Recommendations by
Management Forum on Productivity

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Productivity-driven Management: Centered on Expanding Value Added

A Roadmap for Management Transformation to Bring Japan into the World's Top Tier of Productivity by 2040

JAPAN PRODUCTIVITY CENTER

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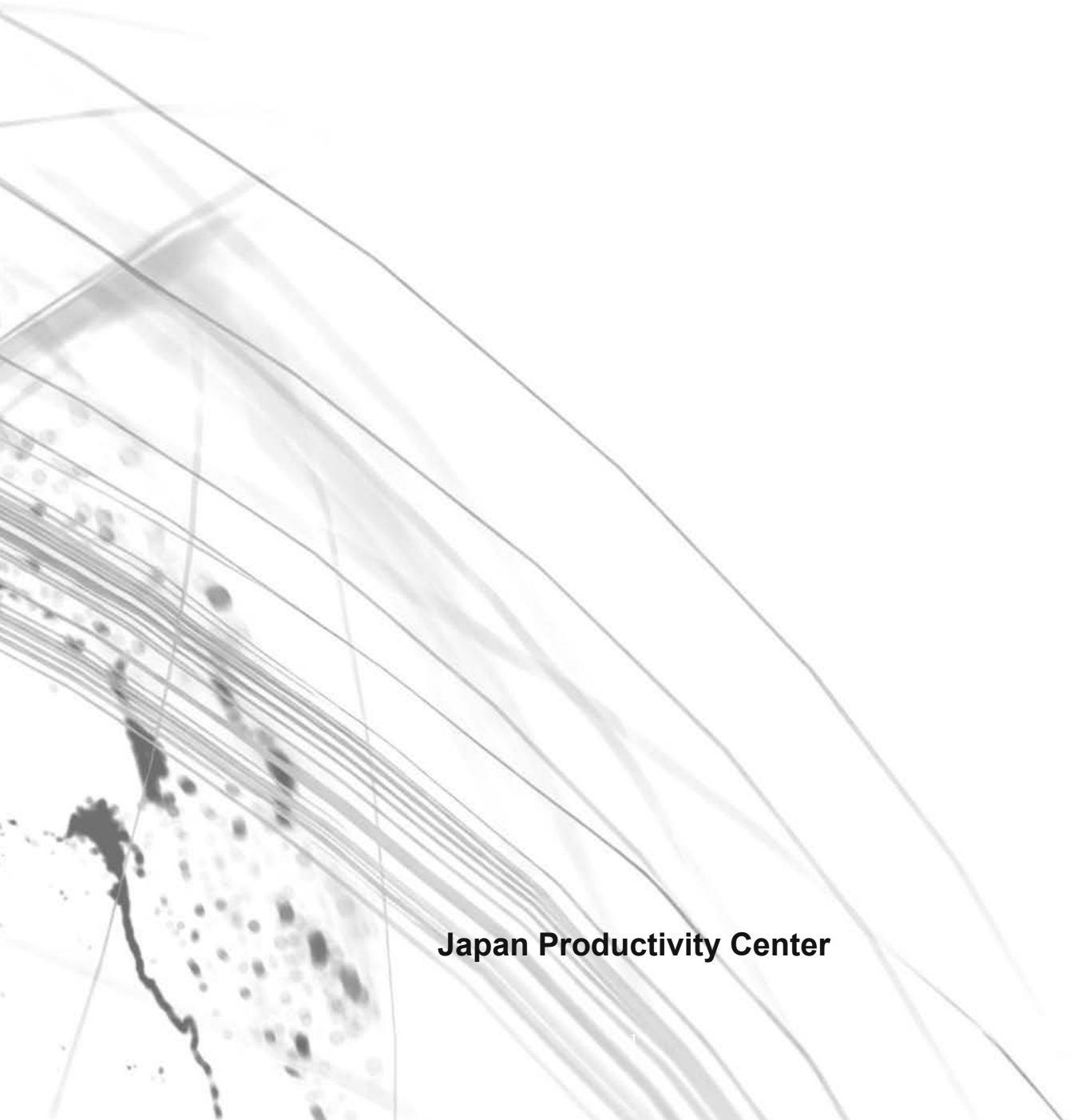

Japan Productivity Center

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Introduction: The Case for Change

With climate change, geopolitical fragmentation, accelerating technological innovation, and widening social disparities all unfolding simultaneously, the global economy has entered an era of “Permacrisis.” Amid calls for structural transformation—beyond mere temporary crisis management—Japan faces not only a severe labor shortage due to population decline but also serious challenges in productivity. Japan’s per capita labor productivity peaked at 13th in the world in 1990 and has continued to decline for over 30 years, falling to 29th place by 2024.

The rapid advancement of digital technologies, such as generative AI and physical AI, represents a structural shift comparable to the Industrial Revolution, compelling fundamental transformations in industrial structures and the labor market. However, these are merely tools; it is humans who decide their purpose and how they are utilized. Because Japan faces a chronic labor shortage, the adoption of digital technologies is unlikely to cause the severe employment problems seen in other countries; rather, Japan is in a rare position globally where this adoption can actually promote the reallocation of labor toward high-value-added jobs. Furthermore, Japanese companies have accumulated vast amounts of high-quality tacit and experiential knowledge—so-called “domain knowledge”—and by integrating this with digital technologies, they can establish a competitive advantage in the global market that other countries cannot replicate. Today’s industrial revolution should be viewed as a major opportunity for Japan to achieve a resurgence by strategically leveraging digital technologies to fundamentally boost productivity.

