

Special Interview: Human Resource Transformation at the Cosmo Energy Group



Changing employee mindsets and behaviors
and enhancing enterprise value during
a period of business transformation

Junko Takeda

Director, Senior Executive Officer
In charge of Human Resource Dept.,
Business Portfolio Management Dept., and
Sustainability Initiative Dept.

Motohiro Morishima

Professor, Department of Management,
Faculty of Economics, Gakushuin University
Professor Emeritus, Hitotsubashi University

After completing a doctoral program and earning a Ph.D. in Human Resource Management from the School of Labor and Employment Relations at the University of Illinois, Morishima took up a position as an assistant professor at the Faculty of Business at Simon Fraser University, Canada. He then worked as an associate professor at the Faculty of Policy Management, Keio University, and later as an associate professor and professor at the university's Graduate School of Business Administration. He also worked as a professor at the Graduate School of Commerce and Management, Hitotsubashi University, before assuming his current position in 2017. Morishima also serves concurrently as a member of the Ministry of Health, Labour and Welfare's Labour Policy Council and a public interest member of the Central Labour Relations Commission, among other roles. He was appointed as professor emeritus at Hitotsubashi University in 2020. His publications include *Introduction to Human Resource Management*, *The Complex Algorithm of Human Resources*, *Turning Everyone into a Strategic Resource: Overcoming the Shortage of Strategic Human Resources and Developing Organizational Capabilities*, and *Challenges to Human Resource Investment: Dilemmas and Solutions* (co-author) (all published by Nikkei Publishing Inc.), and *A Dialogue between HR and Legal: Toward a New Fusion*, (co-author, published by Yuhikaku Publishing Co., Ltd.).

Changes in the environment surrounding the Cosmo Energy Group

Takeda

As evidenced by the global trend toward decarbonization and the Japanese government's 2050 Carbon Neutral Declaration, the decarbonization of transportation fuels and other types of energy is expected to continue as demand for petroleum products tapers off. Under our Group's Vision 2030, we aim to increase profitability by strengthening the competitiveness of our *Oil Business*, while simultaneously investing in *New fields*, namely next-generation and low-carbon businesses, as we seek to develop core businesses that will sustain us in the future. To respond flexibly to rapidly changing times and to drive the energy transition that will continue from here on in, we have formulated a roadmap to maximize enterprise value over the medium to long term.

In this period of industry transformation, our Group is pursuing a people strategy that we refer to as human resource transformation (HRX). This strategy involves cultivating human resources with diverse ideas, who continually challenge themselves, and act autonomously, so that we can venture into new business fields while transforming existing ones.

Today, I'd like to hear your expert and objective opinion on our Group's people strategy.

Morishima

Listening to you talk about your company's situation, I get the impression that you've taken on a very challenging mission. While you have established businesses that serve as solid revenue drivers, you also have to take on new challenges looking ahead to the medium to long term. I find it very interesting to see how you are

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attempting to transform your workforce, which will be responsible for your company's growth, during such a challenging time.

Takeda Vision 2030 was formulated as a means to consider our future while carefully honing our existing businesses centered on oil. Our Group's mission is to continue to ensure safe operations and stable supply in order to meet energy demand and reliably fulfill our supply responsibilities. At the same time, we must look ahead and address the energy transition that is currently underway, including the shift to decarbonization, renewables, and next-generation energy. Because the energy business has a long lifecycle, we need to undertake medium- to long-term initiatives while fulfilling the mission that is required of us now.

Morishima The direction of your business structure transformation and the time frame for achieving it will be key components of your management strategy. I think it's also crucial that you clearly present these elements in Vision 2030, as your employees will also want to know about your management approach in this regard.



Transformation keywords and diversity initiatives

Takeda The knowledge and expertise we have built up through our *Oil* Business is a tremendous asset for our Group as we work towards realizing Vision 2030. For example, the mass production of SAF and our entry into the hydrogen supply chain are next-generation energy initiatives that leverage our existing *Oil* Business expertise.

To draw on the knowledge and expertise of our existing businesses to create new value, we are encouraging a shift in mindsets and behaviors among employees in an effort to further develop the capabilities of those individuals who will drive each business forward. In undertaking transformation, the four keywords that are central to our company, regardless of business sector, are: Diversity, Pioneering Spirit and Growth Mindset, Autonomy, and DX Literacy. We are also focusing on promoting better health and boosting engagement as the foundation that supports our human resource capabilities with the ultimate goal of improving employee well-being.

Morishima Diversity is certainly an important factor when it comes to bringing about innovation.

Takeda One of the most important themes in our Group's HRX is diversity and inclusion. As a result of our proactive recruitment activities, human resource development, and the appointment of people based on their abilities, the proportion of women in managerial positions is steadily increasing. In the oil wholesale sector, where the percentage of female employees is low to begin with, I believe that such results are due to the

fact that the senior management team takes the initiative in promoting women's participation in the workplace, with the human resources division following their lead.

