Familial

"THE ENTREPRENEUR WHO BUILT MODERN Japan" is how one biographer characterized Eiichi Shibusawa, a man who built more than 500 businesses and 600 social enterprises. Shibusawa's prodigious output—he started Japan's first bank in 1873, its first insurance company in 1879 and was involved in building schools and hospitals—helped bring a unique form of capitalism to the country.

"He didn't introduce capitalism into Japan for personal profit, but because he saw capitalism as a way to usher in a new era, to change Japan into a modern society," says Brunswick Senior Advisor Ken Shibusawa, Eiichi's great-great-grandson. "In fact, he didn't use the word 'capitalism,' which translates to into present-day Japanese as *Shihon shugi*—shihon is capital. He called it *Gappon*, which carries this sense of integration—what we today call stakeholder capitalism: Everybody has a role to play to create the value of a company."

FOOTSTEPS

KEN SHIBUSAWA is Japan's leading voice on stakeholder capitalism. The Brunswick Senior Advisor reflects on the ESG landscape today, opportunities ahead for Japanese companies, and the legacy of his famous ancestor, called "the father of Japanese capitalism."

Fittingly, no voice in Japan has been more prescient on stakeholder capitalism in recent decades than that of Ken Shibusawa. In addition to his role at Brunswick, he is CEO of Shibusawa and Company, a strategic advisory firm for alternative investments, ESG and SDG alignment and human resource development. He is founder and Chairman of Commons Asset Management mutual fund, delivering long-term investment opportunities to Japanese households. He is Advisor to the President at The University of Tokyo, a Visiting Professor at Seikei University, Director of Keizai Doyukai (the Japan Association of Corporate Executives) and Steering Committee Member of UNDP SDG Impact. He serves on Prime Minister Fumio Kishida's "New Form of Capitalism" panel.

In a recent conversation with Brunswick's David Ashton and Masato Ui, Shibusawa reflected on ESG and stakeholder capitalism, spotlighting the opportunities and challenges for Japanese companies. Asked how his great-great-grandfather might view today's landscape, he said, "Morality had to be integrated with the economics. ESG obviously didn't exist in 1873, and Eiichi Shibusawa wasn't an ESG investor, but his thinking was very aligned with it."

How has the mix of the ESG issues evolved since you started working on it?

For me, people really started taking notice of ESG around 2004, in part because of what was going on across Europe and in the United Nations. The formulation of UN PRI [Principles for Responsible Investment] in 2006 was a big thing—and then when the GPIF [Government Pension Investment Fund] signed the PRI in 2015, that was a big movement here in Japan for ESG.

Up to that time, CSR [corporate social responsibility] was the buzzword. In Japan there were securities brokers and other players already in the space, but that was more in retail investing, and you could say much of it was essentially marketing. ESG involved the institutional investors, which was a big shift.

In the 20th century, Japanese companies appreciated their effects on the environment and on society. But it was through their products, and never really addressed directly through the capital markets. With ESG, it was an initiative by the capital markets to directly address externalities which until then had been overlooked—the "E" and "S" of ESG. That, for me, is the real genesis of it.

Technology obviously helped it come to the fore. The concept of externalities existed in the 20th century, but in the 21st century you were no longer just reading about it; you saw it in the palm of your hand every single day, with vivid images.

It was around ESG's emergence in Japan that you launched Commons Asset Management, right?

Yes. My partners and I launched in 2008 and started investing in 2009, so around the time when ESG was gaining awareness. We never called it an ESG fund, but we were looking at the same thing: going beyond short-term profits to examine how the company operated in a multi-stakeholder world, across generations, for the long term. Our thinking was: Stakeholders are important for the sustainable value creation of a company; and if the value creation of the company is sustainable, across generations, that leads to long-term value creation for the shareholder.

