

Initiative on Work Style Reform at Itochu Corp: A Stewardship Perspective on Japanese Corporate Work Style Reform

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Introduction

The transformation in Japanese work styles has become significantly more noticeable over the past decade. Traditional practices and systems have been re-evaluated, and new work styles have been increasingly adopted, marking a substantial shift in many workplaces. Particularly, individuals in their 30s and older have likely experienced these changes first hand over their careers. As asset management professionals, we too feel these changes daily. Here, we will explore the challenges related to work styles in Japan and the initiatives undertaken by Japanese corporations, with a special focus on the case of Itochu Corporation.

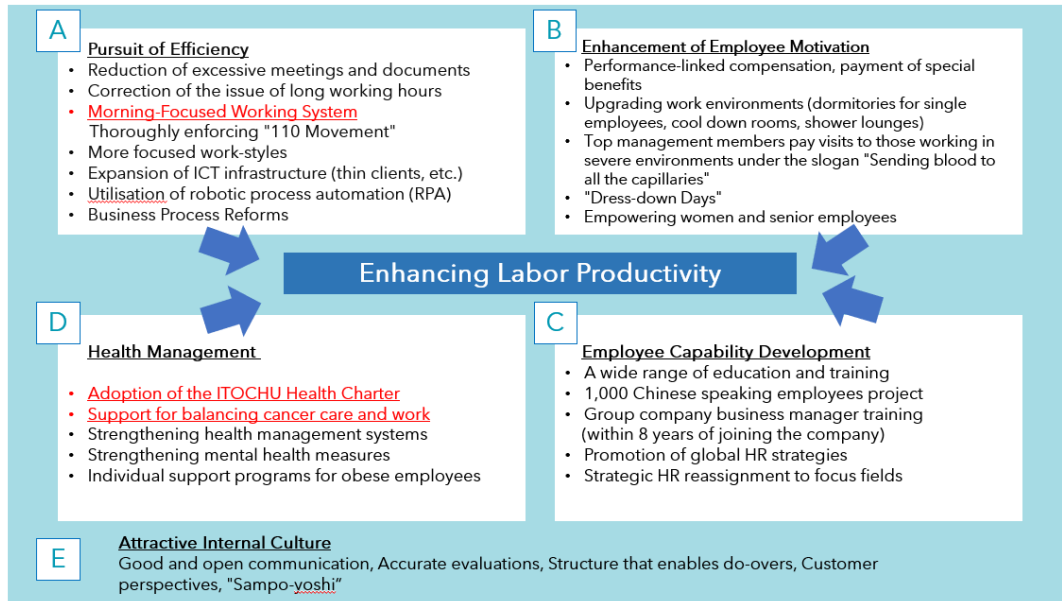
Challenges in Japan

Japan's population decline has garnered domestic and international attention for years. According to the Ministry of Health, Labour and Welfare's June 2024 announcement, the total fertility rate for the previous year reached a historic low of 1.20. This demographic challenge is often attributed to economic uncertainties and the difficulty of balancing work and childcare. On female workforce participation, Japan also faces significant challenges. In the World Economic Forum's Gender Gap Index, Japan ranked 118th out of 146 countries as of June, a slight improvement from its previous lowest rank of 125th but still a concerning position. These metrics highlight the severity of the issues Japan is struggling with.

Introducing Itochu Corporation's Initiatives

Itochu Corporation has been actively addressing the serious issue of population decline. In 2010, the company embarked on work style reforms aimed at improving labour productivity. As part of its "human resources strategy," a key management initiative, Itochu introduced flexible working hours and began to fundamentally re-evaluate work styles within the company. Some major initiatives, as illustrated in Figure 1, included the rapid implementation of several innovative measures like the "Early Morning Work System". This initiative, which received significant media attention, prohibited overtime work after 8 PM and encouraged early morning work from 5 AM to 8 AM for those needing to work late. Employees who started work before 8 AM received incentives such as premium wages and complimentary light meals, promoting behaviour changes among staff. Consequently, the adoption of early morning work not only transformed employees' attitudes towards time but also supported employees with constraints on their working hours due to childcare, elderly care, or health issues. This initiative contributed to enhancing work engagement by allowing more family time and self-development.

