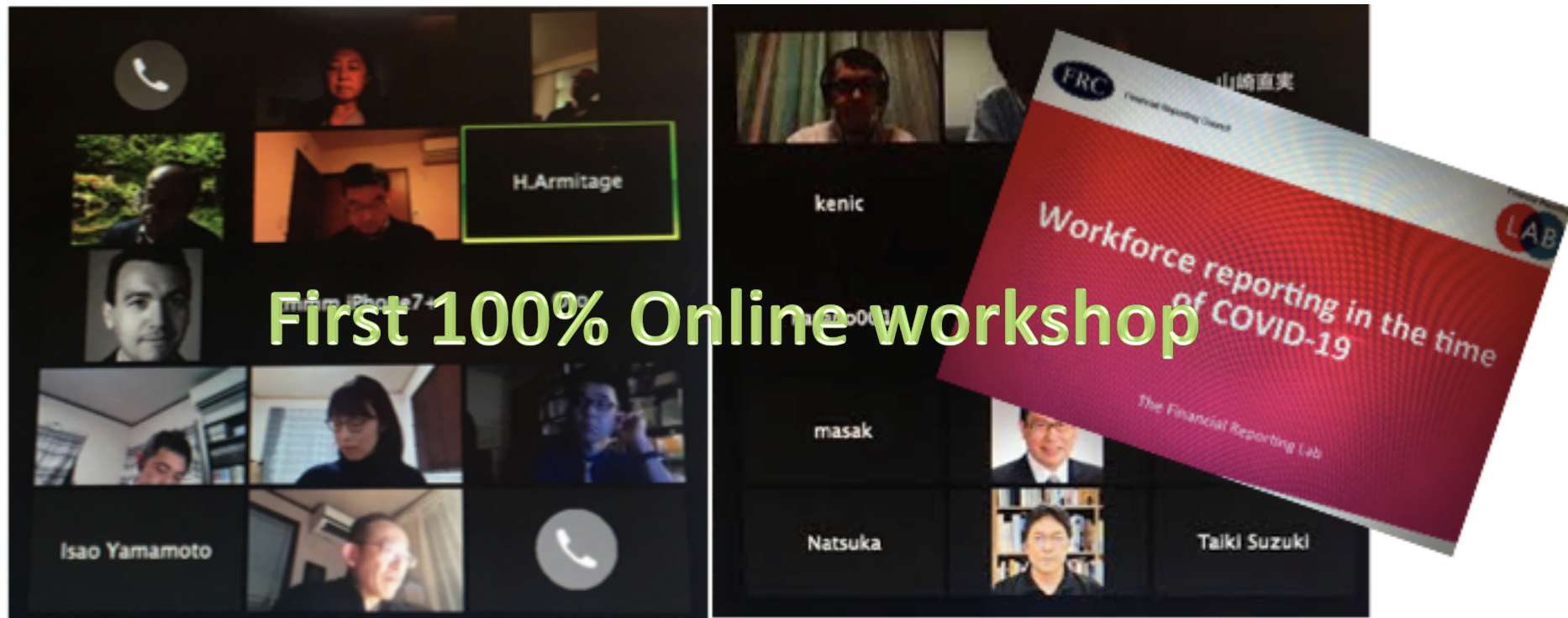


Worker is most important for the long-term strategy

Let's discuss with FRC workforce issue for LT business model & strategy



Digital Reporting Workshop for CG & other topic Extra session

Date and time : 20th Apr 2020, 18:30-20:30 JST

“S” from ESG is a difficult field

COVID-19 pandemic has been spread globally. Companies face a huge crisis that never has before. What investors can do right now for sustainable requires market? Maybe need to enhance a skill to engage companies to make their business more sustainable and resilience? After this workshop, we realised that the workforce information is recognised as the most important factor for recovery from this crisis.

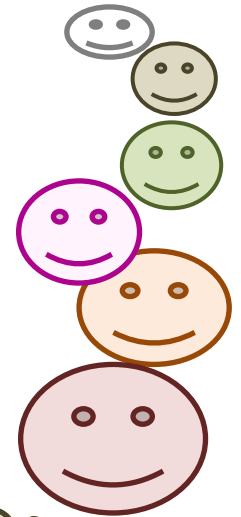
Why we chose “Workforce” for the agenda of this workshop?