However, historically speaking, technological evolution tends to widen disparities initially. In particular, digital-driven growth models are less effective at creating jobs than traditional models and tend to lack inclusiveness. While Japan has not seen the same level of widening inequality as Europe, the United States, or China, this advantage can only be maintained by consciously pursuing inclusive growth. Fairly distributing the fruits of productivity gains and creating a virtuous cycle of growth and distribution—the realization of productivity gains accompanied by inclusivity—is the core philosophy underlying this recommendation.

This recommendation calls for concrete action from three key stakeholders: business leaders, working people, and the government. Business leaders are urged to take the lead in transformation by acting as Chief Innovation Officers, clarifying a “winning path” through the integration of domain knowledge and digital technology, spearheading

industrial structural reform, making strategic investments in human capital, and establishing diversity and inclusivity as fundamental management principles. For working people, we call for a commitment to lifelong learning that goes beyond the incremental improvement of skills in existing roles, proactive career planning, and the acceptance of diverse values. For the government, we propose setting the goal of entering the world's top tier of productivity, along with strategic resource allocation, support for industrial restructuring, the cultivation of a startup ecosystem, and reforms spanning from primary to higher education.

Finally, this recommendation outlines Japan's winning path through four pillars: building an inclusive growth model; industry restructuring and ecosystem development led by business leaders themselves; rebuilding human capital for the AI era; and enhancing the productivity of "knowledge" through the integration of domain knowledge and digital technology. These four pillars constitute the winning path for Japan to demonstrate true competitive advantage in the global market.

Moreover, this recommendation does not merely ask, "What is the winning path for Japan and companies?" It asks, "What is your winning path?"—everyone should have their own answer to this question.

The purpose of this recommendation is for Japan to enter the world's top tier of productivity by 2040, realize a virtuous cycle of inclusive growth and productivity improvement, and lead the world as "A Society of Dignity and Opportunity [1]".

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Management Forum on Productivity
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1 In the Japan Productivity Center's book "PX: Productivity Transformation—A New Perspective on Corporate Management* (December 2021)," the concept of a "A Society of Dignity and Opportunity(*Yoki-Shakai*)" is defined by four principles: "a society where opportunities are equally available to everyone," "a society where one can bounce back through effort, determination, and ability even after failure," "a society where social status and class are not fixed across generations," and "a society where individual dignity is valued and there is no fear for the future."

Chapter 1 Addressing Critical Productivity Challenges

1. The Imperative to Adapt to Structural Societal Transformation Driven by Generative AI, Physical AI, and Beyond

○ With the evolution of generative AI and physical AI, job displacement is advancing first in white-collar work, and within a few years, even jobs traditionally considered "only possible for humans"—including those in essential worker sectors—may become replaceable. While this change is predicted to occur in stages, we should strategically advance preparations for labor mobility, such as reskilling, starting now, before replacement becomes widespread.

○ The digital-driven growth model, epitomized by tech giants, has weaker job creation capacity (inclusivity) compared to traditional industries such as manufacturing. We must squarely confront the widening disparities and social fragmentation caused by this lack of inclusivity. In Japan, when utilizing digital technologies, we should pursue "productivity improvements accompanied by inclusivity" and "business models that combine inclusivity with competitiveness" so that a broad range of people can benefit.

○ Japan faces a chronic labor shortage, and even with the maximum utilization of digital technology, it is unlikely to experience the severe social and employment issues seen in Europe, the United States, and China. Rather, the use of digital technology can enhance the value added of work and serve as an excellent opportunity to improve productivity.

○ Japanese companies have accumulated a vast amount of high-quality domain knowledge, including tacit and experiential knowledge. By integrating this with digital technology, they have the potential to establish a competitive advantage in the global market that other countries cannot easily replicate.

○ Even as digital technology continues to evolve rapidly, it is important for humans to keep asking, "What is expected of humans?" Meeting those expectations will determine the future role of humans and the value of human labor.

2. The Case for Industrial Structural Reform and Productivity Growth in SMEs and the Service Sector

○ Small and medium-sized enterprises (SMEs) and the service sector are indispensable to Japanese society and the economy, with approximately 70% of employees working in SMEs.

○ Compared to large corporations and the manufacturing sector, productivity in SMEs and the service sector is lower, the labor share is higher, and investment in capital equipment and R&D is insufficient. Reform in this sector is essential for improving Japan's overall productivity.

○ Digital technologies such as generative AI and physical AI have the potential to boost productivity in this sector, and it is precisely SMEs and the service sector that should prioritize their adoption and investment.

○ Japan's siloed industrial structure and "prime contractor-subcontractor model" act as barriers to productivity improvement, and sustainable productivity growth is difficult to achieve without a transition away from this mature industrial structure. To deliver customer value that transcends individual companies' business domains, it is necessary to promote industry restructuring, corporate mergers, and organizational collaboration from a value chain perspective, and to fundamentally strengthen investment capacity.

