

Three-Way Discussion about Talent Strategy to Expand the Specialty Chemicals Business



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Talent Strategy to Expand the Specialty Chemicals Business

The UBE Group is pushing to transform its businesses and the Company as a whole to drive growth in specialty chemicals. An institutional investor with expertise in ESG investments, a director spearheading UBE's human resources strategy, and an outside director sat down to exchange views on bolstering the talent underpinning the Group's growth.

What is your basic approach to strengthening human resources to drive growth, particularly in specialty chemicals?

Tamada: We aim to become a corporate group focusing on specialty chemicals by 2030. We are overhauling our business structure and reinforcing our earnings base under our current medium-term management plan. We consider it vital to spotlight people as part of these specialization efforts. One of my focuses is its linkage with a promotion of digital transformation in the plan.

I discussed this with Yuki Nishida, a senior managing executive officer, who oversees digital transformation. We agreed that the human element will ultimately determine the success or failure of these efforts and their creative impact.

Given that digital transformation will be a prime driver in our specialty chemicals growth, I believe that there are two current priorities. One is to develop experts who can build our technological prowess in that field. The other is to combine

those capabilities with each theme of the digital transformation measures.

Suzuki: While I sense that UBE's current workforce finds it hard to adapt to changing times, I do appreciate that it greatly understands its purpose and social roles, as it endeavors to create products that benefit others. Also, I think it is important to explore ways to link personnel policies to non-financial and financial metrics. We should additionally consider how these policies can have a positive impact on financial figures.

Watanabe: I calculate a company's intrinsic value as an institutional investor. I focus on three critical value components. These are ROE, profit growth rates, and cost of capital.

It is in that context that recognizing the continuity and scalability of human capital in IP, R&D, and other aspects of the foundations for profit expansion enables us to project long-term profit growth and calculate lower cost of capital. A company's intrinsic value thereby increases.

While it is challenging to properly evaluate human capital, you have to do this in seeking intrinsic value. So, I look for UBE to go beyond mandatory requirements and comprehensively disclose information, including the significance of KPIs and strategies relating to personnel.

How do you think addressing gender gap and other DE&I initiatives connect to UBE's growth as a specialty chemicals company?

Tamada: While the UBE Group lags others slightly in some aspects of DE&I, we do not set KPIs just to tick boxes. Progress in these respects, including gender equality, is essential in securing diversity of decision-making. Ensuring diversity is essential for us to progress in specialty chemicals and overhaul our business structure. In view of the prospective benefits of diversity, the UBE Group is endeavoring to increase the ratio of women for generalist positions, mid-career postings, and non-Japanese employee hiring.

Suzuki: We realize that we need to do more than just base measures on existing social systems and rethink things from zero-based perspectives. By 2050, for example, diversity may be fully integrated into workplace culture, with our focus shifting to exploring the future of work in that era.

I believe that diversity is essential for us to become a specialty chemicals company. In a recent Audit & Supervisory Committee visit to a European subsidiary, it was gratifying to see that many of its researchers are women. Still, there is room to advance DE&I by improving communication within the Group.

Yuji Watanabe

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Became an analyst at Daiwa Asset Management in 2006 after working at a bank, where he worked in lending. Was seconded to an investment advisory firm and engaged in asset management, then moved to venture capital at an operating company.

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Watanabe: I get the impression from what you said that you have a clear vision for the future, that you have set KPIs as stepping stones and have a strong DE&I consciousness. It is important for DE&I within the UBE Group to always connect its specialty chemicals drive with gender equality and diversity.

As your specialty chemicals efforts make technology and IP more important, it will be vital for you to retain the people in your talent pool, regardless of gender. One of the things I benchmark in assessing chemical companies is the proportion ratio of women in R&D. I believe that DE&I will play a major role in UBE becoming a specialty chemicals player. As well as meeting mandatory disclosure requirements about personnel in its annual securities report, I believe the UBE Group can fulfill its commitment to DE&I by highlighting its distinctive initiatives in that regard. I hope that it will focus on such areas.

Tell us about the UBE Group's stance and initiatives for recruiting and career development and its compensation structure as it progresses with DE&I.

Tamada: For the compensation system, we have committed to increasing starting and base salaries as a matter of course. We used to hold performance evaluations and career development interviews at around the same time. We now stagger them to devote sufficient time to meaningfully discuss career development with people. We began formulating succession plans for executive officers and executives from 2016 and 2017, respectively. Down the track, we will focus on how to encourage more female employees to become part of succession planning and increase the number of candidates for this.

Watanabe: Recruiting, career development, and assessments are as important as I noted with DE&I in UBE becoming a specialty chemicals company. When striving to improve talent, companies often emphasize providing attractive compensation packages. As an investor, however, I would like you to not simply boost pay but also link it to per capita earnings and other productivity outcomes. To secure sustainability, assessments and compensation need to be managed in this regard.

Suzuki: The financial principle for investing in people is multiplying time and unit cost, or quantity by quality. As such, I think UBE needs to reconsider some aspects of conventional concepts in striving to become a specialty chemicals company. Investors have long discussed whether to include human capital on the balance sheets. After hearing what Mr. Watanabe had to say, I realized we also need to assess outcomes from investing in talent. People tend to discuss ESG factors abstractly. But we need to quantify and evaluate them as much as possible.

