IR Day 2023 Part 2: Panel Discussion

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[Presenters]   Takayuki Seishima   Representative Director, Executive Vice President,
                                         Chief Administration Officer
                Yoshiko Nakazawa   Executive Officer, Assistant CAO, Human Resources

                Kimie Iwata   Outside Director
                Yoshinori Takayama   Corporate Officer,
                                         General Manager, Investor Relations Dept.

<Takayama>
With the video of telecommunications business in Ethiopia in mind, we would like to move on to the panel discussion.
With regards to the human resources management as well as the talent and capability that supports the various businesses, I would like to ask a few questions from the perspective of the progress to date, future challenges, and potential.
First, I would like to ask Mr. Seishima, CAO. I am asking in terms of talent and capability. For example, in the SBU organization, which is a strategic business unit, when there was a request to expand talent with some skills or experience in order to realize a medium- to long-term growth strategy, what kind of discussions and processes did you go through within the Company? Please include a review of the past two years.

<Seishima>
We first have each SBU build strategy where investment plan and human resources management plan are incorporated, and then discuss this at the strategy meeting twice a year. For larger scale items, we will also discuss them in a separate internal meeting body called GIPC, and once the strategy committee agrees on the direction of the strategy, we will begin the process.
Thereafter, HR will serve as the center and try to make an individual match while coordinating with the areas within the Company that have room or plans to contribute human resources. Or we can recruit people who are willing to volunteer themselves through an open recruitment system within the Company. If it is still difficult to find the right person, or, depending on their expertise, if it is anticipated that they will not be available within Sumitomo, we approach external personnel from the outset. In this way, we secure human resources in a variety of ways.

<Takayama>
From here on, I would like to ask Director Iwata and then Ms. Nakazawa. Bring the timeline back a little further to the front, with regards to the human resources management reforms which we have been promoting, could you talk about how you feel about the progress and effectiveness so far mainly in terms of systems, promotion of diversity, and inclusion?

<Iwata>
Within the four major concepts of our human resources management reforms, I would like to comment on two of them that are of particular interest to me.
One is the elimination of the seniority-based consciousness and the Pay for Job, Pay for Performance concept. This is not the first time the Company is trying this, and I believe that the seniority system has long since disappeared. However, I think it had been difficult to achieve the objectives due to long-standing, ingrained attitudes, practices, and also because the system has changed but the operation has not.
This time around, the seriousness with which the Company is making fundamental changes has been well conveyed to the Board of Directors. I believe that the direction of reform is the right one, and I would like the Company to accomplish the reforms successfully.

In the traditional job system, you focused on people's abilities and put a price on them. This time, the job grading system is to put a price on jobs according to the job size of the job. Therefore, these two are totally different. I believe that if the job grading system can be truly implemented, the seniority-based consciousness will be fully eliminated as a result.

In terms of promotion of young people, the Company is gradually beginning to see progress. In addition to a 29-year-old manager, we have seen 40-year-old department heads, the average age for the first promotion to department head at the company used to be about 50 years old. However, taking into consideration the size of the Company, the number is still small. I hope that by building on this example more and more, we will be able to eliminate the seniority management system within the Company.

Moreover, the concept of Pay for Job, Pay for Performance needs to be applied to seniors as well. Traditionally, at a certain age, people were removed from their positions, or their compensation was reduced. In this regard, we have now introduced the Pay for Job, Pay for Performance concept for post-retirement contract rehires as well. Which means that everyone, regardless of their age, can also continue to work in larger jobs, depending on their ability and willingness to do so. I think we must make it clear within the Company.

Second is the promotion of women's participation. In terms of DE&I, specifically in diversity perspective, the biggest theme in the current situation in Japan is the advancement of women. Compared to other industries, trading companies have lagged behind in the advancement of women. I believe that Sumitomo has also been making efforts to promote women's activities to a certain extent in the past. However, we see the efforts in SHIFT 2023 as the first initiative that seems to be serious. Regarding women's advancement, some subjects take a very long time. What I appreciate, for example, is that they started immediately on the unification of job classifications (the discontinuation of the course-based employment management) that is a kind of subject that would produce immediate results if once worked on. Traditional clerical positions at the Company (general positions in general), were limited in scope and had a ceiling on promotions. Therefore, the potential was not fully realized. I immediately sensed that this was the biggest obstacle to women's advancement in the Company, and I continued to insist on it.