○ To accelerate such industrial structural reform, government support is essential, including improvements to M&A tax systems to promote corporate restructuring and consolidation, support for business succession, support for digitalization, and the promotion of investment in Japan.

3. Transition to an Innovative Industrial Structure

○ While fostering a startup ecosystem is essential for Japan's growth and development, its concentration and scale still lag behind those of other advanced nations such as the United States. This is due to a lack of funding, specialized talent, and international exposure, as well as insufficient tax and regulatory reforms.

○ The startup ecosystem can serve as a catalyst not only for the creation of new industries but also for the structural transformation of existing industries. Large corporations should incorporate advanced technologies and business models

through strategic partnerships with domestic and international startups via CVC [2], thereby achieving corporate transformation (CX) while also contributing to the expansion of the startup ecosystem.

4. Enhancing Value Added Through Human Capital Development

○ It goes without saying that people are the key to improving productivity. Investing in the development of talent capable of mastering digital technologies is an absolute necessity, and companies should actively cultivate employees who can act on their own judgment rather than being subservient to digital systems.

○ With the advent of generative AI, the traditional approach to upskilling white-collar workers (skill development as an extension of existing capabilities) is reaching its limits, and the very concept of reskilling needs to be redefined. It is urgent to move beyond mere vocational training to a fundamental re-learning process that involves a transformation of the mindset.

○ Given the current labor supply and demand, the transition from white-collar workers to advanced essential workers—essential workers who utilize digital technologies and other tools to earn higher wages than they do now—is a top priority.

○ Diversity is not merely a matter of “political correctness”; it is indispensable as a source of productivity improvement and innovation, and we must urgently create an environment where diverse talent from both within and outside the country can thrive.

○ With an eye toward 2040, reform starting at the primary education level is required to join the world’s top tier. To deepen and advance knowledge—the foundation of productivity—we need an education system that stimulates “curiosity”. We must go beyond the traditional focus on STEM education and enhance STEAM[3] education, which incorporates the arts and liberal arts. In higher education as well, we must move beyond merely correcting the bias toward the humanities over STEAM

2 CVC (Corporate Venture Capital): An organization established by a business corporation to conduct investment activities for its own strategic objectives.

3 STEAM: An acronym for Science, Technology, Engineering, Art, and Mathematics. The Ministry of Education, Culture, Sports, Science and Technology (MEXT) defines “A” to encompass a broad range of fields—including art, culture, daily life, economics, law, politics, and ethics—in addition to STEM (Science, Technology, Engineering, and Mathematics). The ministry promotes cross-curricular learning to apply knowledge gained in various subjects to identifying and solving real-world problems.

and transition to an educational system that emphasizes philosophy and logic as the axis of thought, ethics and fairness as the axis of values, and diversity and inclusivity as the axis of society.

5. Advancing Corporate Governance

○ It is crucial to recognize that the position of President or CEO is not a career goal but a starting line. It is essential to clearly distinguish between periods of stability (appointments based on a relay-style succession model) and periods of transformation (appointing the optimal talent during structural reforms or business transitions), and to formulate succession plans tailored to the situation.

○ Corporate governance should not be limited to meeting pro forma standards; rather, it should function as a management foundation to enhance a company's "earning power" through improved productivity and to achieve sustainable growth in corporate value led by exceptional executives. We must elevate the quality of the board of directors by moving beyond pro forma governance standards to strengthen substantive oversight and advisory functions and ensure the execution of succession plans. To this end, greater utilization of outside directors who can enhance corporate ethics and earning power is required.

○ A virtuous cycle in which the fruits of productivity gains are fairly distributed to stakeholders is essential for realizing a sustainable economy and "A Society of Dignity and Opportunity".

Chapter 2 Recommedations
Productivity-driven Management: Centered on Expanding Value Added ~A Roadmap for Management Transformation to Bring Japan into the World's Top Tier of Productivity by 2040~

[Recommendations for Business Leaders]

Aiming to join the world's top tier of productivity by 2040, companies should make productivity improvement centered on expanding value added the core of their management and contribute to the realization of "A Society of Dignity and Opportunity".

—— *Transformation of Business Leaders Themselves* ——

① In the AI Era, Business Leaders Must Become Chief Innovation Officers

In the AI era, business leaders are expected to take the lead in driving innovation. They must go out into the world to experience cutting-edge information and diverse perspectives firsthand, gain a grasp of the realities on the ground, and identify their company's strengths and weaknesses by comparing themselves with domestic and international competitors. Furthermore, rather than simply delegating innovation to a specific executive, they are required to personally spearhead company-wide transformations—such as business restructuring, M&A, and large-scale R&D investments—that only a business leader can decide. To this end, business leaders themselves should assume the role of Chief Innovation Officer and drive transformation with a strong commitment. Now that the dramatic evolution of generative AI and physical AI has made it possible to leverage digital technology and digital innovation through natural language, this role is an integral part of each business leader's own responsibilities.

② Focusing on Management that Goes beyond Efficiency to Continuously Create Value Added

Productivity is a metric that indicates how much output (the numerator) was generated relative to the resources invested (the denominator). Improving productivity

cannot be achieved solely by “reducing the denominator,” such as shortening working hours or cutting costs. The essence of productivity improvement today lies in continuously creating products and services that enhance customer value and earn higher recognition, thereby expanding value added (increasing the numerator). Placing this at the center of management boosts profitability; these results lead to wage increases, creating a virtuous cycle driven by improved productivity.

