will see how the procurement of human resources is a management job, including the combination of human capital and human debt, which is a debt-equity ratio.

(to be continued to No. 4)