As a result, more than a dozen managers were born last year and again this year from among the former clerical staff. In addition, some have applied for internal openings and have been transferred to other departments, and some have raised their hand to be transferred overseas. Although the number is still small, we are beginning to see progress in expanding the range of positions and promotions for former clerical workers, and we are very excited about this.

Also, the landscape of the hiring place has really changed dramatically. When I first became involved with the Company, 20% of the graduates were women, but now it is 40%. Most mid-career hires were men, but now between 30% and 40% of them are women. The recruitment part has changed a lot, I think.

The time-consuming part is the training and promotion. I don't think this should be done too hastily, so I would like to see them gain experience and be promoted after a thorough evaluation.

<Takayama>
Now, can you please comment, Ms. Nakazawa?

<Nakazawa>
I would like to comment on three points from an institutional perspective, and two points from the perspective of DE&I and the promotion of diversity.

First, in terms of the institutional aspect, I think that the elimination of the seniority concept had a tremendously important impact. We have a great mission to go beyond existing frameworks to solve social issues and provide added value. This process requires multiple deep expertise, and business is flowing very quickly. In the midst of such changes, the past does not predict the future, and discussions need to be held with a highly diverse group of members. I think that the fact that people cannot be promoted without taking into account their age is a stumbling block. Therefore, I think that changing the seniority concept like we have had a great impact.

However, just because the system is no longer in place does not mean that it is immediately operational, and we believe that three issues still need to be addressed.

The first is to enable line managers to design their duties. It is essential to train them to always look at the business in 5 years or 10 years and consider what kind of expertise and capability is needed, and to attain that, how many positions are needed and what kind of organization must be created They need think about such things without necessarily thinking about the people they have now.

Secondly, they need to write a well-written job description based on it. We work across many industries, and we have employees in about 71 countries. It is quite difficult to evaluate jobs uniformly in such a diversity, so the first step is to ensure that job descriptions are well written and upgraded to evaluate them.

Third, not only management positions but also professional positions must be utilized more. In short, there is a career choice to work all the time as an expert and professional without having subordinates and without looking inferior in terms of compensation. I feel that the utilization of these professional positions has not yet been fully utilized. This will come naturally as we move forward with the design of duties that I mentioned at the beginning.

I would like to see HR support business leaders in these three areas over the next 2 years or 3 years. Regarding the second point about diversity, I have heard that even though the concept of seniority has been eliminated from the personnel system, there are still many hierarchy-oriented discussions throughout the meeting practices or communication styles. I feel this myself and through feedback from them, as I have taken the time since joining the Company to try to have many opportunities to communicate directly with employees.

I believe we need to reskill this habit or communication. Career-hired members make up about 10% of the total workforce. It is still a minority. When we make use of their knowledge or expertise, or when we select young leaders to lead the discussion, we need a new style of communication to get the word out. Japanese people speak in high context, and as true in any company, there is a lot of internal terminology. Unless they all use a low-context style of discussion, no matter how diverse the team is, it will not lead to a successful outcome. We need reskilling of communication, and the creation of an atmosphere and habit where it is okay to say something totally different and outlandish. We believe that only such soft changes will lead to the elimination of the seniority concept and innovation.

<Takayama>

In promoting human resource management reforms, how do you see the characteristics and uniqueness of our group's human capital?

<Nakazawa>

I believe there are two.

The first is that employees of the Company are honest and trustworthy. Everyone outside the Company says this, and I feel it myself. There is a network because of this trust, and there is information that can be accessed because of this. In the midst of this tide of major social change, when we think about what kind of business we should create or conceptualize, I believe that this is a major asset that money cannot buy and that no other company can easily imitate.

Second, the Company has very few sectionalisms. A company of this size inevitably has sectionalism. I have seen many companies, and I often hear that sectionalism is usually at the top of the list in engagement surveys, and that when they go to other departments, they are often passed around to other departments and told that they are not in charge of the work. According to the results of our engagement survey, such comments are not zero, but they are very few for a company of this size. I feel that this teamwork or collaboration ability is a tremendous advantage.