—— *Clarifying Strategy* ——

③ Clearly Define a “Winning Path” by Integrating Your Company’s Domain Knowledge and Digital Technology

Japanese companies have accumulated a vast amount of domain knowledge—tacit and experiential knowledge that has not been digitized. This includes manufacturing expertise, on-site skilled craftsmanship, coordination capabilities, high-quality service, and customer relationships. By integrating these elements with AI and digital technologies, companies can establish a competitive advantage that cannot be replicated by other nations. It is a critical responsibility of executives to take stock of their company’s domain knowledge, devise a strategy for linking it to value added, and communicate this as the company’s winning path to the entire organization.

④ By Taking a Bird’s-Eye View of the Value Chain for Delivering Customer Value and Distinguishing between Areas for Competition and Areas for Collaboration to Maximize Value Added

Japan’s industrial structure is deeply rooted in siloed, self-reliant practices, preventing value chain optimization—such as cross-company collaboration—necessary to maximize customer value. We must take a bird’s-eye view of the value chain and clearly distinguish between “competitive domains,” where the company should pursue thorough differentiation, and “collaborative domains,” which should be shared and coordinated across industry boundaries.

In the areas of cooperation—such as the joint development of data platforms and infrastructure—bold collaboration to improve the denominator of productivity allows companies to concentrate their spare capacity on their own competitive domains, leading to the maximization of value added, which is the numerator of productivity.

⑤ Clearly Define Your Company's Strategic Contribution Areas and Restructure Your Portfolio

Companies must clearly define what weapons they will use to compete within their competitive domains. We must overcome reliance on comfort zones—such as past successes and existing businesses—as well as a lack of foresight and unfounded optimism. Instead, we must concentrate management resources on the areas within the value chain where our company can generate the highest value added and be prepared to boldly streamline and restructure all other businesses. Re-examining and restructuring the portfolio is the key to management for establishing sustainable competitive advantage.

—— *Transformation of Industrial Structures and Ecosystems* ——

⑥ Promote Industry Restructuring, Corporate Mergers, and Strategic Alliances to Lead Industrial Structural Reform

While overseas companies have engaged in repeated mergers and acquisitions to build substantial investment capabilities, Japan has preserved its traditional industrial structure, resulting in remaining domains where companies have been forced to operate on incompatible systems. Consequently, they have been unable to make sufficient R&D investments to succeed in global competition, leading to a situation where groundbreaking new products and services are rarely created. Business leaders themselves must take the lead in industrial restructuring and proactively promote industry reorganization, mergers, and strategic alliances to strengthen investment capacity—the very source of competitiveness.

⑦ Strategic Collaboration and Investment with Startups

Startups can serve not only to create new industries but also as catalysts to accelerate corporate transformation (CX) in existing companies. Large corporations should actively incorporate the technologies and business models held by domestic and international startups through CVC and open innovation and utilize them to drive their own transformation. Furthermore, collaboration with startups brings diversity to the organization and contributes to transforming homogeneous organizational cultures.

⑧ Turning Domestic Decline into Global Opportunity

In many industries, even if productivity is improved domestically, sustainable growth is difficult without expansion into the global market. The precision of manufacturing mastered by skilled technicians, as well as on-site know-how in quality control and anomaly detection, constitute domain knowledge that Japanese companies have accumulated over many years—knowledge that is, in itself, a unique competitive asset. By integrating AI and digital technologies with this domain knowledge, we can create solutions that other countries cannot easily imitate, opening up the possibility of securing a leading position in niche markets globally. Rather than limiting ourselves to domestic discussions, we should build strategies capable of succeeding globally—while keeping collaboration and integration with overseas companies in mind—and venture into the global market.

—— *Transformation of Work, People, and Organizations* ——

⑨ Achieving a Workplace Environment Where People Can Focus on Creating Value Added is the Key to Fundamental Work-Style Reform

Fundamental work-style reform goes beyond merely reducing working hours. It involves fundamentally distinguishing between tasks that should be entrusted to generative AI and physical AI and those that should be handled by humans and then redesigning the company's internal work structure from the ground up. We must create an environment where people can focus on the work that only humans can do, such as acquiring and utilizing tacit knowledge, making creative judgments, and building deep relationships with customers and other stakeholders—and devoting themselves to creating value added.

⑩ For Humans—The Central Actors—We Must Facilitate a Transition to Rewarding Work and Provide Effective Reskilling Opportunities

With the advent of generative AI, the value of tasks such as "coordination, administrative work, communication, and research"—which account for the majority of traditional white-collar jobs—is declining. As a result, a structural mismatch is becoming apparent, with a shortage of on-site personnel on one hand and a surplus of back-office staff on the other. Facing this reality head-on, the shift of labor from white-collar roles to advanced essential worker roles is inevitable. Managers should lead this labor transition

and position effective investment in human capital for reskilling as a key corporate strategy, ensuring that working people can secure high-value-added jobs in their new roles that cannot be replaced by AI.

