



Managing Productivity in a Digital Society

– Corporate Management Practices and Responses to Societal Needs –

September 12, 2019

In the past decade, the business environment for global corporations has been changing dramatically due to changes in globalization trends. The disruptive forces from recent advancements in digital technology have intensified these changes even further.

One concerning trend is that advanced economies, including Japan and the United States, have been experiencing slow productivity growth. Emerging economies such as China and India, which had experienced strong economic growth, have also experienced slower growth as they are exhausting their catching-up potential to the productivity frontier. In terms of the politics accompanying these slowing-growth patterns, there is a trend of rising populism and nationalism in many countries. These changes could negatively impact the future of the global economy as economic conflicts may add to greater uncertainty, particularly in the area of trade (recently exemplified by the United States-China trade disputes and Brexit).

Businesses in advanced economies have been tackling these challenges to reverse slow productivity growth by utilizing new digital technologies. While technology advancement, mainly from IT, resulted in some productivity growth in the 2000s, the results of those efforts in Japan and the US as well as other mature economies have not diffused rapidly throughout the economy to broaden the impact of digital transformation. On the contrary, a series of concerning issues have emerged, such as widening inequality.

For countries, businesses, and organizations, productivity performance is one of the most important factors providing long-term sustainable economic growth to strengthen competitiveness and, ultimately, improve people's living standards. Businesses play a pivotal part in raising productivity through their investments in tangible and intangible capital, including human capital. Business leaders must focus on customer value creation through innovation and use resources such as human capital more efficiently to improve productivity.

The long-term growth potential of the economy can be strengthened by unleashing the sources of productivity growth (human capital, technology, and innovation) and ensuring its positive effects are widely distributed through effective interactions among stakeholders, including business, government, the



education system, and civil society organizations. Business leaders can play an important role in forging such interactions to generate a virtuous cycle that produces prosperity and peace. Equal access to the sources of productivity and fair distribution of its gains to all stakeholders are critical elements for sustaining the virtuous cycle.

In the context of the challenges and opportunities described above, the Japan Productivity Center and The Conference Board are conducting a dialogue between business leaders representing global companies in Japan and the US. The first forum was held at The Conference Board's headquarters in New York on April 11th – 12th, 2019.

The summary of the first meeting can be accessed here: https://www.conference-board.org/pdf_free/PR_2019-TCB-JPC-Productivity-Forum-Summary.pdf

An announcement on the outcome of the first event is here: <https://www.conference-board.org/press/pressdetail.cfm?pressid=9001>

Programmatic details can be found here: <http://pages.conference-board.org/Business-Leaders-Forum-on-Productivity.html>

In the April 2019 forum, the key theme was Managing Productivity in a Digital Society. Business leaders engaged in a dialogue regarding their roles and responsibilities by focusing on a range of questions, including:

- How can business leaders successfully transform/drive their organizations to enable value added and productivity growth in an era of digital transformation, which changes the way of work?
- What are the most critical human capital needs in the age of digital transformation?
- Can productive companies create more value from serving critical societal needs through business activities?
- How can business ensure that the gains from productivity become the basis for developing sustainable growth?



Recommendations for Business Leaders to Take Action for Better Business Performance in a Digital Society

Business leaders must take a long-term perspective and balance multiple priorities aiming for securing sustainable growth through greater customer value creation generated by an engaged workforce and excellence in corporate citizenship. This balanced long-term perspective helps deliver a sustainable growth model for the next generation.

1. Focus on productivity-driven management, aiming for value-added growth

- The Fourth Industrial Revolution is fundamentally different from previous industrial revolutions, as digital transformation essentially makes it possible for technology to replace human brainpower. It brings significant disruptions to societies, economies, and businesses, thus changing the way humans create, exchange, and distribute value.
- Management practices thus far have largely focused on increasing sales, revenues, profits, and decreasing costs. Going forward, business leaders will have to strive for excellence in productivity-driven management practices, which focus more on improvement of value added (productivity) through innovation by way of new goods and services and new markets.
- Business leaders should have a long-term perspective and aim for a satisfied and highly engaged workforce, customer value creation, and sustainable growth. To achieve these objectives, the access to the sources of productivity and the gains from it have to be distributed fairly in a way that is mutually agreed upon by all stakeholders.

2. Maximize the contribution of human capital as a source of value added

- Digital technology itself does not provide the perfect solution, but it complements the source (or origin) of value added (productivity) coming from the creative workforce skills and competencies to apply/utilize digital technology.
- Business leaders should proactively invest in upskilling their workforces. For continuous innovation, it is also important to consider alternative sources of human capital, such as those of partner organizations in the ecosystem or the contingent workforce of the gig economy.

3. Customer-value creation via innovation ecosystem

- Companies need to revisit their entire business model with emphasis on meeting customers' needs through utilizing digital technologies.
- In addition to internal organizational changes, companies need to collaborate with external parties and engage in ecosystems, including collaborating with and investing in startups or joint research with academia or other companies.
- Work processes within organizations, as well as among other parties in the ecosystem, must be re-designed in order to develop new business models which could easily integrate physical and cyber space.



4. Emphasize excellence in corporate citizenship to revive the virtuous cycle of productivity, economic growth, and prosperity

- Business leaders should have a long-term perspective and contribute to the virtuous cycle of economic growth and prosperity. Social issues could also be regarded as opportunities for innovation and growth for businesses. Business have a stake in supporting equal access to the sources of productivity growth, especially skills and competencies, and the fair and widespread distribution of the gains from productivity growth.
- Businesses should utilize new technologies, including digital technologies. They should take a longer-term perspective on business performance by balancing various trade-offs among maximizing profit, customer-value, workers-value and societal-value.
- Business leaders should demonstrate strong leadership to deliver a sustainable growth model for upcoming generations.