

Broadening Scope of Well-being Activities

DIALOGUE 07 — AKIRA SATO — REIKO KOJIMA

Potential for Well-being That Extends Outside of the Company

Former leading securities analyst and current investor Akira Sato believes the excitement an organization exhibits is an intangible asset. Joined by Reiko Kojima, CWO, company physician, and proponent of well-being management at MARUI GROUP, he explores the meaning of this statement through an intellectual examination of topics ranging from the definition of well-being to the Group's future direction.

Improvement of Well-being through Empowerment and Excitement

Kojima: The Constitution of the World Health Organization (WHO), which was written in 1946, uses the word "well-being" in its definition of the word "health." The full definition of the constitution is "Health is a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity." In 2016, MARUI GROUP started up a Companywide project team based on the theme of health, which would eventually become the Wellbeing Promotion Project Team. I have been sharing the WHO's concept of well-being with project team members since this time. However, the idea of well-being was not one that was well known in Japan even just a few years ago. Not until recently did you hear people talking about the subject.

Sato: It is similar to the concept of outcome as it relates to the process of creating corporate value. It was only just recently that people have started to assess outcome for this purpose. Companies create products as their output, and people have now begun emphasizing the outcome of that output, such as the positive impacts they create for society. However, it was only just five years ago that this idea of outcome would be met with question marks. Even when I was still an analyst, I did not believe that quarterly financial results were directly linked to corporate value. For that reason, I found no excitement in the financial explanations at financial results briefings. I was more interested in going to factories to talk to engineers and other frontline workers. Seeing their enthusiasm gave me a better sense of the potential outcomes of a given company.

Kojima: Management academic Sumantra Ghoshal explained that the competitiveness of a company flows from the front lines.

Sato: Yes. And I wasn't the only one who felt this way. Many investors who were focused on the fundamentals also turned their attention to non-financial factors. I, personally, look at factors like a company's strengths, strategies, culture, the differences in the quality of its human resources, and employee turnover rates.

Kojima: Over the course of two decades, I worked as a company physician at a number of companies. My examinations of employees revealed that addressing an individual's health issues did not necessarily contribute to their happiness. Meanwhile,

people who were motivated to immerse themselves in their work or hobbies had a certain energy to them. This experience convinced me that empowering people and granting them a sense of excitement was a clear route to improving their well-being.

Well-being as Viewed from the Idea of Ecosystems

Kojima: When promoting well-being, selecting appropriate indicators is something that requires special attention. If we are asked what indicators are linked to improved profitability, our explanations become very abstract and roundabout, with no hard, direct link established. There are a lot of elements that contribute to well-being. It is therefore not as simple as saying, we launched a Companywide project and it resulted in this specific improvement in financial indicators. What are your thoughts regarding financial indicators for well-being, Mr. Sato?

Sato: There are two factors I would like to touch on in that regard. The first is technological progress. It has gotten a lot easier to quantify various changes. The pace of technological progress is such that we are substantially closer to the desired technologies today than we were even just five years ago. One example of new technology for quantifying well-being is Happiness Planet, a smartphone app that measures happiness scores. I understand that you have used this app in the past, Dr. Kojima. We have also recently seen the emergence of websites like OpenWork, a review and recruitment website that allows employees to post reviews of their companies. A number of current and former employees of companies use such websites to score their employers. Moreover, we are now able to perform analysis that reveals when a rise in a certain indicator has contributed to higher sales or stock prices, even after a period like 18 months. I suspect that we will see an increase in such tools going forward. The second factor is the idea that, perhaps, we don't even need to look at the numbers. What I mean to say is this, value is not about one-to-one relationships, where a single action has a direct impact on a single indicator. Rather, value is born out of what is more like an ecosystem. I want to talk with institutional investors about things like the reasons behind certain decisions or why they chose to emphasize a specific indicator. I believe that such conversations can give



Akira Sato

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Akira Sato joined Nomura Securities Co., Ltd., in 1987, where he became a securities analyst in 1989. He co-founded Value Create Inc. together with Masahiro Mitomi, a certified public accountant in Japan and the United States, in May 2001. Over the years, he has held a number of positions, which have included being a part-time lecturer at the Department of Management of Technology of the Tokyo University of Science and director of WICI Japan. He also held director, outside director, and corporate auditor positions at overseas asset management companies, Rheos Capital Works Inc., long-term investment firm Commons Asset Management, Inc., Fuji Pharma Co., Ltd., and other companies. In 2016, Sato became general manager of the Investment Research Department at MARUI GROUP.

