Introduction: Background

- In March 2020, in the joint research project entitled "The Evolution of ESG Investment, Realization of Society 5.0, and Achievement of SDGs," Keidanren, the University of Tokyo and the Government Pension Investment Fund (GPIF) suggested that the solution of social issues and realization of new economic growth can both be achieved by companies and investors initiating cutting-edge innovations and investing in them from a long-term perspective.

- In its policy proposal "Promoting Constructive Dialogue between Companies and Investors" (September 2020), Keidanren pointed out the importance of dialogue between companies and investors with purpose as the starting point toward the above.

Current States: Current Dialogue between Companies and Investors

Information as premise of dialogue

Purpose
Long-term goals

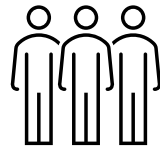**Long-term strategy**

Business and innovations

Desired dialogue on sustainability

Companies

Expect dialogue on long-term goals and strategy and so forth. In particular, hope for recognition of efforts to solve social issues through business and innovations.
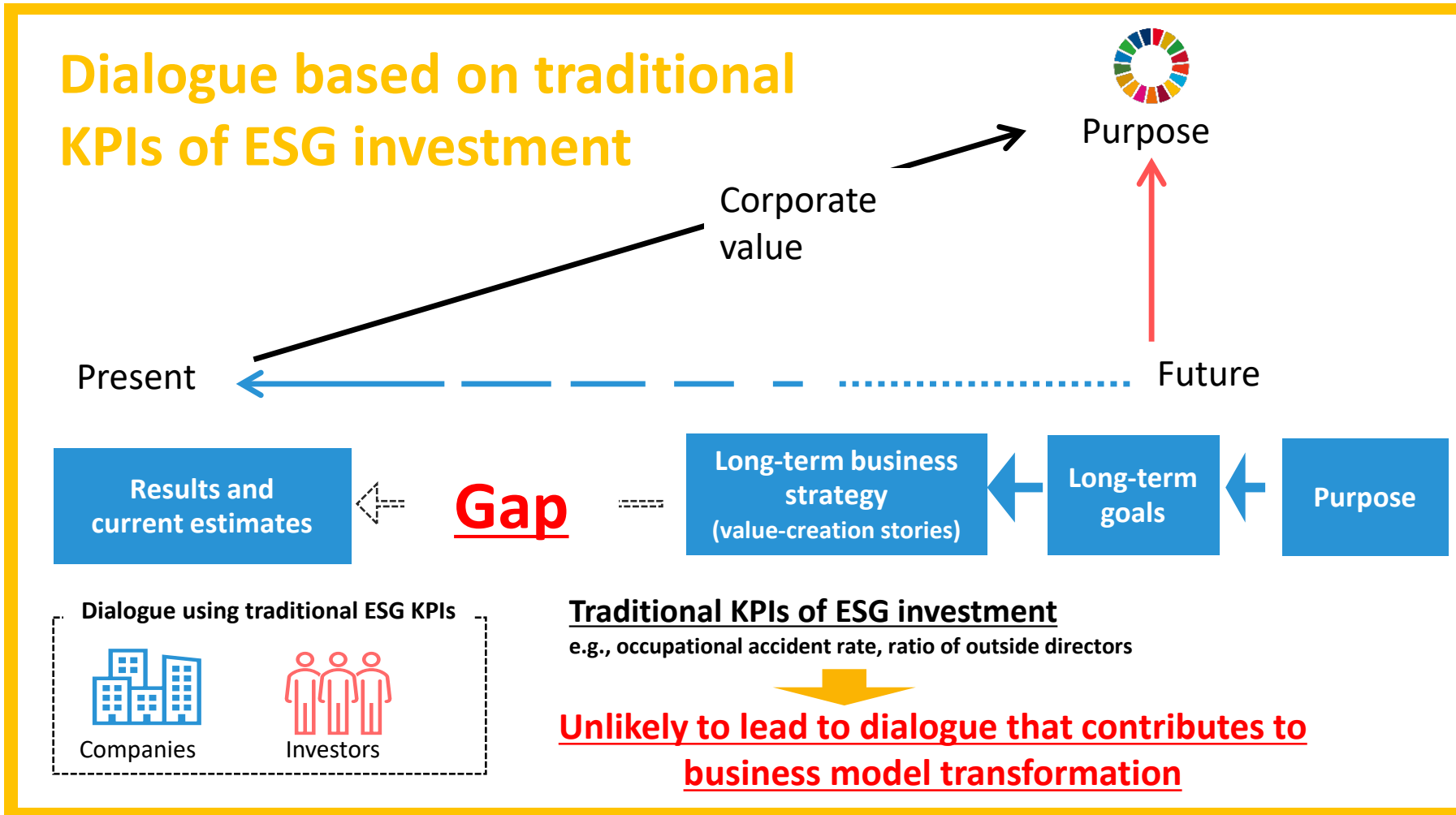
Investors

Expect dialogue on the setting of key performance indicators (KPIs) to probe the feasibility of long-term goals and business strategy put forth by companies.