⑪ Enshrine as Foundational Management Philosophy: Diversity that Drives Productivity and Inclusion that Leaves No Economic Inequality Unaddressed

Diversity is not a matter of political correctness, but a management issue directly linked to fostering innovation and strengthening competitiveness. By utilizing diverse and talented individuals—such as women, foreign nationals, and those with experience in different industries—who possess varied values, experiences, and skills, business leaders should break down organizational homogeneity and leverage diversity as a driver of innovation and value creation. At the same time, the practice of inclusivity—fairly distributing the fruits of productivity gains among working people—will also contribute to corporate growth through expanded consumption and market growth. A management approach that creates this virtuous cycle is essential for realizing “A Society of Dignity and Opportunity”.

—— *Strengthening the Management Foundation* ——

⑫ Advancing Corporate Governance as a Management Foundation for Sustainable Enhancement of Corporate Value

Governance that merely meets pro forma standards—such as the number of outside directors or the establishment of committees— will not enhance a company’s “earning power.” We must transform the board of directors into a forum that fulfills substantive oversight and advisory functions, lead the formulation and execution of succession plans to ensure the sustained selection of outstanding executives, and enable the board to function as a management foundation that realizes sustainable corporate value enhancement through productivity improvements. It is essential to utilize outside directors who can contribute to both the appointment and dismissal of executives and the reconciliation of profit-generating capabilities with corporate ethics.

[Recommendations for Working People]

In this period of transformation, as the value of labor is shifting, the key to realizing "A Society of Dignity and Opportunity" lies in the high level of motivation among workers. Invest in yourselves—through individual retraining and the promotion of diversity within organizations—to enhance the value of your own labor and expand your opportunities for success.

① Reconsider What and How You Learn, and Take on Bold Challenges

As AI rapidly replaces jobs, upward reskilling alone has its limits; we must fundamentally reexamine what we need to learn to increase the value of our labor. Regardless of whether one is a white-collar or blue-collar worker, a mindset that boldly takes on the challenge of retraining for higher-value-added work—while keeping in mind the possibility of transitioning to advanced or essential worker roles—will be the source of individual competitiveness in the coming era.

② Expand Your Knowledge and Master Digital Technology to Become a Leader in Value Creation

AI is, after all, merely a tool. It is humans who judge what holds value and put it to use. Domain knowledge—such as tacit and experiential knowledge cultivated on the job—is the source of competitive advantage that AI cannot replace. Rather than viewing AI as a threat, by expanding our own domain knowledge and using digital technology as a "tool for collaboration" to coexist with it, we can become the protagonists of value creation that only we can achieve.

③ Take Control of Your Career Instead of Leaving It to the Company

The assumption that one will "stay with a single company until retirement" is crumbling. As AI increasingly replaces human labor, we must constantly ask ourselves where the value of our labor is best realized and proactively design our own careers. The mindset required of individuals in the coming era is one of proactivity—not fearing a career shift toward the path best suited to oneself and continuously enhancing the value of one's work.

④ Turning Diversity into a Force for Innovation and a Starting Point for Breaking the Status Quo

Innovation cannot emerge simply by thinking within the confines of the status quo in a homogeneous organization. Actively seeking collaboration with people of different nationalities, genders, fields of expertise, and experiences—and thereby broadening one's horizons and shifting one's mental frameworks—is the starting point for breaking through the status quo. By engaging with diverse values, embracing debate, and building relationships characterized by healthy tension, we should aim to become leaders who drive transformation within organizations and society.

[Recommendations to the Government]

To realize a sustainable economy and society through the stability of people's lives and the development of the industries that support it, the government should place productivity improvement at the center of its policies.

① Setting the Goal of Joining the World's Top Tier of Productivity

Productivity is an indicator of the value added generated by each individual's labor; it serves as the foundation for enhancing national prosperity and wage levels, as well as the source of competitiveness for organizations and the nation. Japan's per capita labor productivity has fallen from 13th in the world in 1990 to 29th in 2024. In order to raise the productivity level, the government should explicitly set "entering the world's top 10 by 2040" as a national goal, incorporate the perspective of productivity improvement into relevant policies—including the Basic Policy—and position it as a central pillar of policy.

② Incorporating the Virtuous Cycle Driven by Productivity Growth into National Strategy

A national strategy should be centered on a virtuous cycle in which productivity gains lead to increased investment, higher wages, and expanded consumption. By making the dual goals of expanding value-added and ensuring fair distribution the cornerstone of policy, and by achieving inclusive growth through productivity improvements, we can foster social prosperity and stability, ultimately leading to the well-being of the people.

③ Prioritize the Realities of Society and Industry, and Promote Cross-Ministerial Policymaking

Japan's industrial challenges involve a complex interplay of technology, human resources, education, and regulations; effective measures cannot be taken under the current system of siloed, ministry-based administration. We must reaffirm that the government's primary duty is to serve the people and establish a seamless policy formulation and implementation framework that transcends ministry boundaries for critical cross-cutting themes such as AI utilization, human resource development, industrial structural reform, startup cultivation, and innovation promotion.

④ Strategic R&D Support from an Investor's Perspective

Government support for research and development must shift away from a decentralized approach characterized by "broad but shallow" measures, such as tax credits, toward a strategic model of concentrated investment in priority areas. Rather than merely serving as a "catalyst" left to the private sector, the government must adopt a proactive investment stance that commits to tangible results. For example, by selecting and prioritizing investment in fields where Japan can compete globally—based on clear criteria such as "securing overwhelming competitiveness in global markets"—we should achieve strategic industrial development.