<Iwata>

I would like to make two statements.

First of all, and this ties in with the earlier discussion of inclusion, what I would like to mention is the strength of Sumitomo's business philosophy and its corporate mission. How many times has the phrase "Sumitomo's business philosophy" been mentioned in this meeting today? It is routine for internal directors to refer to Sumitomo's business philosophy at board meetings on a daily basis. I think it really is a spiritual pillar of the Company's management, and not only the management but

also the employees share a very strong sympathy for it. I think this is a real strength. This is important for inclusion.

Nothing can come from just a diverse group of people. We are committed to diversity as a source of innovation and value creation. In order to make diversity a source of innovation, we need to unify our thoughts about the direction in which diverse people are heading and the kind of company we want to be, and then work together and collaborate with each other based on mutual recognition of our differences. I think this is inclusion. Without inclusion, I don't think diversity alone will lead to value. I believe it is Sumitomo's business philosophy and other corporate mission that create this inclusion. I believe that being strong in this area will be a strength when promoting inclusion.

One more thing I would like to add in relation to inclusion, which overlaps a bit with what Ms. Nakazawa mentioned, is that the Company has a very strong teamwork capability. At the same time, however, we must be careful not to demand too much homogeneity and always pay close attention to whether there are peer pressures. I believe that strengths should not conversely become weaknesses.

Another characteristic of the Group's talent development, or perhaps I should say the strength of the talent, is the ability to work onsite. As a trading company, the Company has a variety of business areas, each with its own site. To begin with, those who join the Company, whether they are new graduates or career hires, are people with great potential. I think they are putting these people out in the field and training them thoroughly in the field, including overseas sites.

Through these experiences, people develop tenacity, the ability to finish what they set out to do, the ability to network with local communities, and the experience of working with non-Japanese people. Therefore, this is certainly a strength, and I feel that it should be further refined.

<Takayama>
Finally, in order to improve the corporate value of our group, which is the basis of the idea of human resource management reform, and to achieve this, what measures do you think are necessary in the future, including from the perspective of improving the uniqueness or strength of our human resources, which you have just mentioned from various angles?

<Iwata>
Regarding the remaining issues to be addressed, or rather, to make the best use of human capital, I think that you need to change the way you work. I believe there is still much work to be done to reform business processes. The results of the engagement survey have been reported to the Board of Directors, and I believe that overall the results were satisfactory. However, I sometimes feel that employees are not always satisfied with the way they work.

In the free text column, they wrote, for example, that the decision-making process takes a long time because there is a lot of reworks, that delegation of authority is insufficient, or that there is a lot of inward work, such as preparing for meetings and laying the groundwork. Therefore, I believe that work methods can still be standardized and simplified.

I feel the same way on a daily basis. For example, board meeting materials are of a very high level and perfect, but for the sake of discussion, they don't have to be so precise and perfect. Also, when I have meetings with people of the Company, I am alone, but you all come in large numbers. This is, for one thing, an indication of the quality of the team, where members always willing to share various information, or which allows you to perfectly answer anything I ask on the spot. However, if you could clarify each person's role and responsibility a little more, and leave the responsibility to the individual, I think you could create more time.

I hope that the time created by reforming business processes in this way will not be used for routine tasks, but rather for doing new things, thinking about new things, and taking on challenges. Without this luxury of time, it would be difficult for people to grow.

<Nakazawa>
In addition to the three institutional aspects I mentioned at the beginning, it is the soft aspects that are of the utmost importance. The accustomed way of working or culture needs to change. If you want to create new innovations and provide society with unprecedented added value, you will need a different culture.

What I think is most important is what kind of solutions you can offer to the social issues that are happening right in front of you. In discussing this, everyone needs to be equal, without hierarchy based on seniority or years of experience. Perhaps a small question from a new employee who joined yesterday could be a major catalyst and lead to new possibilities. Just because you are young doesn't mean you don't have expertise. I think it is first important that everyone is equal in front of such issues and can focus on the discussion.

We personnel force would like to support to change your working style and culture to contribute to the future of your Company and society.

<Takayama>
Thank you very much.
This concludes the panel discussion.

[END]