Hyogo: It has been over ten years since the merger. How do you think the corporate culture has evolved over this period at Sumitomo Dainippon Pharma?

Sumitomo Dainippon Pharma is currently working on the “building of a flexible and efficient organization” to support medium- to long-term business growth under our Mid-term Business Plan 2022. This year, we invited Shinichiro Hyogo, Chief Analyst and Chief Fund Manager in the Asset Management Division at Mitsubishi UFJ Trust and Banking Corporation, to discuss our corporate culture and human resource development programs with Masayo Tada, Chairman of Sumitomo Dainippon Pharma. Shinichiro Hyogo has been responsible for Sumitomo Dainippon Pharma as a buy-side analyst since before the merger between Dainippon Pharmaceutical and Sumitomo Pharmaceuticals as well as playing an active role in ESG investment, including service as a government committee member and giving lectures.

— We will nurture a culture that identifies changes in the business environment and continually rises to new challenges in a proactive manner.

Hyogo: It has been over ten years since the merger. How do you think the corporate culture has evolved over this period at Sumitomo Dainippon Pharma?
**Tada:** The 2005 merger between Dainippon Pharmaceutical and Sumitomo Pharmaceuticals was a major decision to ensure our ability to continue thriving in the pharmaceutical industry, and it was necessary to achieve synergies as quickly as possible. The issue that received the maximum attention from the management team at the time was a fusion and harmony of minds.

**Hyogo:** It would not be a good start if every employee was heading in a different direction. I also experienced a large-scale merger at the bank I used to belong to, and was acutely aware of the difficulties involved in combining corporate organizations with disparate histories.

**Tada:** We researched examples of post-merger organizational management successes and failures with the help of an external consulting company. We were prepared for it to take two or three years to achieve harmony, but things went more smoothly than expected. As a result, we are proud to have nurtured an amazing corporate culture, in which the positive elements that both companies possessed before the merger are even more pronounced, namely diligence, integrity, respect for others, and trust. However, there has not been as much progress in terms of “nurturing a corporate culture that rises to challenges,” which was part of our basic strategy at the time of the merger and implied a culture that is capable of rapidly identifying changes in the business environment and proactively addressing those new opportunities. Ever since my time as President, we have been taking a variety of measures to help such a culture take root, but we are aware that further steps are still necessary.

**Hyogo:** Generally, the bigger a company grows, the stronger the orientation of its employees toward stability becomes. However, for sustained growth, a pharmaceutical company must innovate to continue providing highly novel, differentiated pharmaceuticals. Doing this requires the ability to constantly rise to challenges and take risks. If we are talking about digital innovation within our organization, we should evaluate their efforts and provide incentives. The fourth element is the diversity of human resources, which means we will have to recruit talented employees with unique ideas and special skills. For example, if we want to bring about digital innovation within our organization, we should recruit individuals with the required skills, rather than having our employees with other skillsets take on this specific challenge, and provide support for the challenges taken on by every employee. The third requirement is the establishment of a personnel system that encourages people to take on challenges. I believe that it is difficult to properly identify the attitude of employees toward challenges in terms of numbers, and it is important how we evaluate their efforts and provide incentives. The fourth requirement is awareness in the workplace. Our managers need to fully understand the meaning and importance of a challenge, and provide support for the challenges taken on by every employee. The third requirement is the establishment of a personnel system that encourages people to take on challenges. I believe that it is difficult to properly identify the attitude of employees toward challenges in terms of numbers, and it is important how we evaluate their efforts and provide incentives. The fourth requirement is awareness in the workplace. Our managers need to fully understand the meaning and importance of a challenge, and provide support for the challenges taken on by every employee. The third requirement is the establishment of a personnel system that encourages people to take on challenges. I believe that it is difficult to properly identify the attitude of employees toward challenges in terms of numbers, and it is important how we evaluate their efforts and provide incentives. The fourth requirement is awareness in the workplace. Our managers need to fully understand the meaning and importance of a challenge, and provide support for the challenges taken on by every employee.

**Hyogo:** Did the acquisition of Sunovion Pharmaceuticals Inc. (formerly Sepracor) in the U.S. and overseas biotech companies, have any significant impact on corporate culture?