Reiko Kojima

Director, Executive Officer, and CWO (Chief Well-being Officer)
Company Physician
General Manager, Wellbeing Promotion Department, MARUI GROUP CO., LTD.

A physician by profession, Reiko Kojima spent roughly 10 years as a company physician at a major manufacturer. She began working at the occupational mental health unit of Kitasato University Graduate School of Medical Science in 2006, receiving her Doctor of Medicine in 2010. Kojima became a company physician at MARUI GROUP in 2011, later assuming her current positions of director, executive officer, CWO, and general manager of the Wellbeing Promotion Department in 2021.

Photographs show Sato and Kojima walking at the Four Seasons and Waterside Gardens biotope at Nakano Marui.

a more overarching picture of these subjects. As opposed to focusing on the mechanics of companies, like how much input resulted in what output or what something's absolute value was, I think it would be better to look at companies like ecosystems.

Kojima: I believe that we are currently seeing the spread of such thinking.

Sato: MARUI GROUP advisor Yoshiaki Ishikawa speculated that well-being should be defined as "when you feel like things are going well." I think he touches on something incredibly insightful. It is important not to break things down too far. One way to look at this is to think about the forest of Meiji Jingu shrine. This forest was engineered by forestry expert Seiroku Honda with a vision for its completion 150 years later. He assembled a variety of trees from across Japan: tall trees, short trees, broad-leaf trees, conifer trees. He planted these in an inconsistent pattern while picturing how they would grow in this environment to get an idea of the completed forest that would emerge 150 years later. As a result, the Meiji Jingu forest is a lush and thriving forest today, 100 years after Honda started it. However, if Honda had broken down his view of the forest to look at things on a lower level, I do not think we would have the forest we have today. The same goes with finances. What others call "non-financial information," I call "pre-financial information." This is because I do not think we should look at aspects of a company as being either "financial" or "non-financial." Rather, I think that these two categories have more of an "and" relationship, as what is currently "non-financial information" may become an indicator of future performance if we look far enough down the line. This is why I brought this ampersand-shaped (&) decoration to today's discussion. "Non-financial" factors like well-being and impact will eventually have a financial impact. This is why I refer to information on these factors as "pre-financial information." Corporate value is predicated on the betterment of society. For this reason, we should look at the benefits for society, including those that do not immediately translate to corporate value, as elements of future corporate value. This value is something that cannot be accounted for when you gauge corporate value on the short time frame of one quarter or one year.

Analogy of Organizations as Bodies

Kojima: I can totally agree with the idea that we should not look at non-financial information and financial information in terms of an "or" relationship. For example, health issues are something usually categorized as non-financial information. The COVID-19 pandemic is a major health issue, but it has also had a massive impact on the financial performance of companies. Human rights issues are also something viewed as non-financial. However, as we have witnessed with the Black Lives Matter movement, human rights issues can also impact a company's business. As seen in these relationships, as well as in the recently emerging concept of dynamic materiality, this is not an "or" relationship.

I think that a good analogy can be made between

organizations and people's bodies. Every cell and every organ does not only act based on the commands of the brain. They function with a degree of autonomy based on feedback from the organism to work toward its own goal of survival.

Sato: I agree. Cells are at the same time individual organisms as well as parts of a larger organism. In this manner, there is a relationship between the individual and organization. I think I have heard something about a person's bowels having a mind of their own.

Kojima: What you are talking about is the gut-brain connection in which intestinal flora have a major influence on one's physical condition.

Sato: So, it wasn't cells, but bacteria.