Tamada: We will keep considering how best to enhance corporate value in pushing forward with our human resources policies.

How do you secure and develop talent for R&D and IP which are so crucial to UBE becoming a specialty chemicals company?

Tamada: A key current priority for the UBE Group is how to strengthen marketing and technical capabilities. With IP, for example, we have

had successes with specialty products stemming from close collaboration with people involved, including up to licensing stages. Also, we look to strategically tap the IP landscape to determine areas we should enter and build our presence.

We need diverse ideas to think of new products. Accordingly, I believe that R&D should embrace diversity. We have to attract and develop specialty chemicals experts. Women account for roughly 17% of employees in our Research & Development Division, Pharmaceutical Research Laboratory, and Intellectual Property Department. We will keep presenting clear information to employees about talent requirements and career paths. At the same time, we will attract and develop people with expertise in R&D and IP, which are essential for us to grow as a specialty chemicals company.

Suzuki: Even highly specialized knowledge can fast become obsolete in this era of rapid change. We must constantly build highly skilled teams that align with contemporary demands. We believe that instead of relying on conventional processes that cultivate cookie-cutter skill sets, we have to focus on acquiring highly specialized talent from outside. This may entail taking bold steps, including to overhaul our compensation structure. On the downside, such people typically move around. They may often leave for opportunities elsewhere. As certified public accountants, we understand that contributing to society underpins our profession. We naturally understand that motivation to attract people for high-level research positions is to create products that benefit others. It is equally important to develop a talent strategy that appeals to individuals wishing to join the UBE Group to make meaningful impacts and contribute to society.

Watanabe: We tend to associate R&D and IP with outcomes from people. But as Ms. Suzuki reminded us, we must always remember that what individuals can offer society is inspirational. I find it encouraging that there are such opinions among Board members. And because technology underpins success in a chemicals company, I think it is important to first clarify the R&D strategy and create an environment that attracts and retains people who share that vision and play an active role in the Company. A solid IP strategy is important for the same reason.

Tamada: We have to align management and human resources strategies. We cannot become more productive if we don't integrate strategy, organization, and the actions of our people.

We plan to engage in extensive discussions with our R&D and IP directors and reassess the Human Resources Department's role while remembering business strategy perspectives.

How are you progressing in acquiring and developing the digital talent you need to grow as a specialty chemicals company?

Tamada: We are leveraging the Innovator Theory in focusing on cultivating digital experts in-house. We are starting out in that respect by cultivating trailblazing innovators and early adopter evangelists. We are in the initial stages of that approach, and ultimately look for all of employees to become implementers.

Suzuki: While this effort has only just gotten underway, a suitable sense of urgency seems to be driving action. I think there is a close correlation between digital transformation and diversity. As the areas that digital transformation and people handle become clear, ensuring diverse perspectives among people will be extremely important.

Watanabe: Shareholders and other investors and other external stakeholders broadly recognize that digital transformation strategy is important. Still, it is difficult to determine whether the details of that strategy are suitable for the company. I want the UBE Group to clearly indicate whether the strategy will help increase productivity, make it more competitive, or foster new businesses. Also, it might take time for digital transformation to fully bear fruit, but even if small but positive impacts result, I would like UBE to disclose them. That will instill confidence in external stakeholders watching progress with digital transformation investments.

Note: Please see pages 42–45 for information on attracting and developing digital talent.

Finally, please share your challenges in bolstering talent.

Tamada: The UBE Group's prime human resources strategy is that in order to foster a more innovative corporate culture in which employees can take control of their own careers, we will identify gaps in the required skill-sets of our employees and offer the appropriate training and career paths as necessary steps in attracting diverse talents and those who will contribute towards our focus on specialization. The challenge will be how best to share this strategy across the organization.

Our efforts will naturally encompass our digital transformation and human resources portfolios, which we would like to strategically combine or clarify and present to all of our employees. On top of that, I think we need to review our talent profile so it relates more to employees so they can embrace it as their own. We look to extensively discuss our strategy and talent profile and match them to the aspirations of each employee.

Suzuki: To add to what Mr. Tamada just said, it might be worthwhile to discuss UBE's vision and role in view of such factors as environmental and social conditions in 2050 and work out how to secure and develop the people we need to fulfill that role. We must also reconfirm the objectives of a series of initiatives. We have to ensure that outcomes align solidly with those aims. Quantifying and measuring results will be crucial to communicating effectively with investors about our progress and achievements. In the same vein, I think we should flesh out specifics about diversity, including with regard to gender equality, the sort of innovative corporate culture we need for specialty chemicals, and when we can attain our cultural goals in this era of accelerating change.

Watanabe: Finally, I must share a candid observation. The UBE Group's people do not seem to be very productive in terms of management index from the perspectives of shareholders and other investors. UBE will have to demonstrate that the human resources strategies you are considering will drive improvements. Amid upheavals that will accompany UBE's focus on specialty chemicals, you will have to work out how you can increase employee interest and motivation about such changes. We cannot do too much in that regard. The stock market seems to want the UBE Group to accelerate efforts to reform its business and human resources structures. We look for the Group to tackle those challenges.