This time, we focused on "Labour", one of the core competencies of companies. It is important to note that we will not discuss labour issues, but discuss what is necessary when investors judge the long-term growth and value of a company.

Also, this is our second workshop with FRC people!!

First, we were shared UK workforce corporate reporting discussion. The report that was issued by UK FRC Lab provides us some hints to improve disclosure.

At the same time, we wanted to discuss the impact of current pandemic on labour matters. What managements should do especially this moment? also investors?



Discuss!

	workshop on
Guest from oversea	2 from UK (Presentators) , 1 from UK (investors)
Attendees	22 Investors, 7 Investor(Analysts) organization & sellside analyst, 2 pension & insurance & bank, 3 Information providers/Researchers, 5 Company side (include Independent non - executive director , support service), 3 Auditor, 1 Academic, 8 Regulator, Accounting setter & stock exchange,

FRC Lab's Workforce-related corporate reporting



FRC

FRC had been organised discussion of workforce disclosure throughout 2019. The report has been issued in Jan. 2020.

One of the backgrounds of this discussion was the requirement of the latest CG code. Corporate Act s172 requires company managements to consider employee and other stakeholders. What kind of information will be needed for investors? It was discussed in some cases.



Workforce disclosure is connected to other issues such as business models, risk, governance... etc



What UK investors expect workforce disclosure

Governance and management

Investors are seeking a better understanding of how boards consider and assess workforce matters, including what information they see

Business model and strategy

Investors are seeking a better understanding of what the workforce is and how it contributes to the success of the business model, whether it is considered a strategic asset, how it is invested in, and what changes might need to be made to strategy in order to maximise the value of the workforce

Risk management

Investors are seeking a better understanding of the risks and opportunities presented by the workforce and how the company is responding to them

Metrics and targets

Investors are seeking a better understanding of what is measured, monitored and managed in relation to the workforce, including more data and financially-relevant information

Workforce issues are wide-ranging. When the necessary information is grouped as above, it is similar to TCFD. Workforce has various elements.



What do investors want to understand, COVID-19?

Reporting during times of uncertainty

Financial Reporting



Five current questions investors seek information on...

Resources		Action		The future
1	2	3	4	5
How much cash does the company have?	What cash and liquidity could the company obtain in the short-term?	What can the company do to manage expenditure in the short-term?	What other actions can the company take to ensure its viability?	How is the company protecting its key assets and value drivers?
<p>Helpful disclosure might include:</p> <ul style="list-style-type: none"> The amount and nature of cash and liquid resources. Where the cash is located within the group (legal entities, countries, currencies etc). Whether there are any barriers to accessing the cash (capital controls, regulatory issues). Whether there is an impact from accessing the cash, such as tax or other liabilities. 	<p>Helpful disclosure might include:</p> <ul style="list-style-type: none"> Information about the company's short-term financing arrangements, facilities and other obligations and likely changes. Information about the credit lines (committed and uncommitted, drawn and undrawn) the company has access to. Whether the company has additional support e.g. from related businesses, shareholders, suppliers. Whether there are any covenants that are being imposed or waived. 	<p>Helpful disclosure might include:</p> <ul style="list-style-type: none"> Whether the company is changing its dividend policy or cancelling a dividend. Information on the extent to which supplier financing schemes are being used, and what commitment the provider has given to maintain access to these schemes. Information about the nature and timing of capital expenditure commitments, and whether there is any flexibility. Information about any payments that may be deferred e.g. tax payments. Information about the company's approach to its pension funding. 	<p>Helpful disclosure might include:</p> <ul style="list-style-type: none"> Information of the nature of any government-backed support, by country and any conditions that attach to this. Information about any stress testing/reverse stress testing carried out and how the viability of different parts of the group are being affected. Whether there are any intergroup guarantees and commitments. Details of how the board is monitoring the situation. 	<p>Helpful disclosure might include:</p> <ul style="list-style-type: none"> Plausible scenarios on revenue and costs over the short-term and into a longer transition period. Details of the likely impact of shorter-term decisions on the company's key assets and longer-term drivers of value, e.g. people, brands, licences. Approach to support for employees. Information about how the company is managing commitments with customers where services are delayed. Information about how the company might adapt its business model and strategy in the short/medium term.