Kojima: Yes, intestinal flora.

Sato: So, it is bacteria that is the source of the impact. There is perhaps something that can be learned by thinking about companies from that perspective.

Kojima: There is definitely a lot that can be learned. If all organs fulfilled the same function, there would be no problem with people being like slimes. But this is not the case. Livers have liver cells. Skin has skin cells. Because each cell has its own characteristics, the collective of these cells that is us is able to function as a single human. Cells themselves are always working and being replaced via metabolism. When we think of it like this, we will see that the human body is definitely the best analogy for an organization.

Sato: What you are saying resembles the idea of dynamic equilibrium put forth by Japanese biologist Shinichi Fukuoka. It would be great if we could link this mechanism to corporate value.

Future Direction for Well-being

Kojima: A lot of Japanese companies still expect employees to leave their values at home, put on their work face, and do what they are told. If MARUI GROUP can escape these conventions and show how it can succeed without them, other companies will be able to use this as an example. This would also move the Group closer to accomplishing its mission of bringing happiness to its employees.

Sato: One's physical and mental health as well as their happiness are all related. It is therefore odd to expect one to leave their values at home. How are conditions for MARUI GROUP employees in this respect?

Kojima: We still have a long way to go in this regard. MARUI GROUP has been fostering a corporate culture of voluntary participation for about a decade now, and the ratio of employees participating in the Company's various voluntary opportunities had risen to 80% in the fiscal year ended March 31, 2021. Our current task is to help employees express their personal values as a lingua franca and to encourage them to share these values with their colleagues so that everyone can feel joy in their work. To this end, the Companywide Wellbeing Promotion Project Team held a purpose workshop for around 200 employees.



Sato's favorite "&" decoration
(Learn its secret in the discussion!)



Project team members mentioned how they hadn't had any opportunities previously to think about the overlap between their personal values and their work goals, and 95% of participants said that the workshop was a beneficial opportunity.

Sato: That is great.

Kojima: MARUI GROUP aims to foster a corporate culture founded on autonomy, in which employees are able to express their personal values as a lingua franca and turn their preferences and aptitudes into work.

Sato: What do you think should be MARUI GROUP's next step forward?

Kojima: The next step should be to use MARUI GROUP's initiatives and businesses to promote increased well-being throughout society. In 2020, the Wellbeing Promotion Project Team partnered with students from Otsuma Nakano Junior & Senior High School, which is located near the MARUI GROUP head office in Nakano, in an effort to energize the community. Students and employees prepared more than 1,400 cards containing messages of appreciation for their families and friends as well as for healthcare workers. These message cards were displayed in Nakano Marui, where they could be viewed by customers. The employees who took part in this event in an effort to contribute to the happiness of the community stated that they also felt more empowered as a result.

Sato: They got joy from seeing the joy their actions brought to members of the community.

Kojima: Exactly. Rather than just trying to promote well-being in the isolated environment that is a company, it is better to try and bring joy to society, an approach that can also contribute to higher employee engagement. The Nakano Marui event proved that people get the most joy by bringing joy to others. This is one of the reasons MARUI GROUP aims to help employees use their preferences and aptitudes in their work. For example, by having employees develop businesses based on their own interests, whether that be anime, K-pop, or something else, we can attract customers with similar interests and thereby bring joy to both customers and the employees. Our well-being initiatives should not be limited to employees, but should rather be advanced on targeting all stakeholders, including future generations, to bring joy to a wider range of people. This is the direction I think we should take in our well-being management.

Sato: I think the time frame we consider is important. Analysts tend to only formulate performance forecasts for a two-year period. However, if you only look to generate earnings on a two-year basis, it will be tempting to push your employees forward, even at the expense of their well-being. Conversely, some say that more than 60% of the corporate value of a company can be explained by its cash flows 10 years down the line. If we take this perspective, the physical and mental health of employees becomes more important than the earnings of a given fiscal year or the three-year plan of a company. If employees, and society as a whole, are not healthy, a company will not last 10 years. Based on this perspective, I think MARUI GROUP has chosen the right direction.