

KEYNOTE INTERVIEW

Value creation starts with staff engagement



Initiatives to boost workforce diversity, motivation and happiness can pay dividends for investors, explain NSSK's Jun Tsusaka, Kiyomi Matsuda and Kurama Sato

Workplaces in Japan have traditionally been male-dominated, with the proportion of female workers in managerial roles in the private sector hovering around the 11 percent mark. That figure is significantly below the OECD average of 34 percent, and ultimately means that Japanese firms could be missing out on a huge pool of talent.

It is a problem made all the more pronounced by the record low levels of unemployment seen in recent years, which has resulted in a particularly challenging recruitment environment.

Tapping the massive potential of Japan's female labour force is both the right thing to do and could also be the

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answer to Japanese companies' recruitment woes, according to Jun Tsusaka, CEO of Tokyo-based private equity firm NSSK and chairman of its ESG committee; Kiyomi Matsuda, finance director and ESG leader; and Kurama Sato, senior manager of the investment team and ESG leader. They explain how a diversity and empowerment strategy can help portfolio companies recruit and retain female staff by offering high-value career opportunities and compensation packages, while

simultaneously boosting investment returns.

Q Why is it important for Japanese businesses to focus on their people strategies?

Jun Tsusaka: In an economy with unemployment levels in the 2 percent range, it is imperative for business owners to retain employees. The low unemployment rate has driven a shift in the work environment in Japan over the last few decades, away from the job-for-life mentality towards a more flexible, mobile workforce. Companies must create a great work environment

and earn a reputation as an excellent employer in order to recruit and attract new talent.

Plus, given the gender gap in the Japanese workforce, the ability to retain and hire women goes a long way. Some estimates suggest that if the dormant female workforce could be activated, it would grow Japan's GDP by 10 percent. That is an opportunity to unlock hundreds of billions of dollars. Furthermore, creating career paths and compensation schemes that align performance with pay can create superior returns.

At NSSK, promoting ESG initiatives is firmly established as a critical driver of investment returns. As part of our investment process, we set aggressive women-hiring and empowerment goals, establish clear career path opportunities, and implement employee-friendly policies and procedures to drive superior business outcomes and investment returns. In fact, the data suggests a strong correlation between empowering women and generating strong business and investment outcomes. It is not only the right thing to do but it also makes good business sense.

Q How does this work in practice?

JT: Any investor's objective is to generate the best returns in the market. To do that, you need clear and measurable improvement in the revenues, earnings and prospects for any investment, and we have observed that KPIs around "happiness" – as measured by employee surveys, actual employee retention and hiring levels – correlate strongly with business performance.

In our portfolio, we currently have 20,000 employees working for 40 different companies, across several industries. Seventy four percent of these employees are women, and 30 percent of the managerial positions are held by women (versus 11 percent for leading public companies, according to Teikoku Databank). Meanwhile, 20

percent of the CEO/COO positions in our portfolio are held by women (versus less than 1 percent for public companies). All these numbers have improved during our investment periods and have directly correlated with better business outcomes.

Q What metrics can investors use to measure employee happiness?

JT: A good place to start is looking at the outcomes of your people initiatives. If you have employees that are happy, you have less attrition. If your attrition rates are lower relative to your industry

peers, then you are creating a work environment that is empowering and attractive. And if, over time, you are seeing those attrition numbers come down, then you are doing something right.

Another way to measure happiness is to conduct surveys, as we do, and simply ask people whether they are happy in their job. Are they happy with management, with compensation, with their prospects for promotion and other working conditions? Do they need more flexibility in the workplace? Do they feel valued and secure in their careers? Ultimately, would they



Q What is the next big innovation in diversity, equity and inclusion?

JT: We are very excited about what generative artificial intelligence will bring to the table. Given its demographics, its economy and its low unemployment levels, Japan is likely to be one of the top beneficiaries of generative AI.