- Dialogue between companies and investors on sustainability is premised on disclosure based on long-term goals and business strategy with purpose as the starting point. In this process, companies expect dialogue that focuses more on long-term goals and business strategy and so forth.

- Investors pay attention to information on corporate efforts from four perspectives: materiality, potential, feasibility, and measurability. Therefore, they expect discussions on the setting of KPIs, etc. and process toward setting such targets.

Issue: Gap in Dialogue on Sustainability

Dialogue based on traditional KPIs of ESG investment

Purpose

Corporate value

Present — — — — — — — — — ·················· Future

| Results and current estimates | **Gap** | Long-term business strategy (value-creation stories) | Long-term goals | Purpose |

Dialogue using traditional ESG KPIs

Companies   Investors

Traditional KPIs of ESG investment
e.g., occupational accident rate, ratio of outside directors

Unlikely to lead to dialogue that contributes to business model transformation

- With traditional KPIs of ESG investment, it is hard to show relation to purpose, long-term strategy, etc. This may make it difficult to hold the dialogue both sides expect—that is, dialogue that contributes to business model transformation with purpose as the starting point.

How to Solve: Dialogue Using Impact Metrics

What are impact metrics?

Definition:

Metrics showing the social and environmental changes and effects produced by business*

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* Source: GSG-NAB Japan

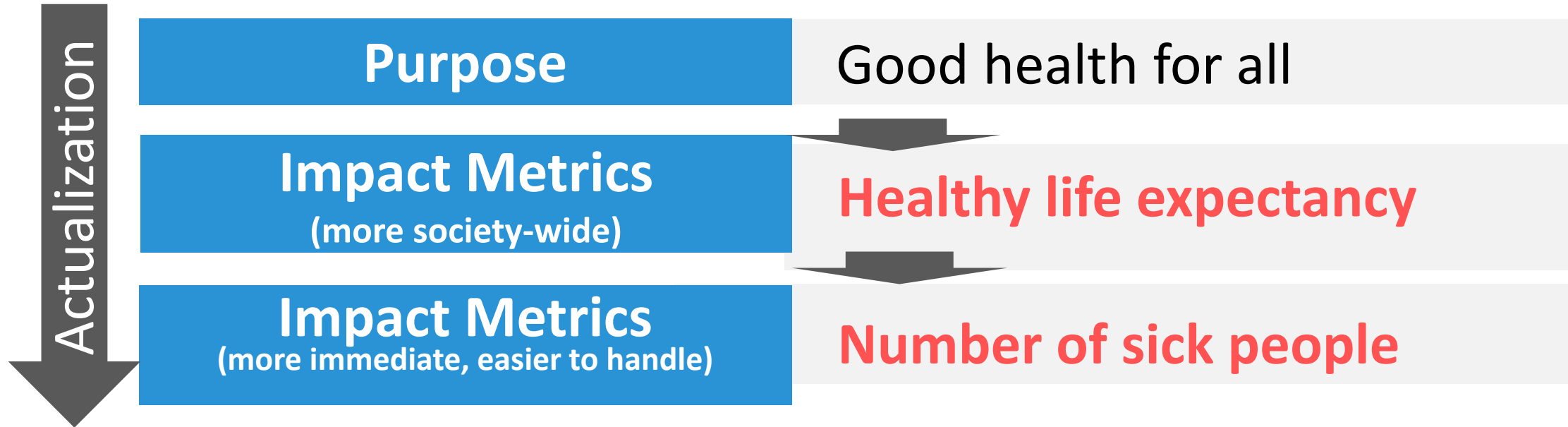</div>

Sample metrics:

3 すべての人に 健康と福祉を	• Healthy life expectancy • Access to medical services (provided to remote islands, etc.) • Medical cost reduction	• Number of sick people • Number of people who improved their lifestyle • Number of people needing nursing care
11 住み続けられる まちづくりを	• Number of disaster casualties • Number of crimes • Dispersion rate of business outlets	• Number of residents • Internet coverage • Resources efficiency

- Impact metrics are defined as "metrics showing the social and environmental changes and effects produced by business operations and activities."

- What is important is how to achieve these metrics through the company's business model.