⑤ Leveraging Government Funds to Channel the Benefits of Digital Technology into Productivity Gains for SMEs

In Japan, where approximately 70% of employees work for SMEs, improving productivity in this sector is directly linked to the prosperity of the entire population. We must urgently establish a system that allows SMEs to reap the benefits of digital technologies—such as AI and cloud computing—without having to maintain their own systems, through technical and financial support for the development of digital infrastructure. Furthermore, we must establish mechanisms for workforce training, particularly reskilling support—that individual companies cannot handle on their own.

⑥ Supporting Industry Restructuring, Mergers, and Collaboration to Promote Industrial Transformation

Sufficient investment in new technologies and the promotion of economic renewal is crucial for improving productivity. However, it is often difficult for individual companies to invest in new technologies on their own. Furthermore, the traditional industrial structure hinders this renewal. To enhance investment capacity through industry restructuring, corporate mergers, and strategic alliances, institutional barriers should be removed, taking into account improvements to M&A tax systems, the facilitation of business succession, support for digitalization, and the strategic expansion of investment in Japan. At the same time, reskilling support should be promoted as a policy to facilitate labor mobility accompanying industrial restructuring.

⑦ Developing Data and AI Infrastructure as a Shared Industrial Platform

The government should take the lead in developing data platforms and AI infrastructure—which are difficult for individual companies to build on their own—as shared platforms at the industrial level. In particular, creating an environment where SMEs without their own IT infrastructure can utilize AI and digital technologies in the cloud will contribute to productivity improvements as the digitization of the entire supply chain progresses.

⑧ Fostering an Innovation Ecosystem

The government should provide policy support for building an innovative ecosystem in which large corporations, SMEs, startups, universities, and research institutions collaborate organically on a global scale. In particular, there is an urgent need to create an environment where the drivers of innovation can stimulate one another. This includes deepening industry-academia collaboration, revitalizing CVC activities, and establishing regional hubs for industry-academia-government collaboration, as well as expanding funding for startups, enhancing the mobility of researchers and entrepreneurs, and revitalizing regulatory sandbox systems.

⑨ Legislative Reform and Deregulation to Expand the Startup Ecosystem

Japan's startup ecosystem lags behind those of major developed nations. This is due to tax and regulatory barriers that hinder innovation. We must establish a legal framework that fosters an environment where entrepreneurs, investors, and experts from both Japan and abroad can come together to take on new challenges. This includes aligning stock option tax systems with international standards, expanding the supply of risk capital, and cultivating a social culture that tolerates failure.

⑩ Building a Reskilling System That Transcends Corporate Boundaries and Reforming Education Starting from Primary Education

In promoting Industry 4.0, the German government has established a public reskilling system through collaboration among industry, academia, and government—including labor unions—to facilitate the transition of workers into the digital sector. Similarly, Japan should expand systems that allow individuals to retrain based on their own choices and support career development that transcends corporate

boundaries.

Furthermore, looking ahead to 2040, fundamental reforms—including changes to the structure of primary education—are necessary. For Japan to remain a nation built on science and technology, It is essential to foster children's curiosity and enrich STEAM education. The era of relying on a single area of expertise is over. What is now required is a comprehensive professional capability that enables one to grasp the overall structure from a broad perspective. In higher education, the bias toward humanities should be corrected, and the development of human resources with diverse expertise—integrated knowledge that transcends the boundaries between humanities and sciences—should be vigorously pursued. Furthermore, we must holistically advance support for the development of advanced essential workers, expand practical specialized education, including business creation and industrial restructuring as demanded by industry, and reform the university entrance examination system for the AI era. This will establish a foundation for cultivating talent capable of thriving globally in a rapidly changing business environment.

⑪ Position Diversity as a Source of Productivity Improvement and Establish an Environment Capable of Winning the Global Competition for Talent

While Western countries are actively recruiting foreign engineers in cutting-edge technology fields, it is difficult for Japan alone to gain a competitive edge in the global arena by relying solely on Japanese nationals. Diversity is a management issue aimed at enhancing competitiveness and productivity, distinct from political correctness. We must accelerate efforts to improve residency status, treatment, and living conditions for highly skilled foreign professionals, and urgently advance the development of systems and environments to ensure Japan is chosen as the destination of choice in the global talent acquisition competition.

Chapter 3 Japan's Winning Path

1. What Is Japan's Competitive Advantage—Its "Winning Path"?

Both generative AI and physical AI are, after all, merely tools. Humans are capable of thinking about how to master them and for what purpose to use them. As humans continue to think, new technologies, new services, and new products are born, and the industries and jobs that support them continue to emerge. Human history proves this.

Historically speaking, technological evolution initially widens inequality. After the Industrial Revolution, the rapid changes brought about by technological innovation led to a loss of inclusivity, resulting in social turmoil and backlash. Today, the digital growth model is said to be structurally lacking in inclusivity. While growth in manufacturing created many jobs, the jobs created by tech giants are few and far between. The "winner-takes-all" structure, in which a few companies monopolize the market, is feared to lead to the hollowing out of the middle class and widening inequality, becoming a breeding ground for populism in politics and distorting a healthy society.