**Tada:** As you say, the first U.S. acquisition in 2009 was a major step toward globalization for us. As it was a major acquisition worth around ¥250 billion, which was comparable to our net sales at the time, the decision to make the acquisition in the first place was a statement of intent about challenge, and employees must have been keenly aware that the company was embarking on significant change. I experienced first-hand how diversity of human resources creates dynamism in various aspects ranging from values and approaches to work styles at overseas companies. In addition, we subsequently acquired biotech companies, including Boston Biomedical Inc. in 2012 and Toler Pharmaceuticals Inc. in 2017, whose employees have been competing in a world where they are used to taking on challenges. There is no need to make our corporate culture identical to theirs, but we will learn what we can from their entrepreneurial spirit and work to incorporate it in transforming our own corporate culture.

**Tada:** The first requirement is the dedication of managers or leaders. I have dedicated myself to overseas expansion and entry into new fields in the past, and will reiterate my dedication internally and externally in the future together with other members of the management team. The second requirement is awareness in the workplace. Our managers need to fully understand the meaning and importance of a challenge, and provide support for the challenges taken on by every employee. The third requirement is the establishment of a personnel system that encourages people to take on challenges. I believe that it is difficult to properly identify the attitude of employees toward challenges in terms of numbers, and it is important how we evaluate their efforts and provide incentives. The fourth requirement is awareness in the workplace. Our managers need to fully understand the meaning and importance of a challenge, and provide support for the challenges taken on by every employee. The third requirement is the establishment of a personnel system that encourages people to take on challenges. I believe that it is difficult to properly identify the attitude of employees toward challenges in terms of numbers, and it is important how we evaluate their efforts and provide incentives. The fourth requirement is awareness in the workplace. Our managers need to fully understand the meaning and importance of a challenge, and provide support for the challenges taken on by every employee. The third requirement is the establishment of a personnel system that encourages people to take on challenges. I believe that it is difficult to properly identify the attitude of employees toward challenges in terms of numbers, and it is important how we evaluate their efforts and provide incentives. The fourth requirement is awareness in the workplace. Our managers need to fully understand the meaning and importance of a challenge, and provide support for the challenges taken on by every employee. The third requirement is the establishment of a personnel system that encourages people to take on challenges. I believe that it is difficult to properly identify the attitude of employees toward challenges in terms of numbers, and it is important how we evaluate their efforts and provide incentives. The fourth requirement is awareness in the workplace. Our managers need to fully understand the meaning and importance of a challenge, and provide support for the challenges taken on by every employee. The third requirement is the establishment of a personnel system that encourages people to take on challenges. I believe that it is difficult to properly identify the attitude of employees toward challenges in terms of numbers, and it is important how we evaluate their efforts and provide incentives. The fourth requirement is awareness in the workplace. Our managers need to fully understand the meaning and importance of a challenge, and provide support for the challenges taken on by every employee. The third requirement is the establishment of a personnel system that encourages people to take on challenges. I believe that it is difficult to properly identify the attitude of employees toward challenges in terms of numbers, and it is important how we evaluate their efforts and provide incentives. The fourth requirement is awareness in the workplace. Our managers need to fully understand the meaning and importance of a challenge, and provide support for the challenges taken on by every employee. The third requirement is the establishment of a personnel system that encourages people to take on challenges. I believe that it is difficult to properly identify the attitude of employees toward challenges in terms of numbers, and it is important how we evaluate their efforts and provide incentives. The fourth requirement is awareness in the workplace. Our managers need to fully understand the meaning and importance of a challenge, and provide support for the challenges taken on by every employee. The third requirement is the establishment of a personnel system that encourages people to take on challenges. I believe that it is difficult to properly identify the attitude of employees toward challenges in terms of numbers, and it is important how we evaluate their efforts and provide incentives. The fourth requirement is awareness in the workplace. Our managers need to fully understand the meaning and importance of a challenge, and provide support for the challenges taken on by every employee.

**Hyogo:** What kind of measures do you think are required to establish this “culture of challenge”?

**Tada:** The major decision to ensure our ability to continue thriving in the pharmaceutical industry, and it was necessary to achieve synergies as quickly as possible. The issue that received the maximum attention from the management team at the time was a fusion and harmony of minds.