We have already hired a full-time digital transformation specialist, who has been tasked with developing generative-AI tools specifically designed around various job functions (for example, accounting, supply chains, manufacturing, sales and marketing), working closely with firms such as Microsoft and other AI vendors. We conduct a task audit and map out where generative AI can improve efficiency on a daily, weekly and monthly basis. We then overlay this technology and teach people how to use it properly.

The irony is that generative AI initially involves a very labour-intensive process when figuring out the value drivers. But once that is done and you hit the button, it can maximise efficiency immediately.

We are on track to roll out various AI modules in 2025, and everyone is excited about the potential impact it will have on improving productivity and work-life blend. Our aim is to deliver a 1x return uplift from our base-case returns, so we have big ambitions. And at the end of the day, these initiatives will help companies, management teams and employees continue to make the world a better place, more efficiently.

recommend their company to friends or family as a place to work?

By looking at the quantifiable data and getting real input from your employees, you can see whether you are achieving your KPIs around happiness and the impact that it is having on the business overall.

Q How have approaches to staff engagement evolved?

JT: A lot of engagement initiatives started because they were viewed as the right thing to do on a social level. But I think the impact that a properly implemented people strategy can have has generally been underestimated.

A shift has now come about thanks to being able to quantify the impact of these diversity, inclusion and empowerment initiatives on the bottom line. That is important because, at the end of the day, an initiative must be sustainable. It may well have a social benefit – but only when it supports itself can a business afford to do it.

My recommendation to any business looking to drive staff engagement is to start by quantifying the tangible, economic, measurable benefits to your business. If an initiative can be proved to be a key contributor to positive financial results, then you will not have to convince people to do it.

Q How can you go about addressing employees' motivation levels?

Kurama Sato: One option would be something akin to our philosophy programme, which works to socialise business principles and potentially revisit the mission and vision statements of the companies we invest in. This process of engaging with all employees and redefining the business objectives, while incorporating key human capital policies that align interests for management, employees and shareholders, has been key. We refer to this as investing in “peopleware”, in addition to the investments we make in hardware and software to grow a business. But it must

reach people's hearts, so “heartware” is at the root.

I work closely with our chief philosophy officer, Yoshihito Ohta, who has been performing a similar function throughout his career, starting with his work at Kyocera Corporation, a multi-billion-dollar ceramics-based technology company. These types of “heartware” initiatives were core to Kyocera's success, and Ohta later used them again at Japan Air Lines, one of the biggest and quickest turnarounds in Japanese bankruptcy history.

Ohta led initiatives to put purpose and meaning back into the daily work and lives of the JAL employees, which proved fundamental to executing the turnaround strategy. Now, when we onboard a new investment into the NSSK family, these are the ideas and principles we apply.

JT: Success with these kinds of initiatives can only be achieved by many people having an overwhelming desire to make it happen. Ohta attributes the ‘JAL miracle’ to the relentless effort and determination of 30,000-plus JAL employees.

Q What needs to happen to make staff empowerment repeatable at new investments?

Kiyomi Matsuda: It is all about engagement and buy-in. For instance, through our discussions around philosophy, we set the foundation for engagement with our portfolio companies. Using a highly interactive process, we walk management teams through the significance of ESG policies and procedures, and set KPIs, goals and budget objectives accordingly. Of course, alignment is critical, so compensation schemes are recalibrated based on financial and ESG metrics.

For example, KPIs might include hiring more women, empowering them, driving up the happiness index for all employees, reducing employee attrition and building a better company and reputation.

“Creating career paths that align performance with pay can create superior returns”

JUN TSUSAKA

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KURAMA SATO

We have also served as chair for the Asia-Pacific region for the International Finance Corporation's Operating Principles for Impact Management, which provides a common framework for shaping industry best practices and aligning with them, as well as promoting transparency, discipline and credibility for impact management practice in capital markets.

We are often amazed at how quickly the excitement around ESG implementation catches on with employees at our portfolio companies. In fact, they frequently prove to be strong proponents for certain policies and provide us with valuable best practices for other companies. We even give out an award to companies that go above and beyond in terms of ESG, and this has become highly sought after. ■