Advantage of Impact Metrics: Realization of Purpose

Purpose	Good health for all
Impact Metrics (more society-wide)	**Healthy life expectancy**
Impact Metrics (more immediate, easier to handle)	**Number of sick people**

Actualization ↓

- <u>The advantage of impact metrics is that they are benchmarks for the actualization of companies' purpose.</u>

- For example, if a company is to actualize its purpose of "good health for all" that reflects SDG 3 from the standpoint of impact metrics, prolonging healthy life expectancy becomes a possible goal. Companies just can move one step ahead in actualization and set more immediate metrics for their own business operations.

- In addition, although a company cannot directly contribute to prolonging healthy life expectancy, utilizing impact metrics such as the number of sick people will make it easier to handle society-wide impact metrics.

Nature of Impact Metrics: Common Language with Stakeholders

*Materiality***: Metrics regarding social issues with major impact on corporate value**

   Examples: Climate change → GHG emissions reduction rate; healthcare → traffic accident reduction rate

*Potential***: Metrics regarding future competitiveness of operations and innovations**

   Examples:
   - Better autonomous driving technology better contributes to traffic accident reduction, so greater market opportunities can be expected.
   - Better hydrogen power generation technology better contributes to GHG emissions reduction, so greater market opportunities can be expected.
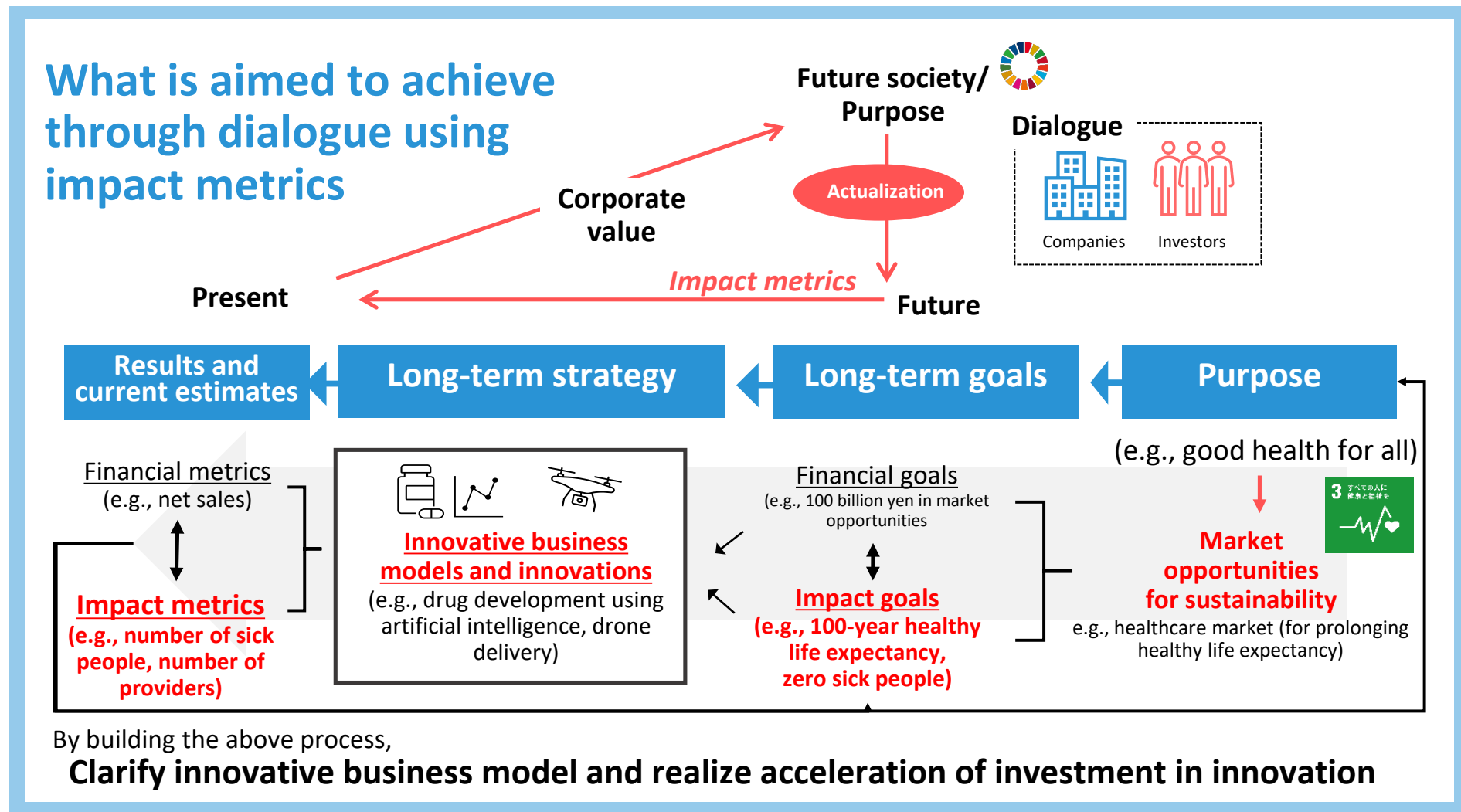
*Feasibility***: Metrics for companies' contribution to stakeholders through outcomes of business and innovations**

   Note: Process and method of such efforts unrestricted

*Measurability***: Impact metrics per se are quantitative metrics**

- Impact metrics, by nature, are metrics for the materiality, potential, feasibility, and measurability expected by investors. Therefore, they could serve as a strong communication tool in dialogue with investors and other stakeholders
- This is also expected to be useful in dialogue with global NGOs and other stakeholders on corporate efforts.