**Hyogo:** It would not be a good start if every employee was heading in a different direction. I also experienced a large-scale merger at the bank I used to belong to, and was acutely aware of the difficulties involved in combining corporate organizations with disparate histories.

**Tada:** We researched examples of post-merger organizational management successes and failures with the help of an external consulting company. We were prepared for it to take two or three years to achieve harmony, but things went more smoothly than expected. As a result, we are proud to have nurtured an amazing corporate culture, in which the positive elements that both companies possessed before the merger are even more pronounced, namely diligence, integrity, respect for others, and trust. However, there has not been as much progress in terms of “nurturing a corporate culture that rises to challenges,” which was part of our basic strategy at the time of the merger and implied a culture that is capable of rapidly identifying changes in the business environment and proactively addressing those new opportunities. Ever since my time as President, we have been taking a variety of measures to help such a culture take root, but we are aware that further steps are still necessary.

**Hyogo:** Generally, the bigger a company grows, the stronger the orientation of its employees toward stability becomes. However, for sustained growth, a pharmaceutical company must innovate to continue providing highly novel, differentiated pharmaceuticals. Doing this requires the ability to constantly rise to challenges and take risks. If we are talking about digital innovation within our organization, we should evaluate their efforts and provide incentives. The fourth element is the diversity of human resources, which means we will have to recruit talented employees with unique ideas and special skills. For example, if we want to bring about digital innovation within our organization, we should recruit individuals with the required skills, rather than having our employees with other skillsets take on this specific challenge, and provide support for the challenges taken on by every employee. The third requirement is the establishment of a personnel system that encourages people to take on challenges. I think we should establish and foster a culture of challenge by combining these four elements.

**Hyogo:** Did the acquisition of Sunovion Pharmaceuticals Inc. (formerly Sepracor) in the U.S. and overseas biotech companies, have any significant impact on corporate culture?

**Tada:** As you say, the first U.S. acquisition in 2009 was a major step toward globalization for us. As it was a major acquisition worth around ¥250 billion, which was comparable to our net sales at the time, the decision to make the acquisition in the first place was a statement of intent about challenge, and employees must have been keenly aware that the company was embarking on significant change. I experienced first-hand how diversity of human resources creates dynamism in various aspects ranging from values and approaches to work styles at overseas companies. In addition, we subsequently acquired biotech companies, including Boston Biomedical Inc. in 2012 and Tolero Pharmaceuticals Inc. in 2017, whose employees have been competing in a world where they are used to taking on challenges. There is no need to make our corporate culture identical to theirs, but we will learn what we can from their entrepreneurial spirit and work to incorporate it in transforming our own corporate culture.
We will create a professional organization that can maximize results through active job rotations and selective training.

Hyogo: Moving on, I will ask about the personnel system. I have the impression that Sumitomo Dainippon Pharma implements more active personnel rotations than other companies. For example, director-level personnel serve successively in various departments. Is this also aimed at increasing the diversity of human resources in your organization?

Tada: Yes. We implement active job rotations for various grades of employees, not just directors, as a measure aimed at “nurturing a corporate culture that rises to challenges.” Based partly on my own experience, I am convinced that people grow most in a new environment. When transferred to a new department, employees make great use of their brains to adapt to that environment. This means that they study various aspects and build new relationships in order to achieve their new mission. Such new experiences serve as a stimulus for growth. In addition, that division also benefits from the addition of employees with experience accumulated in a different department. While there may be a slight decline in work-readiness at the departments that transferred individuals, after a while new personnel who gained opportunities through the transfer of their predecessors should grow and fill the gaps.

Hyogo: This means that appropriate job rotations can be expected to have a significant vitalizing effect both for the individual and the organization. However, I think many occupations at a pharmaceuticals company require a high level of expertise, so do employees gain sufficient specialist skills and experience when transferred after two to four years?

Tada: It is as you say. In order to solve that problem, we have revised the personnel system at Sumitomo Dainippon Pharma, and we have been providing two career paths for executive employees since fiscal 2016. One path is the Professional Contributor (PC) role, which maximizes results through outstanding individual skills. The other path is the Professional Manager (PM) role, which maximizes results through expert organization management skills.