More guidance is available on the FRC website - <https://www.frc.org.uk/about-the-frc/covid-19>

Case1 Delivery and 24 hours shop and restaurant

Impact of Declining Workforce on Business Models and Strategies



Investor

Yamato has a nation-wide network of the delivery system as a transportation company. Due to the rapid expansion of EC in Japan, burdens on Yamato's delivery people, most of them are part-time employees and are not enough beneficiary of corporate social benefit, had increased sharply. It was founded that Yamato did not make over-time payment correctly and received corrective recommendations by Labour Standard Inspection Office. As a result, **Yamato had found difficulties in hiring delivery people and drivers** and had to give up "too convenient" service for individual customers.


Yamato should have had **sustainable service structure based on the sustainable human capital management system.**

NIKKEI ASIAN REVIEW

Yamato reaps bigger profits while raising driver pay

Expanded workforce allowed courier to take on more parcels

BUMPEI MATSUKAWA, Nikkei staff writer
JANUARY 17, 2019 03:05 JST



Yamato responded to a shortage of inhouse drivers by increasing their pay, thereby cutting outsourcing costs. (Photo by Wataru Ito)

[Twitter](#) [Facebook](#) [LinkedIn](#) [Email](#)

TOKYO -- [Yamato Holdings](#) looks to have doubled its operating profit on the year to around 65 billion yen (\$600 million) for the nine-month period through December in part by raising wages to deal with a shortage of drivers.

The Japanese delivery company increased its staff, mainly drivers, by around

Case1 Delivery and 24 hours shop and restaurant cont.



Investor

What do you want to company to disclose?

I want companies to **disclose the number of part-time workers, how much paying for overtime work**, and whether it is higher than other companies in this industry or not. I also want to know **what kind of policy is in part-time recruitment, who is responsible** for it, and which directors are responsible for it.

It is also important for companies to be able to justify their employment model against the business model



Skylark is a Japanese restaurant chain. A shop manager died from overwork in the early 2000s after over 200 hours of overtime. In such a situation, it **became difficult to invite new staff**, and they tried to be an employee-friendly company. **They decided to review all the 24-hour operations** at all stores this January. Recently, many companies are trying to be considered good companies by workers. The Seven-Eleven case is a little different, and **it's the relationship between companies and franchisees**, but it's overworked as well. The problem is that it will not be reviewed until some major trouble occurs, but in Japan, labour is being reviewed now.

Under COVID-19 situation

Some drug store chain or supermarket chain companies have already announced they would pay a **special bonus** to employees, including **part-time workers**. Also, some senior people at headquarters are also working at each retail shop to support workers.

Family restaurants Gusto and Jonathan's will no longer be open 24/7

By *TF Tribe* on January 21, 2020

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Meals on the cheap and all-you-can-drink corner for 300 yen or less at Tokyo's so-called "famires" or family restaurants have long been its most attractive sales point. These family restaurants also welcome screaming children at any time of day.

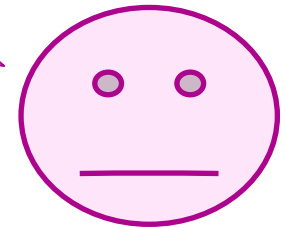
Case1 Delivery and 24 hours shop and restaurant cont.



Banker

I think intangible assets such as human capital are the gap between book value and market capitalization. I think disclosure of workforce will fill this gap. Particularly in a labour-intensive industry, Yamato, **how a good driver can be held greatly affects corporate value.** As a result, workforce disclosure is promising. But some industries are not. For example, the value of the technology industry is determined by a small number of extremely talented people. Twenty years ago, when forecasting Apple's future revenues, could we predict the rise of Apple today without accurately analyzing and assessing Steve Jobs' ambitions and talents? What kind of qualitative and quantitative disclosure is desired for these types of industries?

In the integrated report of some tech companies issued in 2019, they recognise that employees are human capital, and they are trying to make a strategy for how much human capital can be used for corporate value creation. They suggested **what kind of people to hire, what training to do, and how to keep good employees.** It seems that not all companies can make such disclosures. Good disclosure of human capital is becoming important even for high-tech companies that require higher and creative value.



The impact of the workforce on corporate value is complicated. There are many debates about what kind of metrics could be used by what kind of detailed information is available, what is to motivate employees not to leave the company, and so on.



There is information available in the world, even if the company does not disclose it. For example, to know how employees are retained by seeing whether the company is recruiting people or not. Even if companies want to control it, but data is always leaking. Companies have to recognize that.