What Is Aimed to Achieve: Common Language with Stakeholders

What is aimed to achieve through dialogue using impact metrics

Future society/ Purpose

Dialogue

Companies   Investors

Corporate value

Actualization

Present

Impact metrics

Future

Results and current estimates	←	Long-term strategy	←	Long-term goals	←	Purpose

(e.g., good health for all)

Financial metrics
(e.g., net sales)

Innovative business models and innovations
(e.g., drug development using artificial intelligence, drone delivery)

Financial goals
(e.g., 100 billion yen in market opportunities

Impact metrics
(e.g., number of sick people, number of providers)

Impact goals
(e.g., 100-year healthy life expectancy, zero sick people)

Market opportunities for sustainability
e.g., healthcare market (for prolonging healthy life expectancy)

By building the above process,
Clarify innovative business model and realize acceleration of investment in innovation

- This report proposes **dialogue using impact metrics** toward constructive dialogue aiming at a sustainable society.
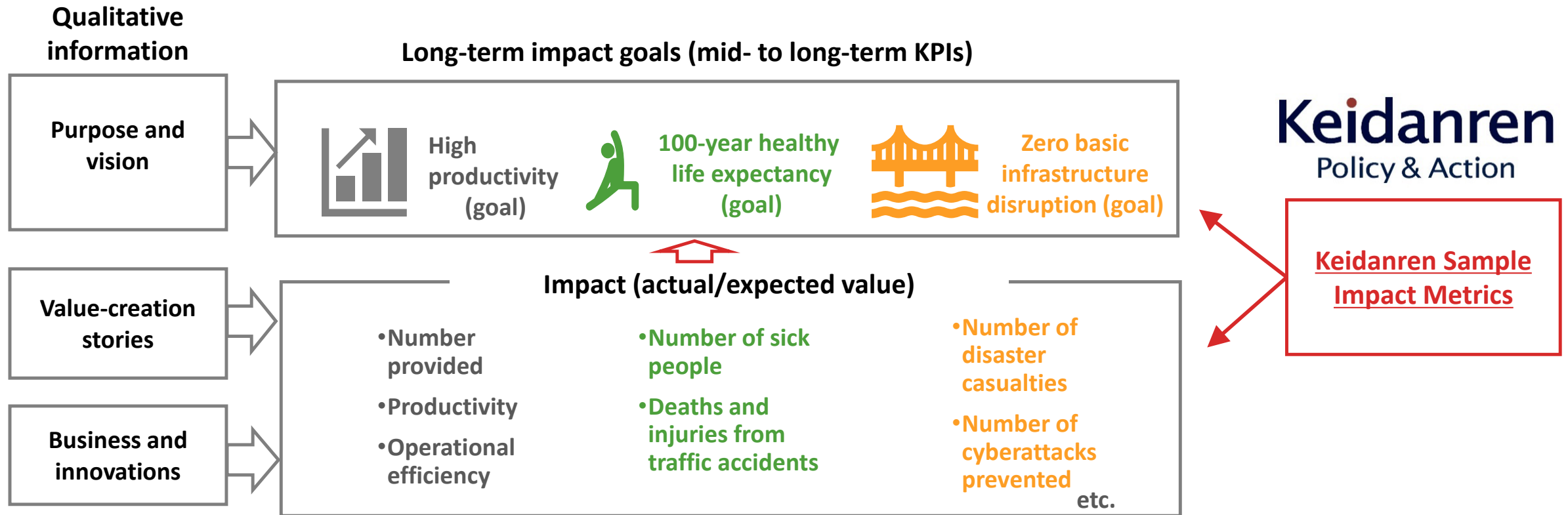
Issues in Practice of Impact Metrics

- The table below shows issues toward the practice of dialogue using impact metrics.

