

Dialogue

Fulfilling the Mission of the Securities Industry

On May 29, 2003, Daiwa Securities Group Inc. President and CEO sat down with Corporate Social Responsibility expert Toshihiko Goto to talk about the Group's mission.

Goto: President Hara, you have been putting a great deal of effort into corporate branding. What is your objective for that?

Hara: The objective of corporate branding is to build trust. In the securities industry, we do business in an ever-changing market. The prices of stocks and bonds are constantly fluctuating, so our products bear a certain amount of risk. That is why trust from our customers is more important than anything. I think, however, that the philosophy of pursuing trustworthiness as one of the prime objectives has yet to be fully accepted in the securities sector. At the same time, customers and society in general are keeping a sharper eye on companies. These were my motivations in establishing "customer trust" as a cornerstone of our Corporate Principles as soon as I took the post of President. I was convinced of a need to change our employees' consciousness and to provide services that would give customers something they felt they could not get elsewhere. I felt it was critical to build up a trusted brand to get customers to choose us as their securities company. The branding activities for bringing this idea to reality have been underway for two and a half years, and we are starting to see the spread of a brand consciousness and sense of direction among our employees, ways of thinking that are critical to customer trust.

Goto: If this employee consciousness is weak and something goes wrong, many companies try to cover it up. But if employee consciousness is elevated, the organization goes to work to review the problem and make changes. That raises the value of the company.

Hara: In the last fiscal year, there was a problem at one of our Group securities companies that had a huge impact on our brand. This caused inconveniences to our customers and other stakeholders, but it also provided an incentive for system reform. The happiest benefit of the branding activities is the fact that if some irregularity happens, we do not try to hide it, we support our employees who are out there doing their jobs. This is because we have clearly stated the ideas I was just telling you. Of course our ultimate goal is to eliminate any problem of this sort, which is crucial if we are to establish the brand. Raising employee awareness is essential to making this happen, so we are making employee education a priority. Through training and



A handwritten signature in black ink, appearing to read 'Y. Hara', written in a cursive style.

Yoshinari Hara

President and CEO, Daiwa Securities Group Inc.



email, I have a dialogue going with our employees on the subject of the brand. The effort will take perseverance, but it is one of top management's most important jobs.

Goto: Lately I hear the word "commitment" quite frequently. What commitments are you making personally to people within and beyond your company?

Hara: The commitment I am talking about is a "promise to fulfill our duties," which is not a typical Japanese motto. Overseas investors expect a commitment primarily in terms of profitability, which is not always an easy task. My personal commitment is to implement the "Best Brand Daiwa 2005", a new medium-term management plan to guide us through FY 2005, and to be No. 1 in quality and productivity.

In addition, although it is difficult to quantify the results of the branding activities, I hope to create a system that will give us a sense of how much we have achieved. An example of this commitment is our ongoing award program for employees, called the Best Brand Daiwa award, which is a way to keep communication open with our employees and continue to detail my stance on these matters to them.

Goto: Commitment itself is an important quality overseas and an important element of a brand. In terms of social and environmental sustainability, I hope that corporations like yours will make stronger concrete commitments, like stating how you will set targets for hiring female employees. Incidentally, when your products are financial instruments, your products and office operations have a smaller direct impact on the environment than manufacturing or distribution. But even so, the financial acts of lending and investing do have a very significant impact. How does the Daiwa Securities Group plan to deal with environmental issues in its core business of dealing in securities?

Hara: One way of dealing with the environment within our core business is the Mrs. Green eco fund we have set up. Presently we are studying the incorporation of socially responsible investing, or SRI, in our business. Moreover, I have always thought that securities work is well suited to women. Unfortunately we don't have many female employees who are management candidates at this time, but we are working to promote more women.

Goto: SRI has risen to the level of a national strategy in Europe; is it possible that a Japanese-style SRI practice will arise, different from

that in Europe?

Hara: If you ask me what the key is to real development of Japan's financial market, it is corporate governance. From this perspective, it is fine to have investment trusts based on the ideas and efforts of the companies' top managements. But presently we at Daiwa Securities Group are struggling to come up with appropriate criteria to measure corporate governance.

Goto: In Europe and North America, corporate social responsibility and corporate governance in the broad sense are used interchangeably. As a result, investment trusts that look at each company's corporate governance in the broad sense are a perfect example of SRI. Moreover, in the corporate social responsibility approach, they emphasize assessing the final profit or loss, weighted by economic, social and environmental performance. When I say economic, I do not mean just the fiscal health and profitability of a company, but its economic effect on society as well, such as its ability to create jobs for communities. The trend is to examine companies from these aspects as well.

Hara: The more information corporations disclose, the more trust society will put in those firms in terms of investing. Our mission in the securities industry is to create healthy direct finance markets in cooperation with the most progressive corporations. The dawning era is one of direct finance. In Japan, however, in spite of our large economy, we have a small financial market, and individuals are not using their own financial resources in ways that have any risk. That is the biggest problem with Japan's economy. Our responsibility and mission is to aid the social transition from indirect to direct finance, which is to say, helping individuals become risk-assuming investors.

Goto: Now that you have explained your vision and mission, I look forward to seeing them in action at the Daiwa Securities Group.

Toshihiko Goto

Chair, Environmental Auditing Research Group (EARG)
Member, Board of Directors, Global Reporting Initiative (GRI)