ESG has evolved even within the last decade. I remember a discussion about 10 years ago where a Japanese corporate told me, "Everybody says 'ESG' these days, but all they talk about is G." The rationale for that focus on the "G" was, unless the corporations have good governance and can hold management accountable for their decisions, there won't be any meaningful action on the "E" or "S." The "G" was also easy to measure: you look at about three or four numbers—outside directors, independent directors, board diversity, ROE—and you can get a sense very rapidly whether this company has good "G" or not.

Then the "E" came next. Not only because of the impact on the planet, but also because of its impact on companies: droughts, fires, hurricanes—conditions that materially hurt profits and create risks. And again, the E has a strong metric component to it, the science behind carbon emissions. And in Japan, the government set a carbon neutral commitment for 2050, which was a big move— it's a target that companies in Japan can now try and align themselves with. I think former Prime Minister Yoshihide Suga saw that addressing these environmental issues wasn't just a cost that a company has to endure, but a new growth strategy for many of them, an investment for future sustainable and new growth.

You've talked about "E" and "G"; what about "S"?
That's the question. It's a conversation I've been having with people over the last decade, and one that's really taken on a new importance in recent years: What do you measure in the "S," and how can you measure it with the same precision? Five years ago, for instance, the social sector would talk about human rights, but no one really in the Japanese corporate sphere talked about human rights.

Now it's not only NGOs focusing on human rights, but also investors. The pandemic, as we all know, disrupted supply chains. That brought a lot greater focus to those supply chains and the people involved in them—the farmers, the factory workers. It became apparent how important they were to a company's ability to create value.

When it comes to the "S," I see supply chains as key for companies going forward. Particularly when you start getting into upstream and downstream in those chains; then you get into externalities that companies didn't have to think about before, when their main concerns were simply suppliers being low-cost.

It's now common for Japanese companies to disclose ESG information in response to requests from regulators, investors and other stakeholders. How can these companies become more proactive—and rather than merely responding to requests, how can they use ESG to enhance their reputations?
I think it's important to integrate the ESG process into the corporate mindset, the culture, the values.

In the past, I know a lot of Japanese companies have adhered to *Sanpo Yoshi* [roughly translates to "three-way satisfaction," implying "good for the buyer, good for the seller, good for society"]. It's a great slogan and it's a great way of thinking about things, but to be a global standard it needs the discipline to measure what "good" is, exactly.

You can measure what the good was for the seller, right? And for the buyer could ask, "Are you satisfied with our product, our service?" And you could measure that. But who at the company is being paid for working for society? And how are you measuring the "good" for society?

If there's the discipline to measure what the good is for the seller, the buyer and society, then I think it has global resonance. But until there is, we need to go beyond the slogan.

I know that slogans are important. And I know that for some companies, *Sanpo Yoshi* really resonates. But for it to resonate with investors and other stakeholders, we need to have more discipline to say, "What is 'good' and how can we measure it?"

How do investors view the Japanese government's initiative to promote ESG, particularly their investment in human capital?
It depends on the type of investors. Some are focused on short-term stock prices and ROE—they're not interested in those areas, at all. They might actually see it as a cost to the corporation. That's not to say they're barbarians or anything like that, but those are their priorities. Long-term investors, on the other hand, typically value the conversations you can have with corporations regarding ESG.

That's why it's important to shape the narrative, which is easier said than done. You have to have the same disclosure for investors whether they hold a share for one day or 10 years—they still have the same rights as an investor. But I do think the company should have the awareness to shape the narrative and say, "We would like these kinds of investors to be our shareholders."

And if certain shareholders don't agree to that, they can sell it or push for change. But you make that decision and communicate accordingly.

You advocate for this philosophy of capitalism that your great-great-grandfather brought to Japan. What do you think he would make of today's ESG trend?
If you look at his writing, he essentially said that if management loses trust from enough shareholders, then it has to step aside. Answering to the wishes of shareholders is not anything new. That's governance, right? He didn't call it governance back then, but that's what it was. The key point he grasped was

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the importance of trust. That was why you needed to integrate morals with economics: to build trust with your partner, with society. It's the same with ESG today. The institutional framework can often become about reporting and box-ticking. But that's not the goal, it is the means.