Issues	Examples of solutions
1. Identification of impact	
•Which impact metrics should be set	1. Set impact metrics based on materiality 2. Set impact metrics after gathering all the data the company can possibly obtain 3. Set impact metrics through company-investor dialogue
2. Presentation of impact metrics	
•How to explain impact metrics	•Use logic model as reference
•How to present link between impact metrics and financial value	•Cite lost opportunities using SROI analysis*
3. Measurement of impact	
•How accurate should setting and measurement be in impact metrics	•Identify methods suitable for the purpose and subject before conducting measurement. Investors will evaluate this effort and process. Using rating agencies, third party certification bodies, etc. is also conceivable in the future.
4. Issues in dialogue	
•How to enable cross-sectional collaboration in dialogue	•Raise consciousness and create mechanism for cross-sectional collaboration
•How to reduce the burden of disclosure	•Build common data platform
•How to deal with negative impact	•Taking negative impact into consideration is important
•How to fill the gap between companies and investors regarding impact metrics	•Hold dialogue after both sides recognized their gap
•Impact metrics and governance (director compensation, etc.)	•Use the Trust Companies Association of Japan's "Ito report: ESG version" (in Japanese) as reference

* SROI (Social Return on Investment) analysis mainly calculates lost opportunities (risks) based on counterfactual assumptions.

Utilizing Impact Metrics: Keidanren Sample Impact Metrics

Qualitative information

Long-term impact goals (mid- to long-term KPIs)

| Purpose and vision |

High productivity (goal)

100-year healthy life expectancy (goal)

Zero basic infrastructure disruption (goal)

Keidanren Policy & Action

Keidanren Sample Impact Metrics

Impact (actual/expected value)

| Value-creation stories |

| Business and innovations |

- Number provided
- Productivity
- Operational efficiency

- Number of sick people
- Deaths and injuries from traffic accidents

- Number of disaster casualties
- Number of cyberattacks prevented

etc.

- Keidanren collated sample metrics based on various international metrics (e.g., SDGs, Global Impact Investing Network's IRIS+, and World Economic Forum's Stakeholder Capitalism Metrics) and Keidanren's innovation case studies to promote dialogue using impact metrics.

- Keidanren Sample Impact Metrics consist of cross-sectional and issue-based metrics. The former is metrics used as reference for impact across issues regardless of type of social issue, while the latter is for reference on individual issues. This report presents a total of 84 sample cross-sectional and issue-based metrics (resilience and healthcare).

Keidanren Sample Impact Metrics: Cross-sectional

(1) Financial metrics

Metrics	Major related metrics
Ratio of products and services contributing to solving social issues[1] in total net sales (%)	Stakeholder Capitalism Metrics (Social value generated (%))
Ratio of new products (launched in the past 3 years) in profit margin (%)	Stakeholder Capitalism Metrics (Vitality Index (%))
Total R&D investment amount (yen, $)	Stakeholder Capitalism Metrics
Total social investment amount (yen, $) Note: Amount of investment in "S" of ESG. To be complied with CECP's Valuation Guide.	Stakeholder Capitalism Metrics (Total Social Investment ($))

(2) General metrics

Metrics	Related metrics
Number of products and services provided (per person)	Keidanren's "Innovation for SDGs"
Number of products and services used (per person)	Keidanren's "Innovation for SDGs"
Annual or monthly membership (per year or per month)	Keidanren's "Innovation for SDGs"
Number of jobs created	SDG Target 8.3, UN Sustainable Development Solutions Network
Internal evaluation and certification	Keidanren's "Innovation for SDGs"
External evaluation and certification	Keidanren's "Innovation for SDGs"
Number of website access (pageviews)	

(3) Metrics relating to smartification

Metrics	Major related metrics
Productivity: Net sales[2] $\div$ (Work hours $\times$ Number of workers)	SDG Target 8.2
Operational efficiency: Cost $\div$ (Work hours $\times$ Number of workers)	Keidanren's "Innovation for SDGs"
Time saving (days, hours, minutes, seconds)	Keidanren's "Innovation for SDGs"
Energy efficiency: Net sales $\div$ Energy input	Keidanren's "Innovation for SDGs"
Resources efficiency: Net sales $\div$ Raw materials input	SDG Target 8.4

Notes:
1. There is no strict definition. However, an example of internal certification is Sumitomo Chemical's Sumika Sustainable Solutions.
2. In some cases, production volume is used instead of net sales.