Case2 Burning in Social media

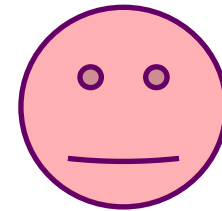
Communication with employees and risk management



Analyst

This is a story about management and employee communication issues that occurred last summer. An employee at the Tokyo head office of Kaneka, a major chemical industry company, took childcare leave. The second day he returned to work, he received a transfer order. He asked if the company could wait for a few months (Because he has a baby just born), but his boss rejected it. He resigned, his wife posted the story on social media, and companies were criticized that the harassment occurred. Kaneka's reaction was a very primitive mistake. Kaneka was further criticized on SNS. **Kaneka only responded to legal issues and did not consider the feelings of SNS users.**

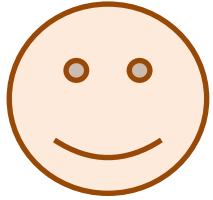
If Kaneka regularly discloses **how many people are taking parental leave**, they might at least tell investors that this is a particular case. Probably not. There were no basic numbers, so people blamed the company and the company could not defend itself either. Many companies may now face similar situations. Under the impact of COVID-19, it may be necessary to carry out layoffs. From the investor's perspective, companies should prepare for it, and preferably protect their employees.



This is **rather risk management than Workforce**. This company should n't give up a good job (responding SNS users), but did. Regardless of this case, it is so much important always to have risk governance based on sincere measures. I think this is a governance issue.

Case2 harassment and suicide

Who is responsible Employee suicide? How management should explain?



ESG Analyst

Dentsu is a creative company that deals with big events as a PR company. A young female employee suffered from power harassment and sexual harassment was a suicide in 2015. There was a similar case in 1991. And last year, Dentsu received a recommendation to correct the violation of Labor Standards Law due to illegal overtime. Not much attention was paid at the same time, but there was a suicide at Mitsubishi Electric. Five people were suicide between 2012 and 2019. **There should have been more attention to labour issues throughout Japan.** It is meaningless for a company that encounters such a case to declare "care for employees" or "work balance". The key of the disclosure is the number that conveys the work situation. I would like to know the **average of medical examinations** and **how overtime hours have historically increasing /decreasing**. Also, I would like to ask about the presence or absence of the **grievance mechanism** and its operation. If no one is using this mechanism despite overtime hours being high, the system is not working well.

Several companies have increased their disclosures about mental health at work in the last few years.(UK)

Employees who work in home alone for COVID-19 may have a mental illness. Companies may face this problem.

Kaneka's integrated report states that due consideration is given to employees and their families. It is important for investors to read the disclosed reports, but **it is also important to make engagement companies** find out more.

Suicide of overworked woman, 24, prompts ad giant Dentsu to trim overtime hours

BY GRACE HUANG AND STEPHEN STAPCZYNSKI
BLOOMBERG

The suicide of a woman who worked excessive hours at Japan's biggest advertising agency has prompted the company to lower the amount of overtime employees can book.

From November, workers at Dentsu Inc. won't be able to log more than 65 hours of overtime a month — down from the current limit of 70, company spokesman Shusaku Kannan said Tuesday.

Tokyo's Labor Standard Inspection Office determined that overwork pushed 24-year-old Matsuri Takahashi to take her own life after she suffered a mental breakdown, local media said. Takahashi reportedly worked more than 105 extra hours in a single month.

Dentsu's decision comes as the government explores policies to improve the nation's working practices. A government-backed panel began meeting last month to tackle issues ranging from excessive overtime, low salaries of part-

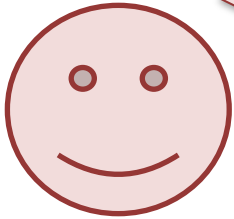
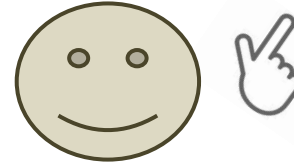
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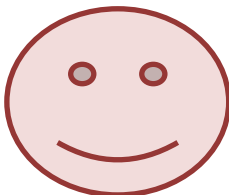
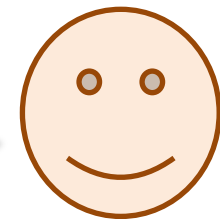
Discussion!!!

Has anyone seen a good disclosure practice in this year?



