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Feature Articles

This month's focus: **What Securities Analysts Need to Know about DX**

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What is the essence of digital transformation (DX), and why is it necessary now? In this paper, we recognize the essential value of DX as the revolutionary reduction of “MURI (conventional constraints), MUDA (essentially unnecessary), and MURA (uncertainty and anxiety)” in the entire supply chain and value chain. This is only possible now that all things are connected in cyberspace and value creation is shifting from physical space to cyberspace. At this revolutionary point of change, companies and organizations have a great opportunity to take advantage of DX, but at the same time, there are various challenges and difficulties in promoting it. This paper summarizes the various challenges and difficulties in promoting DX, and explains several approaches to solve these challenges and overcome difficulties.

Latest DX Trends in Japanese Companies	<i>Makoto Tsuchiya</i>	15
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This article introduces the latest DX trends in Japan, with a brief summary of the meaning of DX. Toyota Motor Corporation, Bridgestone, and Marui Group are taken up as firms pursuing DX that bring new points of contact and experiences to customers. Misumi Group Inc., which has succeeded in providing time value to customers through DX, and Yamato Holdings are given as examples of various approaches to DX. Finally, the key points in evaluating DX are summarized.

Progress of DX in Europe and the US: Essence of DX and the Fourth Industrial Revolution and Japanese companies' DX efforts	<i>Naoaki Fujino</i>	26
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DX is a hot topic these days. However, it seems that the purpose and aim of overseas companies' DX are slightly different from that of Japanese companies. In this paper, we first take a bird's-eye view of the progress of DX overseas and its essence from three perspectives:

- (1) the expansion of digital technology performance and impact on corporate organization/“boundary between company and market”;
- (2) the essence of the GAFA model and its application to conventional industries; and
- (3) system architecture design of a new industry as a policy for accelerating open innovation.

Next, we took a bird’s-eye view of DX efforts by Japanese companies and summarized blockages and pitfalls facing Japanese companies as well as positive future outcomes. The author anticipates that analysts will make a great contribution to the promotion of DX in Japan.

DX and Corporate Value – Progress in DX as Measured by Intangible Assets

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I focused on intangible assets such as software, R&D capital, organizational capital, and human capital as indicators to measure the degree of digitization at companies. A regression analysis of future stock returns using these variables as explanatory variables showed a significant positive relationship. This can be considered as evidence that the stock market highly values the corporate value of companies engaged in digitization. However, even though the regression analysis can show a linear relationship between digitization indicators and stock returns, it cannot tell the difference between companies in the process of digitization/digitalization and companies that have achieved DX. Therefore, I sorted the sample into quintiles by each digitization indicator and attempted to show the difference between “mere digitization” and “DX” by looking at their attributes. The difference between “mere digitization” and “DX” is whether or not transformation is occurring. To confirm this, I looked at Total Factor Productivity (TFP), which is the productivity related to innovation, and the Cash Conversion Cycle (CCC). The results showed that organizational capital, human capital, and R&D capital could be used as indicators to measure DX.

Prospects

A Benchmark Approach to Banks’ Proprietary Portfolio Analysis

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Economic and Industrial Analysis

Relationship between Corporate Financial Performance and Job Satisfaction/working Conditions Using Employee Reviews *Hironori Nishiie, CMA • CIIA* 54

We generated time-series scores as alternative indices of “job satisfaction” and “ease of working” from the text information of employee reviews on employee review websites, and analyzed their relationships with corporate performance and stock performance.

As a result, we found that the improvement in job satisfaction and ease of working scores has a positive impact on corporate growth and profitability with a delay of about two to three years, while the improvement in corporate ROE improves job satisfaction with a delay of about one year. As for the relationship with stock performance, the portfolios with improved scores produced statistically significant positive excess returns with a lag of about one year, suggesting that mispricing in the stock market is occurring.

Point of View *Kimihiro Eto* 63

Special Postings

Do Social Returns Lead to Economic Returns?: Future Simulation Analysis of ESG Investment by Causal Linkage Model Yasuyuki Kato, CMA / Makoto Naito 67

The question “Does the social return produced by a company lead to economic return in the long term?” is one of the biggest concerns in ESG investment. In this study, as an attempt to verify this question, a future simulation using a causal linkage model was performed. As a result, it was found that single efforts such as “reducing greenhouse gas emissions” and “increasing the ratio of female managers” may reduce economic returns. On the other hand, it has been shown that multiple efforts will greatly improve economic returns. Furthermore, it was suggested that timely and appropriate policy implementation by the government and stakeholders is necessary to realize a good path in the future. This report is a summary of a portion of the results of the “Search for Corporate Value in a Post-COVID Society” carried out with the support of the 2020 GAP Fund Program of Kyoto University.

Toward Japanese Model 2.0: Purpose of Business, Governance, and OwnershipHideaki Miyajima 80

The task for Japan’s corporate governance reform is to realize technological innovation and economic dynamism by increasing emphasis on the role of the stock market without falling into the trap of short-term profit-driven myopia and to create a framework for companies to internalize critical social values and sustainability. In other words, the goal is not to move simply closer to the US governance model or to revive the traditional Japanese model, but to newly design a “Japanese model 2.0.” It would be a hybrid of those two models. From those perspectives, this paper first summarizes the economic consequences of corporate governance under Abenomics. Then, it suggests crucial focal points for designing Japanese model 2.0. We address the redefinition of the purpose of Japanese firms, the new roles of corporate boards, and an appropriate ownership structure that could support the purpose of the corporation.

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