Keidanren Sample Impact Metrics: Resilience

Resilience KPIs to realize Society 5.0

Net zero GHG emissions — **Zero crime** — **Zero disaster damage** — **Zero cybercrime** — **Zero basic infrastructure disruption** — **Zero traffic congestion** — **Zero waste of resources**

Resilient economic activities
Dispersion rate of supplying companies and countries (%)
Dispersion rate of business outlets (%)

Zero disaster damage
Number of disaster casualties
Physical damage from disasters (yen)
Disaster data providers (persons)

Zero crime
Number of crimes
Amount of physical damage from crimes (yen)

Zero cybercrime
Number of data leakage
Number of cyberattacks prevented
Average system down time (hours)
Average power outage per customer (hours)
Number of security personnel

Zero basic infrastructure disruption
Restoration time (days, hours)
Increased life span of basic infrastructure (years)
Average power outage per customer (hours)

Sustainable urbanization
Number of residents
Metrics on disaster resilience
Number of barrier-free construction projects

Sustainable transportation systems
Number of transportation system users
Satisfaction with public transportation (Gallup)
Traffic congestion rate
Public transportation disruption (days, hours)

| Digital infrastructure promotion |
| --- |
| Internet coverage (%) |
| Mobile broadband subscribers (per 100 persons) |
| Total IoT channels |
| Digital infrastructure disruption (days, hours) |

GHG emissions reduction
Amount of renewable energy produced
Amount of renewable energy used
Amount of GHG reduction
Amount of contribution to GHG reduction

Environment-related metrics
Metrics on quality of air
Resources efficiency (%)
Amount of waste disposal (tons)
Resources recycle rate (%)

Example of Use of Resilience Metrics
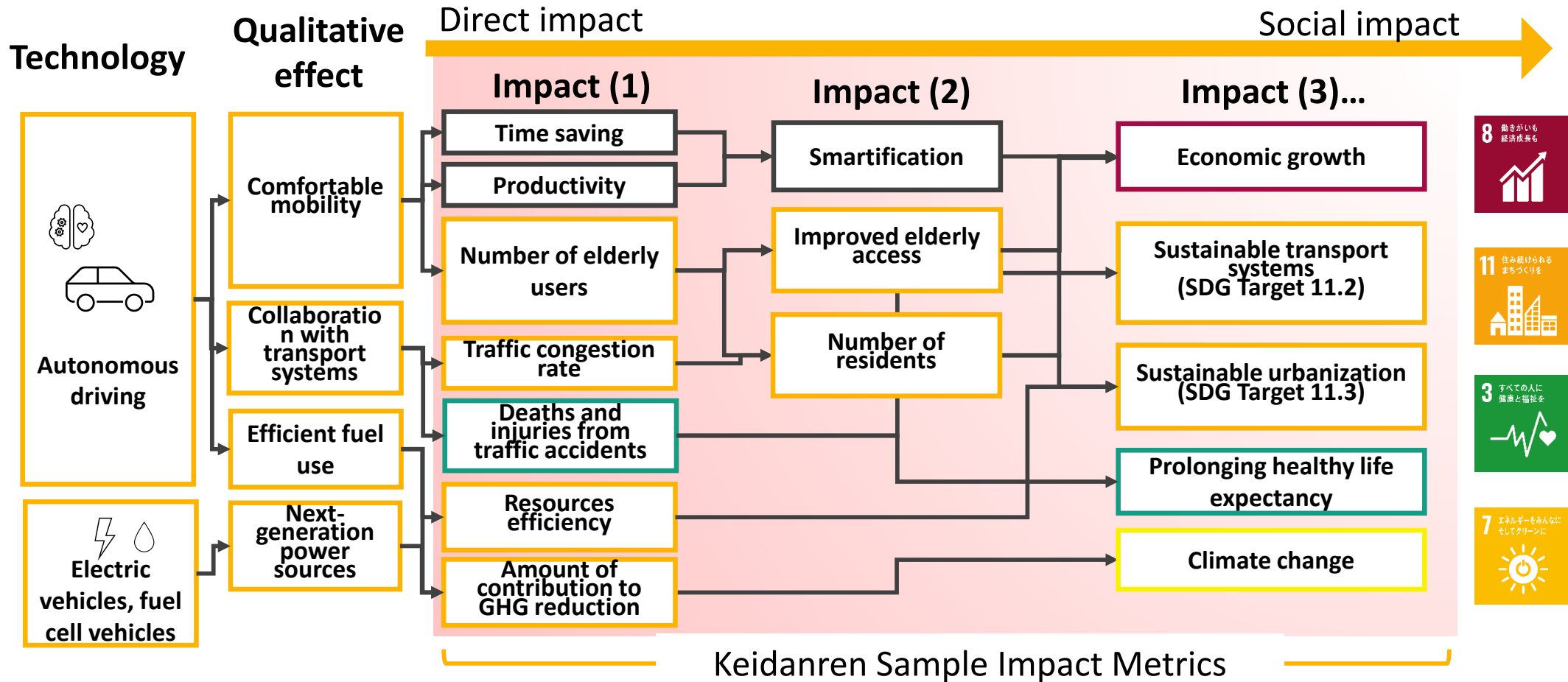
- For example, autonomous driving technology leads to collaboration with transportation systems, and its direct effect is reflected in the impact metrics on traffic congestion rate.
- In addition, it also indirectly affects such other impact metrics as improved elderly access and the number of urban residents. Ultimately, it will contribute to sustainable transportation systems and urbanization.