Morishima Nowadays, I hear that it's not easy to promote the active participation of women in the workplace, regardless of the company, partly due to the lack of human resources from the generation that will play a central role in managing the company going forward.

While ensuring sufficient personnel numbers is a challenge, the mentality of management doesn't change even when training is provided, and there are cases where the active participation of women is unintentionally inhibited. That's why I believe it's extremely meaningful for senior management teams to lead efforts that empower women. From a diversity perspective, it's also important to secure mid-career hires; how is your company performing in this regard?

Takeda In FY2023, the number of mid-career hires increased to almost the same level as the number of new graduate hires, with around 70 mid-career hires compared to about 80 new graduate hires. This is a significant change for our Group, which has traditionally focused on recruiting new graduates.

In particular, as the corporate divisions that support our operating companies require a high level of expertise, we're actively recruiting mid-career hires. Many of the individuals we hire hit the ground running from day one, providing a good source of motivation for employees who have been with us since the beginning of their careers.

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Morishima The key to the continuous success of mid-career hires is a long-term career path. While such hires are highly motivated to solve the challenges faced by the workplace they've joined, they also have their own future careers to consider. Therefore, it's important to have a mechanism to present employees with not just one, but multiples career paths, to expand their potential.

Takeda As you mentioned, there are also some mid-career hires who want to develop their current expertise, while others may be interested in exploring different types of work if the opportunity arises. We're also working to provide individual employees with the opportunity to autonomously think about their career through the career declaration system and other initiatives.

Morishima Adding to what you just said, ensuring that mid-career hires and experienced personnel are a good cultural fit is also an important factor in retention. It's critical for companies to provide organizational support to ensure that the values of employees are aligned with those of the company and that employees can carve out long-term career paths.

The stacking of small innovations serves as a source of competitiveness

Takeda The value most deeply ingrained in employees involved in our *Oil Business* and consistently upheld over the years is a commitment to safe operations and stable supply. The LPG tank explosion at the Chiba Refinery following the Great East Japan Earthquake caused great concern and inconvenience to many people. We also continued to experience challenging times

in terms of business performance, and I once again acutely felt the importance of safe operations and stable supply, as well as the seriousness of our Group's social responsibilities.

On the other hand, the *Oil Business*, with its well-established business model, has few opportunities to experience major innovation or business structure transformation, and there are times when I sense the difficulty of changing the way employees in this business view innovation.

Morishima There are many companies out there, including those in the energy industry, that position "safety" as the foundation of their operations. If operations are organized in such a way that improvements and innovation are stacked on a foundation of safety, then I think that companies like yours, which are responsible for social infrastructure, will find it easy to accept this concept. What's important is whether that kind of mindset has trickled down to employees who work on the frontline.

While it's easy to say that they should value a foundation of safety and then make improvements and innovations on top of that, there are challenges when it comes to ensuring that everyone fully understands this concept and can put it into practice.

Takeda I believe that the idea of stacking improvements and innovations on top of safety is highly compatible with our Group. Since the fire caused by the explosion at the Chiba Refinery, we've worked to address both infrastructure and systemic issues, and as a result, the operating rate at our Group's refineries has reached over 90%, well above the industry average. I believe that this is due to our diligent efforts to eliminate perceived risks one by one through safety-driven improvement activities.



In order to achieve even more efficient operations, DX initiatives are needed to complement the experience and skills that our refinery employees have built up over the years, in addition to improvements made through the thorough application of our Operations Management System (OMS). Our refineries are working in cooperation with the Corporate DX Strategy Dept., our in-house DX division, to enhance DX literacy*.

*For further information on Increasing DX Literacy, please refer to [Page 70](#).

Morishima In the past, factory and facility operations often relied on the experience and intuition of highly skilled employees. However, the use of IoT and AI now makes it possible to improve operational efficiency while ensuring safety. I think this constitutes an innovation that goes beyond the scope of improvement initiatives.

Japanese companies have historically strengthened their competitiveness through a series of small innovations. While the spotlight tends to be on major innovations and business structure transformations, I believe that the ability

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to build upon these small innovations also serves a source of competitiveness for many companies.

Takeda From that point of view, our sales and marketing frontlines are where small innovations are continuously accumulated through customer engagement. Looking back, we were the first company to use credit cards as part of our marketing efforts, which in turn became a significant strength. We're also currently taking on the challenge of working with partners across different industries, making use of our extensive customer data.

Morishima It might be worthwhile to focus on shifting employees' mindsets by uncovering and reevaluating past examples of innovation, no matter how big or how small, and sharing them internally.

Thoughts behind our human resources requirements: Challenge, Nurture, and Excel

Takeda In order to facilitate employee mindset reform,

we newly formulated the Cosmo Human Resource Requirements in FY2023. On the topic of innovation, which we just discussed, we included the word "Challenge" in the hope that our employees will further challenge themselves. The word "Nurture" expresses our desire to increase the number of employees who can autonomously sharp their careers and continuously and proactively learn, thereby contributing to the growth of the Company. In a world where the external environment is changing dramatically, it's also essential for employees to "Excel" and hone their expertise to withstand changes. We've formulated policies based around these three keywords, and are implementing initiatives and communicating them with the goal of changing the behavior of our employees.

