



### Sustainable Investment Bank Business

#### What is your assessment of the factors that led to the current financial crisis?

There are two main factors. The financial crisis has shown that there is a limit to how far management can go in pursuing return on equity (ROE) through highly leveraged investments that could be called excessive—particularly among European and U.S. financial institutions. In a favorable market, if you increase borrowings using high leverage, ROE will generally rise. This way of conducting business may rapidly push up revenues and profits, but the risk is therefore that much greater.

The second factor is a particular chink in the armor of those financial conglomerates aiming for excessive expansion. I believe that the management of a number of financial institutions that became bloated through repeated M&As\* failed to build a sufficiently accurate picture of one aspect of their business, namely, the inherent risk contained in the financial products they sell. Companies that show steady growth—including in terms of the employment and training of human resources—and increase in size, share an awareness of the importance of self-discipline that is both natural and nurtured.

#### So is the moral to be learned from the current financial crisis that we need to be prepared to sound the alarm on ROE-centric management?

Although ROE is but one prominent management indicator, there is a need to have some kind of underlying management credo. Corporations are allowed to exist because they are of benefit to society. In doing business, we must ask, “How have we gone about increasing profits?” rather than merely stating, “As long as profits go up, everything is fine.” This process of undertaking the creation of fair and sustainable profits is important. Granted, corporations must answer to shareholders, but shareholders should not be allowed free rein. A corporation is a public entity and thus, by extension, a part of society. If executives and employees share a

## The Key Word Is “Sustainability”

President and CEO Shigeharu Suzuki discusses the Daiwa Securities Group’s business and corporate social responsibility (CSR).

Interviewer: Professor Iwao Taka, Dean of the International School of Economics and Business Administration at Reitaku University, Kashiwa City, Chiba Prefecture, Japan

sense of doing work that benefits society, meeting social expectations cannot be regarded as anything but natural.

The primary roles of investment banks are to assist corporations in raising capital and to offer advisory services—corporate consulting in the business areas of initial public offerings and M&As, for example. Although these business areas have been eclipsed by leveraged business and have escaped notice over the past few years, they are socially meaningful business areas and produce commensurate value. At the same time, investment banks play an important role through the investment of their own capital. For example, by providing essential financing to corporations that possess unique and advanced technologies but are struggling for funds, investment banks support the growth and revitalization of those corporations.

**What direction will society as a whole take through the investment banking businesses? One role of investment banks is to point the way, particularly with regard to a sustainable society, environmental issues and global warming.**

That's correct. For example, U.S. President Obama's Green New Deal Policy aims at deriving 25% of U.S. energy from renewable resources, promotes a smarter energy grid, and the development of green buildings and next-generation batteries, among other targets. It also emphasizes that this policy has to be pursued with determination to ensure its achievement. Environment-related technologies could be called Japan's greatest resource. These technologies are the main engines of Japan's future economic recovery and growth. As there are many Japanese companies that possess highly advanced environmental technologies or those peripheral to the environment, we will focus on environmental technologies as one field of future growth.

## Adding a Social Perspective to Investment

**Would you please tell us more about the added impetus that's being given to socially responsible investment (SRI)?**

Progress is currently being made with a project, based on

multi-governmental donations, to vaccinate children in developing countries. The vaccine bonds\*\* that the Daiwa Securities Group has sold—on two occasions to date—enable the necessary funds for the vaccinations to be raised in advance using financial mechanisms. The vaccine can thus be quickly administered to the children, enabling more lives to be saved.

Furthermore, as it is geared toward individual customers, this financial product also helps inform the wider world of the project's existence through sales of vaccine bonds.

The World CO2L bonds\*\*\*, which were sold last year, provided individual customers with a valuable opportunity to find out more about how emissions trading can significantly help to curb global warming.

Unlike other industrial sectors such as manufacturing, part of our work of "helping the world" is not readily recognized because it does not exist in any physical form. Those responsible for underwriting and selling these financial products can easily explain the meaning and purpose of the financial products to customers and thereby demonstrate that our profession includes "contributing to a better world." This is of tremendous importance from the standpoint of raising executive and employee motivation.

Today's society is engulfed in problems, and we would like to promote the development and sale of financial products that will assist in solving the mounting issues that lie ahead.

## Work-life Balance

**Mr. Suzuki, you've taken the lead in bringing a work-life balance to fruition throughout the Daiwa Securities Group. Please tell us about some of the thinking behind this.**

Just to give one example, working overtime every weekday and working on weekends will result in a short-term increase in performance. However, the benefits are not necessarily sustained. Even if performance is momentarily increased, this means nothing if it is not sustained. The fatigue from biting off more than you can chew remains. You forget to pay attention to customers and in the end, if





you look at the whole picture, the negative aspects become overwhelming. In other words, sustainability is the key word. It is vital to enjoy your life while striking a balance between working really hard and making improvements to your private life too.

### **You've also put efforts into promoting female employees, haven't you?**

Speaking of securities companies, there is a strong impression of their being male-dominated up until now. However, the number of female employees who are branch and department managers is now increasing. Moreover, four women were newly appointed as executive officers in April 2009.

The reason why women can now work in these areas is because the Daiwa Securities Group placed more emphasis on their working in such areas as winning new customers, providing existing customers with valued care and taking custody of new funds. As a result, everyone—that is to say not only men but also women—has reached the stage where they have a sustainable career.



### **What type of company would you like the Daiwa Securities Group to become?**

As a corporation, we have to increase profits in a proper manner. However, this effort will need to be achieved through steady advances rather than in a single stroke. I believe that we cannot sustain profits unless we grow while sharing the corporate culture and business philosophy long fostered within the Group. A workplace also needs to be enjoyable. As people spend a lot of time at work, it is essential that executives and employees alike share a sense of community.

I would like to create an excellent company. That is my desire. To date, I have visited 60 or 70 branches and have had young employees who have been with the Company only one or two years eagerly discuss with me—reflecting their own opinions—issues that I had raised before. At such times, I realized that my thoughts had been communicated, and I was deeply moved.

Working on the front line is not without its difficulties; stress builds up at times. Even if you speak ill of a superior in such times of stress, if in the end you can say, "Even though I said that, I still believe that this is a fine company," then that, in my view, is really the sign of an excellent company.

### **Shigeharu Suzuki**

*President and CEO, Daiwa Securities Group Inc.*

\* M&A: Merger and acquisition

\*\* Vaccine bonds—Please see page 17 for more details.

\*\*\* World CO2L ("Cool") bonds—Please see page 19 for more details.

## Closing

### **Iwao Taka**

*Dean of the International School of Economics and Business Administration, Reitaku University*

Speaking with President Suzuki, I was again impressed with his sense of commitment. Furthermore, I was able to fully understand everything he means by the key word "sustainability." I share his strong conviction that making profits in a proper manner leads to a sustainable business and society.