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Nippon Life exec urges shift to stakeholder capitalism

ESG Talk
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Efforts to promote ESG (environmental, social and governance) investing, which were led by Europe, have been rapidly spreading across the globe. In Japan, many companies are committed to efforts to make our society sustainable, led by major corporations. One of the issues in the country is to encourage companies' pension funds to make investments from the ESG perspective.

"If we can find an ingenious way to activate the corporate pension fund system, we will be able to drive a paradigm shift to stakeholder capitalism," said Takeshi Kimura, who became the first person from an insurer to be appointed director of the board of the United Nations-supported Principles for Responsible Investment in July 2021. "It is important to focus efforts of all parties involved on creating a structure for that. There is large room for improvement in Japan."

The PRI was established in 2006 to promote ESG investing around the world. "Since 2018, the number of signatories to the PRI has increased by about 25% annually. Institutional investors have strong awareness about ESG," said Kimura, a former director-general of the Bank of Japan's payment and settlement systems department who currently serves as an executive officer of Nippon Life Insurance Co. However, ESG investments represented just 24% of the total outstanding assets under management in Japan in 2020, well below the worldwide figure of 35.9%.

Japan "is behind Europe and the United

States in terms of how broad-based" the awareness of ESG investing is, according to Kimura. Japanese entities currently total about 100 among the 5,000 signatories to the PRI, far behind the 1,000 for the U.S. and 800 for the U.K. and Ireland combined.

A key factor for the lackluster presence of Japanese entities is a notable absence of the country's corporate pension funds, only three of which are among the PRI signatories. "The trend in recent years is that efforts to address ESG issues lead to improved corporate value and investment returns over the long term," Kimura said. "Given that, the scarcity of ESG investors in Japan is a serious problem that can impact the competitiveness of Japan's economy and financial market."

PRI signatories form advisory committees and working groups on different themes, totaling about 25. In these, the signatories report on their responsible-investment initiatives to each other and discuss



Takeshi Kimura, executive officer and special adviser to the board, finance and investment planning department and corporate planning department, at Nippon Life Insurance Co. HIROMICHI MATONO

them. They publish guidelines, promote best practices and lobby regulatory authorities in different countries to develop an investment environment from a legal perspective. It is difficult for investors in Japan, which has few signatories, to have issues specific to Japan and their views reflected in such guidelines. Views from Europe and the United States, which have more signatories, end up forming best practices. In that sense, there is no denying that Japanese companies have forgone the opportunity to participate in efforts to create international rules, according to Kimura.

"It is important to become involved in the upstream process of formulating global best practices to prevent responsible investment in Japan being isolated from the rest of the world," Kimura said. "If you participate halfway in the series of movements for ESG investment, you may end up being too late."

In October 2021, Nippon Life Insurance joined the Net-Zero Asset Owner Alliance, an international initiative of institutional investors committed to making greenhouse gas emissions from asset management portfolios net-zero by 2050. According to Kimura, this brought the number of Japanese life insurers in the alliance up to four; together they represent nearly 20% of the assets under management of all alliance members. NZAOA members, which share common goals, work together to solve global-scale issues by influencing investee companies.

"Now that we have an advantageous position in terms of volume of funds, it has become easier for Japan to disseminate information," Kimura said. "The next important step is to consider how we should influence views and contribute to the alliance." Based on his experience of having been involved in the standardization of digital cur-

porate pension funds can contribute to improving the corporate value of investors through the stewardship activities of asset managers, and thereby accomplish a duty to act in the long-term best interests of their beneficiaries.

According to Kimura, the role of asset owners in the upstream of the investment chain, such as pension funds and insurance companies, is very important. That is because no matter how loudly asset managers in the downstream may call for ESG investing, it would lack substance unless asset owners had policies on ESG investment, and the best interests of beneficiaries, including company employees, would not be ensured.

"In Japan, there has long been a spirit of respecting the benefits of a broad range of stakeholders, including business partners, employees and local communities — not

rencias at the BOJ, Kimura believes it is necessary to actively participate in discussions at the International Organization for Standardization and "for businesses, supervisory authorities, the Bank of Japan and other entities to work closely together and focus their resources" to link initiatives in Japan with global standards.

Kimura also thinks large businesses should support their pension funds' efforts to introduce ESG integration to help expand the breadth of ESG investing in Japan. By presenting investment policies incorporating beneficiaries' sustainability preferences to asset managers,



In July 2021, Kimura was appointed director of the board of the United Nations-supported Principles for Responsible Investment HIROMICHI MATONO

just seeking to maximize shareholder benefits — as represented by the word *sanpōyoshi* (three-way satisfaction)," Kimura said.

"In order to realize the shift to stakeholder capitalism, which is the modern version of sanpōyoshi, it is desirable that businesses ensure their corporate pension funds adopt the ESG perspective in asset management, not just prioritizing SDGs (sustainable development goals) in their main business," he said.

Pension plans' participants are not only indirect shareholders of investee companies but also company employees, consumers and local residents at the same time. As such, it is ideal that they should be involved in corporate governance as representatives for stakeholders of businesses. It is important to incorporate their values about sustainability into the investing process of pension funds.