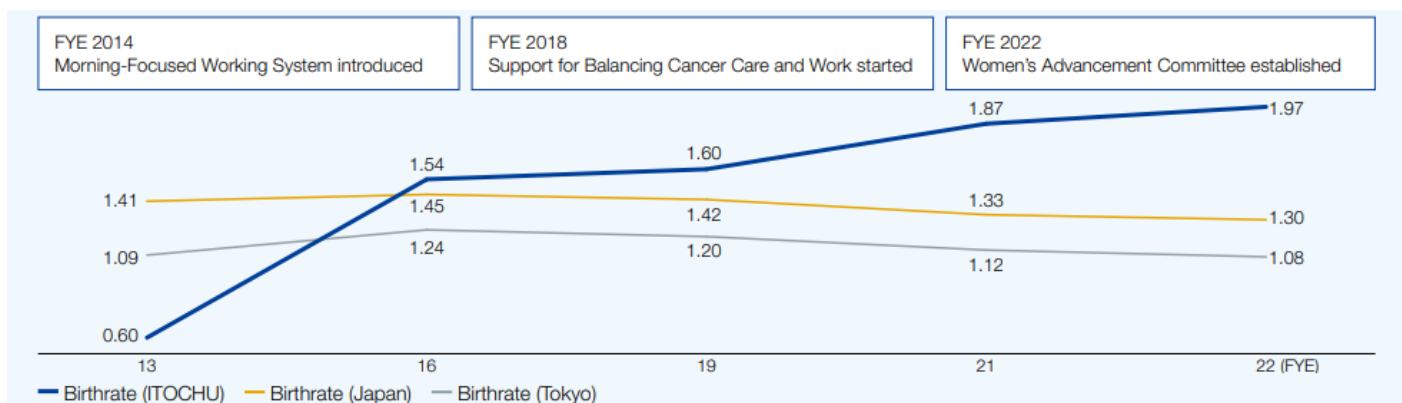
Graph 1: Concepts supporting workstyle reforms



Source: Itochu Corporation, SuMi TRUST AM (as of the end of February 2025)

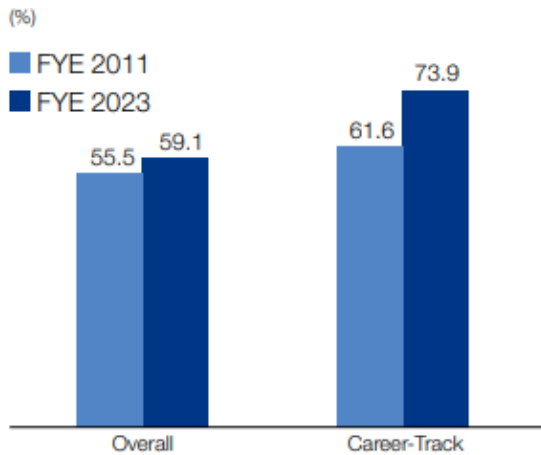
Finally, let's look at how labour productivity has changed due to such initiatives. Figures 2, 3 and 4 show charts on the company's birth-rate, gender pay gap, employee numbers, and consolidated net profit over more than 10 years since the inception of its work style reforms in 2010. Although the comparison base is different (the number of employees is on a non-consolidated basis and the net profit is on a consolidated basis), it is evident that the company's consolidated net profit has been on an upward trajectory even as employee numbers remained nearly flat, confirming the improvement in labour productivity envisioned by the company.

Graph 2: Trends in birth rates

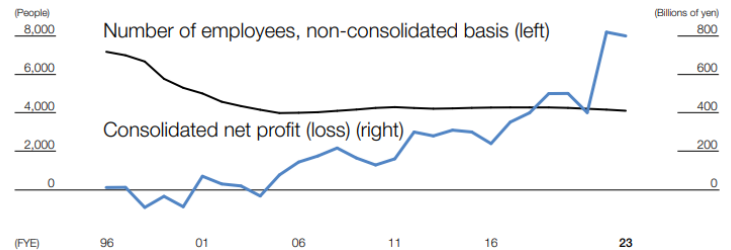


Source: Itochu Corporation, SuMi TRUST AM (as of the end of February 2025)

Graph 3: Gender pay-gap



Graph 4: Number of employees and net profit



Source: Itochu Corporation, SuMi TRUST AM (as of the end of February 2025)

Thus, Itochu's work style reforms are not just about changing work practices; they highlight a significant transformation in corporate culture and values. From a medium to long-term perspective, these reforms are essential for sustainable corporate growth. By realising satisfying work styles for each employee, the overall labour productivity and corporate competitiveness can be improved.