However, Japan occupies a unique position regarding this issue. Inequality has not widened to the extent seen in Europe, the United States, or China, and due to a chronic labor shortage, Japan is a country where even the maximum utilization of generative AI and physical AI is unlikely to cause serious social friction. The fact that Japan can thoroughly leverage AI to advance automation without causing fatal friction is an extremely significant competitive advantage.

That said, this advantage is meaningful only if it leads to "productivity gains accompanied by inclusivity." Just as Henry Ford ensured factory workers earned wages sufficient to purchase automobiles, it is essential to fairly distribute the benefits of productivity gains to the workforce and create a virtuous cycle of growth and distribution. If Japan pursues efficiency alone while neglecting inequality, it too will face social division. Building an inclusive growth model is a fundamental prerequisite for Japan's success.

However, with the domestic market expected to shrink due to population decline, there are many industries and companies for which sustainable growth will be difficult without expansion into global markets. Japan's path to success should not

be confined to the domestic market but should be pursued by offering value that is competitive in the global marketplace.

Japanese companies possess vast amounts of high-quality, undigitized domain knowledge—including tacit and experiential knowledge—that lies dormant. The precision of manufacturing, on-site know-how, operational expertise in social infrastructure, high service standards, high-quality labor, coordination skills, and a spirit of altruism are all sources of competitive advantage accumulated over many years that cannot be easily replicated by other countries. Japan's true winning path lies in companies further expanding this domain knowledge and integrating it with AI and digital technologies to establish a differentiated competitive advantage in the global market and roll out Japan-originated breakthroughs worldwide.

2. Japan's Winning Path

① Building an Inclusive Growth Model—Realizing a Virtuous Cycle of Growth and Distribution

The fundamental premise of Japan's path to success is the construction of an inclusive growth model in which the fruits of productivity gains are shared across society as a whole. In Japan, where approximately 70% of employees work for SMEs, improving productivity and raising real wages in SMEs and the service sector will determine the course of the nation.

Business leaders will embrace diversity as a source of competitiveness within their organizations and fairly distribute the fruits of productivity gains to working people.

Working people will actively pursue learning and enhance the value of their labor by expanding their domain knowledge, including tacit and experiential knowledge.

The government will promote support for the digitalization of small and medium-sized enterprises and industrial structural reform.

This three-pronged approach will create a virtuous cycle of productivity growth and fair distribution of results, becoming a unique winning path for Japan that simultaneously pursues competitiveness and inclusivity.

② Transforming the Industrial Structure and Building an Ecosystem—Business Leaders Must Take the Lead in Transformation

Sustainable productivity growth cannot be achieved without a transition away

from a mature industrial structure. No one but business leaders can spearhead this transformation. As Chief Innovation Officers, business leaders themselves must take the lead in company-wide transformations—such as business restructuring, M&A, and large-scale investments—that only they can decide upon and should drive industry reorganization and corporate consolidation without fear. At the same time, they must build an ecosystem that accelerates the structural transformation of existing industries through collaboration with and investment in startups, including those overseas. It is by simultaneously dismantling old structures and building new ones that Japan's industrial competitiveness will be revitalized.

③ Rebuilding Human Capital: Maximizing the "Value of People" in the AI Era

In an era where generative AI and physical AI are gradually replacing human labor, the ability to identify where human value lies will determine success or failure. Especially now that there are limits to upward reskilling for white-collar workers, we must rebuild human capital, including facilitating labor mobility toward advanced essential worker roles. Working people must take the initiative in designing their own careers; business leaders must prioritize investment in human capital and support retraining; and the government must promote fundamental educational reforms that emphasize individual reskilling support, the facilitation of labor mobility, and STEAM education.

Through this three-pronged approach, creating an environment where people can master digital technologies and focus on creating value added will form the foundation of Japan's winning path.

④ Improving the Productivity of "Knowledge": Creating Value Added Through Domain Knowledge and AI

The vast amount of high-quality tacit and experiential knowledge—domain knowledge—that Japanese companies have accumulated over many years remains difficult for competitors to imitate precisely because it has not been digitized. By integrating this "knowledge" with digital technology—combining the craftsmanship of manufacturing masters with physical AI, on-site know-how with generative AI, and coordination capabilities with data infrastructure—and thoroughly linking each company's unique strengths to competitive technologies, products, and services, we

can create value-added benefits in the global market that cannot be replicated by others.

Now is the time to pool our wisdom, leverage digital technology to improve productivity, expand value added, and ensure the fair distribution of the resulting benefits.

This recommendation does not merely ask, “What is Japan’s winning path?” Rather, business leaders, working people, and the government must each continually ask themselves, “What is my own winning path?” Let us join the world’s top tier of productivity by 2040, take the lead in realizing a sustainable economic society that balances productivity and inclusivity, and build “A Society of Dignity and Opportunity”!

