

Final Version

Business Leaders' Forum on Productivity

Managing Productivity in a Digital Society

- Corporate Management Practices and Responses to Societal Needs

-April 12th, 2019

Summary

Advanced economies, including Japan and the United States, have been experiencing slow productivity growth since the mid-2000s. For business leaders who are managing large and complex organizations, productivity performance is one of the most important factors. It is important for business leaders to focus on taking advantage of technology-driven innovation to drive productivity and use resources such as human capital more efficiently in order to meet customers' needs.

Looking beyond business and economics, when it comes to society, there have been a series of emerging issues such as widening inequality, poverty, and alienation. Normally, a virtuous cycle of rising productivity, better-skilled jobs, increased wages, and better value products/services (and the premise that the gains from productivity growth get widely distributed to the society) lead to peace and prosperity in a harmonious society. However, along with weakening productivity trends we have also observed increasing societal problems. As an important part of society, businesses are also affected by these issues and they are hurt by a breakdown in the virtuous cycle described above. Business leaders have a role in making sure the virtuous cycle works to increase societal returns and better serve the needs of the emerging global and digital societies.

In this forum, the key subject 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?
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Business leaders' challenges to enhance value added and productivity in a digital society

The Fourth Industrial Revolution is fundamentally different from previous industrial revolutions and is essentially about digital transformation. It brings significant disruptions to societies, economies, and businesses. However, many business leaders also see a golden opportunity to raise the growth potential in mature economies such as Japan and the United States.

In the context of corporate activities, players on the demand side including consumers and households will connect online at faster and faster speeds, enabling businesses to meet the need for improved individual products and services with higher quality. On the other hand, digital transformation suggests the possibility of a new economy in which existing industrial boundaries are broken down and new entrants that have connected closely with the demand side pose new and unexpected challenges. This requires new perspectives and innovative solutions.

To turn challenges into opportunities for growth, companies need to revisit their entire business model by focusing more on customers' needs. Work processes within organizations as well as with other parties in the ecosystem will change through digital transformation.

While automation spurred by digital technology is indispensable, the key question is how human creativity can generate synergy together with the faster speed, greater accuracy, and problem-solving capabilities of artificial intelligence. Advanced data analytics demand a different role for humans to translate customer preferences into high-value experiences through process as well as product innovations.

Management so far has largely focused on increasing sales, revenues, profits, and decreases in costs. Going forward, management will have to focus more on innovation and productivity.

Digital transformation will change work styles and the concept of work. It will also change the required skills, knowledge, and capabilities of individuals performing the work, and it will change the nature of the organization. The

question is what business leaders should do about productivity improvement, and how they should do it. Although sustained value added and productivity improvements, particularly at the firm level, are achieved primarily through investment in human capital and technology, human capital investment is more important since technology is utilized by humans.

More than ever, business leaders are expected to aspire to management that respects and makes the best use of human capital while utilizing digital technologies. The fostering of advanced human capital will lead to productivity and value-added improvements at the firm level. For raising productivity, there is a need to rethink how to manage a workforce – including a high-skilled and contingent workforce – needed for new business models.

Business leadership to tackle societal issues at the productivity frontier

In the past few decades the combined forces of digitization, deregulation, globalization, and demographic change have created challenges to the distribution of the benefits of growth. Declines in the share of labor in total national income, the hollowing out of income growth in large sections of the middle class, and the lack of government investment in critical growth factors such as infrastructure and basic research have broken society's capacity to generate growth through a positive cycle of rising productivity, better-skilled jobs, increased wages, and better value products/services.

Such a virtuous cycle (of rising productivity, better-skilled jobs, increased wages, and better value products/services) creates more stable societies in which the needs of the people are best served. Equal opportunities to access the productive sources of growth, including human assets (health and education), physical capital (housing, transport, and food) and intangible assets (a safe, secure, and clean environment) are critical elements of stable societies. Businesses need to revisit how digital transformation and productivity growth can not only increase business returns, but also promote a virtuous cycle that increases societal returns through better serving the needs of global societies.

Digital transformation presents various challenges to society. Despite their long-term potential, In the short term, digital transformation may bring about higher unemployment while causing a massive reallocation of resources. It may exacerbate the income disparity between high-skilled individuals and those of lesser skills. Business leaders are also challenged to think about what their roles

in a digital society are, what actions they should take, and what an ideal organization would be in this new business environment. For business leaders, it is important to treat the benefits of productivity in a broader societal context – through broadening issues around governance, to include environmental and social issues.

It is essential to recognize that the societal issues brought on by digital transformation could also be viewed as opportunities for long-term growth. They provide the chance to think strategically about developing new businesses or expanding existing businesses. We need to nurture organizations that can present a new vision for the digital society and that revolve strategically around innovation and differentiation.