Morishima What's interesting is that these three elements are interconnected as a set. There are many companies that encourage employees to take on new challenges (Challenge), but I think it's wonderful that your company has incorporated the notions of growth (Nurture) and expertise (Excel) into your human resource requirements, conveying a message that encourages employees to think about their own futures. By integrating these three elements, your company fosters a culture where the value created by human resources directly contributes to building enterprise value.

Takeda Both employees who continually take on challenges through involvement in large projects and those engaged in stable work are

Challenge

Nurture

Excel

indispensable to the Company. Even in the work carried out by the latter, there are always small challenges, and these challenges will surely manifest themselves as value.

I mentioned "Challenge" as an example, but I believe that having all employees be mindful of our human resource requirements will lead to the growth of employees themselves and, in turn, the growth of the Company. Therefore, I believe that all three elements are important and indispensable, forming a trinity of requirements.

Morishima There are two main points to consider when trying to get your human resource policies and initiatives across to employees. The first is to make sure that the senior management team explains them in their own words, and the second is to make sure that you give credit for the actions that employees take. This is what is known as "recognition."

I believe that recognizing employees for their actions as a company is paramount to ensuring that policies and initiatives are understood by frontline workers.

Furthermore, the extent to which mid-level managers—who act as intermediaries between management and frontline workers—embrace the ideas and take the lead in implementing them based on information from senior management will significantly influence whether the policies reach and are adopted at the operational level.

Takeda Our senior management team is doing exactly that, communicating our policies and initiatives directly, and we have incorporated this very idea not only into training workshops and other events organized by our Human Resource Dept., but also into our branding activities. Moreover, from FY2024, we have revised the behavioral

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evaluation criteria in our objective-based evaluation system so that performance evaluations are carried out based on the Cosmo Human Resource Requirements. We're engaged in ongoing and diligent awareness-raising activities so that our human resource requirements become deeply embedded our corporate culture.

Since my tenure as General Manager of the Human Resource Dept., I've observed that the duties of mid-level managers, such as line managers, have grown significantly in both scope and volume. To broaden their perspective and encourage them to take the initiative, I believe the Company must provide robust support—not only in implementing policies and initiatives but also in reevaluating their roles and promoting greater flexibility in how they work.

Development of human resource data utilization platforms

Takeda In periods of VUCA*, the challenge for human resource divisions is to envision the type of workforce needed in the future, both in terms of quality and quantity, and to strategize how to attract and retain such talent. Since people are at the heart of these efforts, it's impossible to predict every outcome or implement initiatives strictly according to plan. However, we're focused on enhancing our employees' skills through human resource development programs, while closely tracking progress using KPIs. I believe that merely monitoring KPI figures is not enough; it's also crucial to pay attention to shifts in the figures and understand the underlying factors driving those changes.

*VUCA: Abbreviation of Volatility, Uncertainty, Complexity, Ambiguity; refers to a situation in which the way forward is unclear, and the future is difficult to predict.

Morishima As you mentioned, various internal factors inevitably influence the outcomes of specific KPIs. I believe that gathering and analyzing information, and clearly communicating what's happening to external stakeholders, will become an increasingly important role that human resource divisions will be expected to fulfill in the future.

Takeda Since FY2023, we've also been developing human resource-related data utilization platforms. Previously, personnel information was largely analog—qualitative insights that existed only in the minds of human resources staff—which made it difficult to analyze and share.

While such data is still necessary, it's crucial to capture and analyze information from each employee as data and use it to shape future initiatives as we drive transformation under our people strategy. I believe that these data utilization platforms are also vital for ensuring the accountability of our human resource division.

Current challenges in HRX and future directions

Takeda Even amid dramatic changes in the business environment, both the Company and our employees must continue to grow in order to sustainably enhance enterprise value. For this reason, it's vital that we foster an environment that encourages employees to proactively embrace new challenges.

While there's no one-size-fits-all solution, we're committed to providing opportunities for employees to realize their personal growth through the tasks they carry out today. We'll also continue to emphasize our desire for employees to take a self-directed, proactive approach to their work.

Morishima The people who work at your company are all individuals with their own hearts and minds. If their heart's not in it, they can't adequately demonstrate their value as human resources. Increasing engagement and reforming mindsets takes time and effort. It also requires investment. But from what I've heard today, I can see that your company is dedicating considerable resources to your people strategy.

Takeda In formulating our people strategy, we've consistently asked ourselves what it will take to change the mindsets and behaviors of those who work for our Group. As I continue to think about how to appeal to people's hearts beyond the period of the Seventh MTMP, I'm reminded that we can motivate employees and harness their skills.

As the Officer in charge of Human Resources, I'm committed to advancing our HRX initiatives and working to enhance enterprise value so that the growth of each and every employee becomes the driving force behind our business activities and, in turn, leads to our growth as a company.