I have. I was impressed with SHIFT Co. 's disclosure of COVID-19, along with their Human Resource Strategy. **The first page describes what one of their employees was infected with and how they responded.** This company started to request all employees to measure body temperature. And when an employee was confirmed infected, the company explained that he wasn't coming to the office, so no damage to the head office. Japanese companies now make a press release when someone is infected. SHIFT disclosed **how much Hazard Pay was added and explained how much of the ratio worked in the home.** Hazard pay is paid to people who can't work from home, and how much of it is paid, the amount paid per day is disclosed. In the second half of this report, the Long Term Human Resource Strategy and After Corona strategy are explained. Since SHIFT specializes in software testing process as IT company, human resource is the most important management resource to guarantee its quality. They now have around 3000 employees and want to increase that to 10,000. It describes how to recruit employees and how to promote and educate them. I think this disclosure is a very good example.

Introducing a company named GMO Group. This company introduced remote-work at the end of January, a very early stage compared to other companies. Then, **they began to publish the results of surveys as a disclosure material regarding how employees feel about this remote-work.** This material was very informative and helped me prepare what I should do start to work from home. I think it could be the company's next opportunity.



ShareAction, an investor organisation, launched Workforce disclosure initiative, which considers disclosure of workforce. They took a company survey, and the results will be announced soon. Looking forward to it.

Discussion!!! Cont.

COVID-19 infection

SHIFT

COVID-19 infected employee

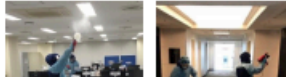
On April 4th, a case that an employee who works in HQ got infected with COVID-19, is recognized.

Findings of investigation from the public health center

- No one in close contact with the infected employee, among our customers, partners and employees
- No need to clean the operation area as the employee had not been there after the symptoms appearance

Decisions SHIFT made

- Cleaned the operation area twice in two days
- Commanded those involved* to work from home



ShareAction»

GMO INTERNET

January 27, 2020

Company Name: GMO Internet, Inc.
(TSE First Section, Code: 9449)
Address: 26-1 Sakuragaoka-cho Shibuya-ku Tokyo JAPAN
Representative: Masatoshi Kumagai, Founder, Chairman and Group CEO
Contact: Masashi Yasuda, Executive Vice President and CFO, Head of Group Management Division
Telephone: +81 3 5456 2555
URL: <https://www.gmo.jp/en>

Responding to Pneumonia Caused by the Novel Coronavirus (Instructing Partners to Work from Home, Preparing for the Spread of the Novel Coronavirus Infection)

The GMO Internet Group will implement the following two measures to continue business and secure the safety of all of our partners (employees) who support the GMO Internet Group in order to prepare for the spread of the novel coronavirus infection.

1. Measures

- (1) Partners working at the offices in the areas where lots of tourists from the PRC gather (Shibuya, Osaka, and Fukuoka) will work from home for two weeks from Monday, January 27, 2020.
- (2) Instruct partners stationed in or making business trips to the PRC to return to Japan.

GMO Internet will endeavor to establish an environment where we can continue to provide the stable services

Workforce Disclosure Initiative

Improving data from listed companies on how they manage workers in their direct operations and supply chains.

Instead of our conclusion...

- Workforce reporting is very new in Japan, but today we find that **Workforce matter is becoming more important to corporate strategies**. We should discuss this topic more. In particular, I would like to discuss more what kind of disclosure investors should ask companies.
- I think the workforce is a very important issue. COVID-19 is raising anxiety for employees and other stakeholders. It becomes a really good tool to examine how much a company can really care for its employees and how to be able to **build trust among employees and management**. I wish to know if there are any good disclosure example could be from UK companies or Japanese companies, regarding how companies are responding to COVID-19. Companies have various stakeholders, and I think disclosure is really important now.
- Last week, an investee company asked me, "What should we do to maintain good relationships with investors, under COVID-19?". The first thing I said was, "It's an emergency right now. As first aid, you just need to prove that you can survive in this situation. For a few months or a year, I would like you to secure the necessary cash. And tell it to investors properly". But then, "I don't know how long it will take to recover or how much impact will be. In the end, you will survive, I want you to explain that competitiveness has not changed after COVID-19. Please share the timeframe that you think. It is important." I said. I think, currently, it's hard to say accurate financial expectations. **The key is long-term viability**. What I think is that investors need such non-financial information, now.

Workforce disclosure discussion is to be continued....