In Conclusion: SuMi TRUST AM's Initiatives

Work style reforms bring substantial benefits not only to companies but also to society. They enhance employee well-being, contribute to solving societal issues, and serve as important steps toward sustainable development. The initiatives undertaken by Itochu Corporation provide valuable lessons for many other companies and are likely to remain in the spotlight.

At Sumitomo Mitsui Trust Asset Management (hereafter "SuMi TRUST AM"), we aim to support such corporate initiatives as responsible institutional investors. By engaging with ESG (Environmental, Social, Governance) issues and voting based on 12 ESG materiality criteria (Figure 5), we strive to enhance the value of our investee companies. We continue to engage in discussions on human capital initiatives and gender gap reduction, showcasing good examples like Itochu to other companies. By promoting constructive engagement towards enhancing the overall corporate value of the Japanese market, we aim to drive sustainable growth in the medium to long term and enhance the value of the assets entrusted to us.

Graph 5: SuMi TRUST AM's 12 ESG materialities

ESG Materialities		Key activity items	
Environment	Climate Change	1	Greenhouse gas emissions reduction
	Natural Capital	2	Conservation of water resources and forests, and recovery of biodiversity
	Pollution & Waste	3	Sustainable procurement of raw materials (palm oil, natural rubber, and timber), marine plastic pollution ,and waste reduction
	Environmental opportunities	4	Expanding sales of environmentally-friendly products and services
		5	Transitioning to a resource circulation model
Social	Human Rights & Community	6	Human rights in supply chains
		7	Environmental load and work environment, management of chemicals, and ensuring traceability of conflict minerals
		8	Just transition
	Human Capital	9	Human resource strategies (Human resource development, recruitment, placement, and evaluation)
		10	Employee engagement
		11	Promotion of DE&I
		12	Work style reforms
	Safety & Responsibility	13	Promotion of well-being initiatives
		14	Improving access to medicine, countermeasures for infectious disease, and responding to antimicrobial resistance issues
		15	Product safety management
Social Opportunities	16	Expansion and promotion of products and services that address social issues	
	17	Building sustainable social infrastructure	
Governance	Corporate Behavior	18	Promotion of non-financial (ESG) information disclosure
		19	Promotion of proper capital policies and business portfolio reforms
		20	Improving awareness of capital efficiency and capital cost
		21	Purpose management (vision, mission, value) and alignment with the management strategy
	Stability & Fairness	22	Better governance of company misconduct and prevention of recurrence
		23	Enhancement of risk management (Data Security)
		24	Cross-shareholding
		25	Takeover defence measures
		26	Reviewing and enhancing group governance systems (Including parent-subsidary listing issues)
		27	Supply chain restructuring
	Structure	28	Board of director structure and skill set
		29	Promotion of board diversity
	Improvement in Governance	30	Improving the effectiveness of the board of directors (Fulfillment of roles by independent external directors, remunerations system for directors, and planning for successors)

Source: SuMi TRUST AM (as of the end of February 2025)



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Before joining SuMi TRUST AM in March 2023, Shinji supported climate-related disclosures by government bodies and financial institutions at the Mitsubishi Research Institute. He is currently a researcher in the field of sustainable finance at the University of Tokyo Graduate School of Frontier Science (GSFS), where he lectures on sustainable finance and disclosure. Shinji previously worked at the World Bank as a Financial Sector Specialist for the climate-related risk assessment framework. He also has experience in the credit analysis of emerging markets in Africa, the Middle East, South America, and Asia at the Japan Bank for International Cooperation.

Shinji received a Ph.D. in international studies from the University of Tokyo, Department of International Studies. He holds an MBA from Sloan School of Management of the Massachusetts Institute of Technology.