A company that is serious about integrating ESG into its philosophy and strategy is demonstrating its commitment to build trust not only with shareholders but with the various stakeholders it creates value with. And companies that build that trust will be obviously more robust and have a higher chance of creating sustainable value going forward.

This philosophy has been part of Japan for so long, yet many Japanese companies today are being measured or evaluated on ESG by frameworks created outside Japan. How do you reconcile that?

Japanese companies or Japanese people are very good at following rules. The problem is they don't always think about how the rules are being formed. And they can complain about another rule being made by somebody else somewhere far away. But the reason they complain about it is they're so serious about complying with it.

I was a moderator for a panel on ESG. And on the panel was a European CEO who had lived in Japan for a long time. I asked him about the different cultural sensibilities between Europeans and Japanese. And he said that Japanese companies were very serious about sustainability, very methodical—but because they are so methodical, it takes them a long time to make the commitment, and then even longer to make much progress toward the goal. Europeans, he said, on the other hand, commit to a goal and essentially figure out how to do it afterward. Though that approach also isn't without its risks.

Japanese business leaders have tended to avoid speaking on political and societal issues. Increasingly, this neutrality isn't popular with a global audience. How can they develop more compelling narratives and better engage in a global marketplace?

The CEO. That's my answer. The CEO needs to be engaged in that narrative because it's not just storytelling but having the commitment to that story, to building and executing it. The CEO has to be upfront. And they have to take the punches because not all people are going to be happy with the narrative. But who's the one person at the company in a position to take those punches? The CEO.

"THE PAST IS DONE. IT'S THERE. AND BASED ON THE PAST—THE DATA'S THERE, EVIDENCE IS THERE—WHAT'S THE BEST COURSE OF ACTION TO CHART THE FUTURE YOU WANT?"

DAVID ASHTON is a Partner who helped create Brunswick's research and insight practice globally. He later helped to launch the firm's Tokyo office, where he is currently located. **MASATO UI** is a Director in Tokyo with significant experience in financial services and public policy. Previously, he worked at the Bank of Japan, the Ministry of Finance and PayPal.

What about the CFO's role in developing that story, particularly with investors?

The CFO needs to navigate between the company's past and future scenarios; they take the financial results from the past and match with future cash flows. The CEO sets the course of the company, and the CFO comes in and says, "to have that strategy, this is what our financial picture needs to look like." It's the same for anyone in the C-suite—CEO, CFO or CHRO; it's trying to find the intersection between the past and the future. The past is done. It's there. And based on the past—the data's there, evidence is there—what's the best course of action to chart the future you want?

You've had such a varied career. I'd be interested to hear what inspired you to join Brunswick?

I started out my financial career as a trader at investment banks and a global macro hedge fund; I was focused on the short term. Starting your own business and having kids and a family at the same time definitely shifts your perspective, and I realized I needed to start thinking about sustainability, for the longer term—certainly longer than the next quarter. I started my own company in 2001, and then the investment fund, Commons Asset Management.

That's how the journey started. Commons was formed right after the boom of activism here in Japan. I'd be sitting in a meeting with the company, and I felt what the activist would be saying is economically rational. But you could see the shutters coming down—the company was closed for business. That's when I thought, "Well, logic doesn't move a company." You needed more dialogue rather than monologue. How do you create that dialogue?

I couldn't have that conversation with a company as an individual investor. But as a collective voice through a fund, you can have that long-term conversation. That led me to explore: What is the value of the company? Financial value, that's very easy to understand, very logical. You can see the numbers, and it is a common language. But there's this sort of other emotional, non-tangible, non-financial value that's important.

Brunswick was an extension of that journey. I'd started thinking long-term, which had led me to try to figure out what the corporate value of a company was. The opportunity here is to communicate that value to people outside the company, or even within the company, in ways that they understand. There are so many "good" things here in Japan, but so few people know about it outside of Japan because these stories aren't being told in ways that resonate.