About the Management Forum on Productivity

The Management Forum on Productivity operates under an initiative led by business leaders, in collaboration with labor unions and academics, to establish an international partnership framework. Its mission is to address how companies can increase value added—the numerator of productivity—amidst a challenging business environment, and how to fairly distribute the resulting benefits to diverse stakeholders. In collaboration with Japan, the United States, Germany, and Asian nations, we are putting into practice the dissemination of a productivity vision that contributes to sustainable growth and development through three pillars: “dialogue among business leaders,” “exchange among senior executives,” and “comparative research and surveys on productivity,” all viewed from a global perspective.

Co-Chairs

Shinya Katanozaka	Member of the Board, Chairman, ANA Holdings Inc.
Kazuhiko Toyama	Chairman & CEO, Japan Platform of Industrial Transformation, Inc. (JPiX)
Toshiaki Higashihara	Executive Chairman, Representative Executive Officer and Director, Hitachi, Ltd.

Members

Akira Ichikawa	Chairman of the Board and Representative Director, Sumitomo Forestry Co., Ltd.
Yasuharu Kosuge	Director Chairman, Yamato Transport Co., Ltd.
Masashi Jimbo	Chairman, National Trade Union Productivity Congress
Osamu Nagayama	Honorary Chairman, Chugai Pharmaceutical Co., Ltd.
Shinji Fukukawa	Senior Advisor, Global Industrial and Social Progress Research Institute
Tsutomu Miyagawa	Professor, Gakushuin University
Eijiro Yamakita	President & CEO, JTB Corp.
Hiroyuki Yamada	Chief Executive Officer, KPMG AZSA LLC

(As of March 31, 2026)

[Track Record of Activities]

Year	Date	Activity
2018	May 24	Signing of MoU with The Conference Board (TCB)
	Jul. 25	Management Forum on Productivity — 1st Meeting (Inaugural Meeting)
	Dec. 25	Management Forum on Productivity — 2nd Meeting
2019	Jan. 1	Signing of Agreement with Brookings Institution (1st)
	Jan. 19	Signing of BLFP Co-hosting Agreement with The Conference Board (TCB)
	Jan. 31	C-Suite Challenge™ 2019 — CEO Edition Results Announcement
	Feb. 5	Business Leaders Forum on Productivity (BLFP) Preparatory Meeting ①
	Mar. 11	Business Leaders Forum on Productivity (BLFP) Preparatory Meeting ②
	Apr. 11–12	**1st Business Leaders Forum on Productivity (BLFP)** (Co-hosted with The Conference Board; held in New York)
	Sep. 3	Management Forum on Productivity — FY2019 1st Meeting
	Sep. 12	Signing of MoU with three German partners (acatech, DJW, Münchner Kreis)
	Sep. 17	Release of Japan-U.S. Joint Statement: “Management and Productivity in the Digital Society”
2020	May 28	C-Suite Challenge™ 2020 — Japan Report Released
	Jul. 1	Signing of Agreement with Brookings Institution (2nd)
	Sep. 3	C-Suite Challenge™ 2020 Mid-Year — CEO Edition Results Released
	Oct. 9	Management Forum on Productivity — FY2020 1st Meeting / BLFP Preparatory Meeting ①
	Dec.	Signing of MoU with three German partners (acatech, DJW, Münchner Kreis) (2nd)
2021	Mar. 8	C-Suite Challenge™ 2021 — CEO Edition Results Released
	Mar. 17	Business Leaders Forum on Productivity (BLFP) Preparatory Meeting ②
	Dec. 20	Publication of book *“PX: Productivity Transformation — A New Perspective on Corporate Management”*
2022	Jan. 1	Signing of Agreement with Brookings Institution (3rd)
	Jan. 28	Management Forum on Productivity — FY2021 1st Meeting
	May 31	Business Leaders Forum on Productivity (BLFP) Preparatory Meeting ①
	Jul. 11	Release of “1st Businesspersons’ Awareness Survey on Productivity Challenges”
	Jul. 12	Productivity Management Forum — 1st Cohort Launched (15 participants)
2023	Mar. 7–12	Productivity Management Forum — U.S. Mission
	Jul. 7	Management Forum on Productivity — FY2023 1st Meeting
	Jul. 17	Productivity Management Forum— 2nd Cohort Launched (12 participants)
	Aug. 1	Signing of Agreement with Brookings Institution (4th)
	Sep. 25	Signing of MoU with Harvard University’s Growth Lab
	Oct. 3	Release of “2nd Businesspersons’ Awareness Survey on Productivity Challenges”
	Oct. 4	**2nd Business Leaders Forum on Productivity (BLFP)** (Co-hosted with acatech & Münchner Kreis; held in Tokyo)
2024	Mar. 5–10	Productivity Management Forum — U.S. Mission
	Jul. 8	Productivity Management Forum — 3rd Cohort Launched (16 participants)
	Oct. 11	Release of “3rd Businesspersons’ Awareness Survey on Productivity Challenges”
2025	Mar. 17–23	Productivity Management Forum — Germany Mission
	Jul. 8	Productivity Management Forum — 4th Cohort Launched (14 participants)
	Nov. 14	Management Forum on Productivity — FY2025 1st Meeting
	Nov. 17–22	Productivity Management Forum — U.S. Mission
	Nov. 26	Release of “4th Businesspersons’ Awareness Survey on Productivity Challenges”
2026	Feb. 4	Management Forum on Productivity — FY2025 2nd Meeting

JAPAN PRODUCTIVITY CENTER