Hyogo: The work styles of employees and what they demand from a company are also changing with the times, so the personnel system and the human resource development process will also have to change in a flexible manner.

Tada: We have made various enhancements to our training system. In the past, the system was based on grade-specific training for all employees. However, in addition to this traditional system, we launched the DSP Academy in fiscal 2016 as a training system to encourage “challenge.” This is a selective training program that targets ambitious employees in each level from newer employees and supervisors to middle management who have the potential to be executive leaders in the future.

Hyogo: Approximately, how many employees have been selected for the DSP Academy?

Tada: Including the Management Course, which aims to train our future corporate managers, there are four levels for early identification of future division manager candidates, next-generation leader candidates, and employees with outstanding performance. We expect approximately 400 employees in total to participate in the five years, which began in fiscal 2016. Going forward, we will further improve our individual training programs to transform our employees into professionals who can consistently contribute to Sumitomo Dainippon Pharma Group’s achievements.

We will discover next-generation leader candidates through the HR Strategy Meeting.

Hyogo: The topic of diversity in human resources came up a bit earlier than planned. How do you plan to promote diversity and inclusion, including active participation by women, in the future?

Tada: I think we are making steady progress with regards to active participation by women. At present, many women are playing important roles at Sumitomo Dainippon
challenge in the future precisely because Sumitomo Dainippon Pharma has such an amazing corporate culture, including a high level of compliance awareness, and robust professional development.

**Tada:** I agree. In order to transform our corporate organization into one that takes on challenges and produces steady results, I think we obviously need to reinforce these elements in our culture.

**Hyogo:** You are right. From the perspective of long-term investment, we are reassured when companies can create organizations with a high level of reproducibility. Although there may be difficulties in the short term, a company will always benefit in the long-term if its organization is generating reproducible positive business results.

**Tada:** Human resources are the key to that.

**Hyogo:** Yes. I heard some very interesting things in today's discussion. I look forward to seeing Sumitomo Dainippon Pharma demonstrate its unique competitive strengths in the global pharmaceutical industry through human resource development.

**Tada:** Thank you. We will do our best to meet your expectations.

Pharma, and two women appointed as Executive Officers are serving as positive role models for women seeking to advance their careers.

**Hyogo:** Through what mechanisms are you developing the next generation of leaders?

**Tada:** The head of Global Corporate Strategy, who led her team in developing the Mid-term Business Plan 2022, was a graduate of the Management Course, for which I served as a mentor. The HR Strategy Meeting also serves a major role in developing and selecting the next generation of leaders in general, including women. This type of meeting is convened periodically with all of the Directors, some of the Executive Officers, and the heads of divisions as necessary. Such meetings have been held at least 100 times over the past ten years. At each meeting, we deliberate on personnel issues, including work style reform and diversity, and also discuss promising talent in the manager class by name. We also introduced a talent management system in fiscal 2018 to boost employee development.

**Hyogo:** You have a mechanism for creating a list of next-generation leader candidates through a series of such meetings and developing these candidates through grade-specific selective training. What is the percentage of female managers at present?

**Tada:** It is about 10%. We had set a target of at least 10% by 2020, but we achieved the goal more than a year and a half earlier. In the future, our aim is that the percentage of female managers will be about the same as the percentage of female career track employees (approximately 20%). We are also conscious of continuing to identify women for 20% of the opportunities for selective training.

**Hyogo:** Finally, please explain your approach to compliance.

**Tada:** Compliance is the area where Sumitomo Dainippon Pharma is making the greatest efforts. By taking the time to provide thorough training, we have reinforced a strong focus on conducting business with the highest standards to always achieve our sales objectives in a compliant manner. This makes me feel that awareness of compliance has definitely been instilled well into the workplace. In fact, also in the China market, we have provided thorough training and education that prioritizes compliance over everything else, including sales.

**Hyogo:** It is because Sumitomo Dainippon Pharma has always had a corporate culture that values diligence, integrity, and trust in the first place that the understanding of laws and regulations has deepened and awareness of compliance has naturally increased. I think that it will be possible to further develop your organization and promote diversity of human resources to nurture a culture of