Keidanren Sample Impact Metrics: Healthcare

3 すべての人に健康と福祉を

Healthcare KPIs to realize Society 5.0

100-year healthy life expectancy · **100% access to medical care** · **Medical cost reduction** · **Maximum subjective happiness level** · **Zero occupational accidents** · **Zero traffic accidents** · **Local job creation**

Prolonging healthy life expectancy		
Healthy life expectancy[1] and average life span		
	Number of deaths and injuries	
		Deaths and injuries from occupational accidents (= Lost time incident rate)
		Deaths and injuries from traffic accidents
		Deaths and injuries from illness
		Deaths and injuries from toxic substances, atmospheric and soil pollution, etc.
	Number of sick people	
		Number of people prevented from contracting diseases
	Number of patients with chronic diseases	
		Number of people who improved their lifestyle
		Ratio of sales of nutritional supplements in net sales (%)
	Improved recovery rate	
		Number of people needing nursing care
		Average length of hospitalization (days)

Improved access to medical services	
	(Domestic) Number of services provided to rural areas, and remote islands and places
	(International) Number of services provided to developing countries
Subjective happiness	
	Subjective happiness level
	Employee engagement index
Medical cost reduction	
	Amount of reduced medical cost (yen, $)
	Monetary impact of compensation paid by organization for occupational accidents, etc. (yen, $)
	Employer share in medical cost (yen, $)
	Gap between healthy life expectancy and average life span (years)
Elimination of demand-supply gap in nursing services	
	Number of available nursing care personnel
	Nursing care facility occupancy rate (%)

Improvements regarding occupational accidents, safety, and health
Total recordable incident rate (TRIR)
Lost time incident rate (LTIR)
Number of violations of safety and health rules
Amount of fines for such violations (yen)
Promotion of data-based healthcare
Illness detection rate (%)
Specificity (non-detection rate)(%)
Healthcare data (number of persons, length of time)
Research and development
Progress of tests
Existence of test results
Acquisition of approval from public bodies

Note: Healthy life expectancy is calculated differently in each country. The WHO and Japan's Ministry of Health, Labour and Welfare (MHLW; in Japanese) also have their own methods. The MHLW one is currently under review by its study group (in Japanese).

Example of Use of Healthcare Metrics
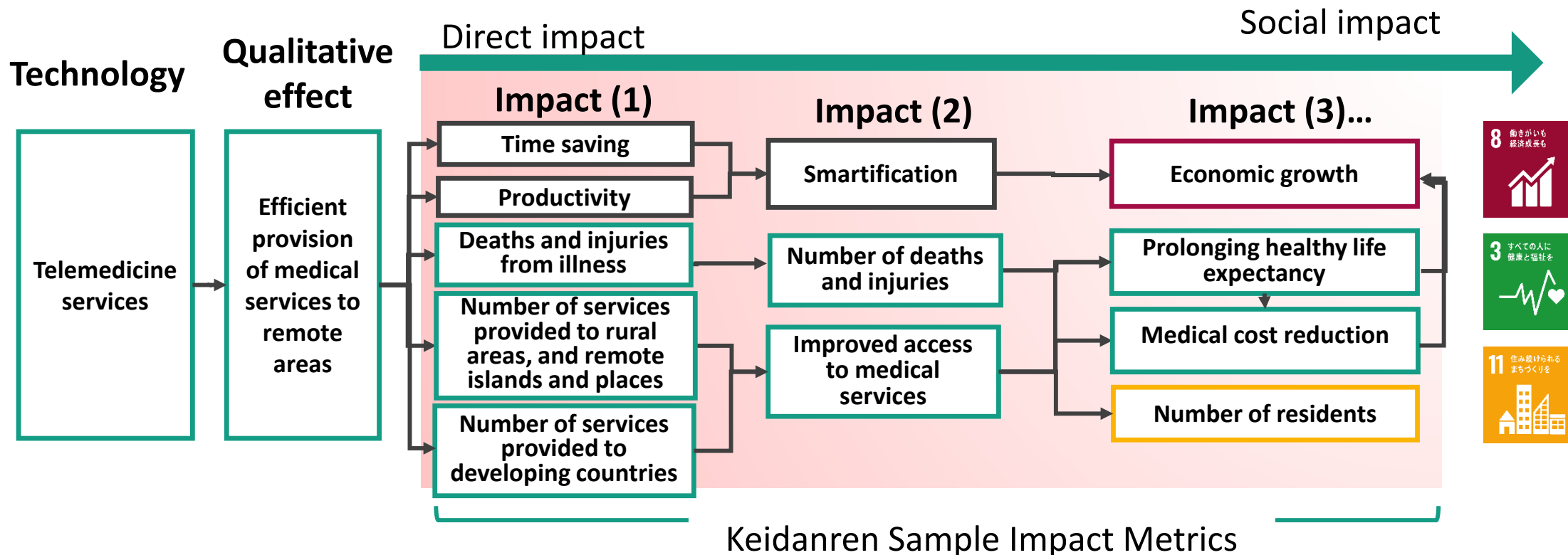
- For example, telemedicine services lead to the efficient provision of medical services to remote areas, and its direct effect is reflected in such metrics as the number of deaths and injuries from illness and the number of services provided to rural areas, and remote islands and places.

- In addition, it is hoped that the resultant number of deaths and injuries from illness will bring about reduction of the overall number of deaths and injuries and will also have an indirect impact on prolonging healthy life expectancy and reduction in the cost of medical care.

Conclusion: Excerpts from the Executive Summary

- Keidanren aims at practicing sustainable capitalism through the realization of Society 5.0.

- Toward this end, it is important to deepen understanding between companies and investors through dialogue on sustainability with purpose as the starting point, in order to foster business model transformation, and accelerate investment in these efforts.

- While company-investor dialogue has moved ahead, a gap is still present in sustainability dialogue.

- One reason for this gap is that the traditional KPIs of ESG investment do not fully measure such factors as creation of market opportunities for sustainability. It is necessary to have metrics that go beyond the traditional KPIs of ESG investment.

- Therefore, this report focuses on **impact metrics** that show the social and environmental effects produced by business operations and activities.

- Along with impact metrics, companies presenting their business models and disseminating the narrative of their business and innovations with purpose as the starting point can lead to the explanation of creation of market opportunities for sustainability and so forth and the realization of constructive dialogue.

- Impact metrics enable companies to demonstrate to various stakeholders the significance of their efforts. As such, they can serve as common language with stakeholders in sustainable capitalism.

- Based on the above, this report discusses the importance and advantage of impact metrics, along with concrete examples of how they are used, and presents sample impact metrics to address issues in practice and promote dialogue.

Reference: Members Involved in This Report

Committee on Financial and Capital Markets

Chair: Jun Ohta (President and Group CEO, Sumitomo Mitsui Financial Group, Inc.)

Chair: Takashi Hibino (Chairman of the Board, Daiwa Securities Group Inc.)

Chair: Eiji Hayashida (Senior Advisor, JFE Holdings, Inc.)

Constructive Dialogue Taskforce

Chair: Miyuki Zeniya (Dai-ichi Life Holdings, Inc.)

Astellas Pharma Inc.	Toray Industries, Inc.
Asset Management One Co., Ltd.	Nippon Steel Corporation
Human Resources Governance Leaders Co., Ltd.	Nippon Life Insurance Company
ANA Holdings Inc.	Nomura Asset Management Co., Ltd.
ENEOS Holdings, Inc.	Hitachi, Ltd.
Kubota Corporation	Fujitsu Limited
KDDI Corporation	BlackRock Japan Co., Ltd.
Goldman Sachs Asset Management Co., Ltd.	Bloomberg L.P.
JPMorgan Asset Management (Japan) Limited	Benesse Holdings, Inc.
Sumitomo Chemical Co., Ltd.	Sumitomo Mitsui Trust Bank, Limited
Z Holdings Corporation	Sumitomo Mitsui DS Asset Management Company, Limited
Seven & i Holdings Co., Ltd.	Mitsui & Co., Ltd.
Sony Group Corporation	Mitsui Fudosan Co., Ltd.
Sompo Holdings, Inc.	Mitsubishi Heavy Industries, Ltd.
Taisei Corporation	Mitsubishi Corporation
Daiwa Securities Group Inc.	Mitsubishi Electric Corporation
Daiwa House Industry Co., Ltd.	MUFG Bank, Ltd.
Tokio Marine Holdings, Inc.	Mitsubishi UFJ Trust and Banking Corporation
Tokyo Electric Power Company Holdings, Inc.	Mercari, Inc.

Preparatory study meeting and six TF meetings

October 28, 2021
Preparatory study meeting
  Lecture by Prof. Koji Nomura, Keio University

November 30, 2021
First TF meeting
  Lecture by Bloomberg

February 3, 2022
Second TF meeting
  Case studies presented by KDDI and Dai-ichi Life

February 28, 2022
Third TF meeting
  Case studies presented by Daiwa House Industry and Goldman Sachs Asset Management

March 25, 2022
Fourth TF meeting
  Case studies presented by JPMorgan Asset Management

April 25, 2022
Fifth TF meeting
  (Intensive discussion)

May 23, 2022
Sixth TF meeting
  Lecture by Eiichiro Adachi, Senior Counselor, Japan Research Institute