When it comes to ESG, critics have pointed out that there is a large gap between businesses and their pension funds in Japan in the level of commitment to sustainability. But once this weakness is overcome, Kimura believes, Japan can make a significant advance in the shift to stakeholder capitalism.

The ESG Talk series are interviews with business leaders who are active proponents of ESG investing and practices in Japan.



At the Japanese central bank, Kimura engaged in monetary policy and directed his efforts toward research on central bank digital currencies and cashless payments. HIROMICHI MATONO

Symposium aims to help Japan's female entrepreneurs

ESG/SDGs
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"Japan is one of the worst in terms of the gender gap," professor Hidetoshi Tahara reminded listeners in his opening remarks at the Women in Entrepreneurship Education Symposium held at Hiroshima University on International Women's Day, March 8.

The daylong symposium was part of the Effectuation Conference 2022 and included speakers such as renowned effectuation theory founder Saras Sarasvathy, Hiroshima Gov. Hidehiko Yuzaki and a host of business-oriented professionals, students, recent graduates and academics, all with a strong interest in supporting more women choosing entrepreneurial pathways.

"Japan has an enormous opportunity to leverage the power of women by making entrepreneurship more accessible and attractive," Tahara argued.

Entrepreneurial way of life

The symposium featured Sarasvathy, a professor at the University of Virginia Darden School of Business. Her scholarship is highly regarded, and she has had far-reaching influence within entrepreneurship education. Her talk focused on explaining effectuation theory and how leading an effectual life can be the start of novel entrepreneurial ideas.

Entrepreneurs look for cause-and-effect patterns in the world around them. A person can either work out the means to cause a goal to happen — this uses "causal reasoning" — or take the means at hand and then

work out what goal to bring into effect with them, using "effectual reasoning."

Living effectually can be done by anyone. It simply requires a perspective change: to think about what one already has — their "bird in the hand" — and what they can afford to lose while preserving their standard of living. "Living effectually," she explained, "is working with what's already within our control to co-create the future with self-selected stakeholders without having to predict it."

To illustrate, Sarasvathy used a cooking metaphor. Cooking "causally," she explained, is like following a recipe. "Following a recipe is safe, and the cost of failure is low. Whatever the causal cook set out to make, that is what they will end up with."

On the other hand, by cooking "effectually" — by looking at what one already has available in the kitchen and improvising — the chances of creating something interesting and innovative are much higher. This effectual mindset can be applied to other parts of life. Sarasvathy contends that putting emphasis on experimentation, networking and being open to surprises is the disposition that is most likely to lead to successful entrepreneurship.

But is entrepreneurship only for people planning to start a business? "No," Sarasvathy said, "even if we never start a company, just knowing that we have the key to do so is empowering. We should learn entrepreneurship so that it becomes a life option for us." She believes this is particularly important for women, and especially so in Japan, which was in 47th place in the Mastercard Index of Women Entrepreneurs 2021 global rankings. When looking only at high-income nations, Japan was



Panelists and pitch participants pose for a quick photo opp at Mirai-crea TAKUMI KATAYAMA

second-lowest, just above Saudi Arabia — a fact that was puzzling to Sarasvathy. "We can feel bad about it, but every country and culture are different," she said. She suspected that one of the reasons for the low ranking could be that many jobs are already available in a developed country like Japan, so there is not as much drive to be an entrepreneur and start something new. "In developing countries, we see many entrepreneurs because there simply are no jobs for people, so you just have to work your own way through."

Educating women in Japan

Directly related to the symposium's theme, a panel discussion was held that outlined the current state of entrepreneurship education for women in Japan. The panel was moderated by professor Mikiko Shimaoka of Waseda University and Kanagawa University of Human Services. The panelists included professors Michiko Ashizawa of Yokohama City University, Kyoko Yokota of Ochanomizu University and Simona Zol-

let of Hiroshima University. Following the panelists' remarks, Sarasvathy enlivened the discussion with a Q&A.

In Ashizawa's view, one of the major issues with teaching entrepreneurship and producing world-class startups from Japanese universities is Japan's "short history" with startups. Furthermore, she pointed out, "Many networks [in Japan] are male-centered, which makes it difficult for women to find confidence in mixed circles." Despite these perceived difficulties, Ashizawa headed a business education program in Cebu in the Philippines, and most of her seminar students who have taken part are female. "I guess maybe that is because I am a female leader myself," she explained.

At Hiroshima University, Zollet is trying to change students' preconceived notions about entrepreneurship entirely. Drawing upon her background in environmental science and sustainable development, she encourages students to see entrepreneurship as something local, within reach,

and even rural. "Entrepreneurship is not just about high-growth potential tech startups," she insisted. Hiroshima is a well-known urban area, but the university itself is in the more rustic Higashihiroshima, east of the main city. This situates it perfectly for the type of awareness-raising that Zollet is doing. "We are trying to change the narrative of rural spaces from 'spaces of decline' to 'spaces of possibility,'" she said. "The students make a project proposal and engage with the local community and businesses. This shows them that starting a business is not impossible — it can be done locally."

Together with the other panelists, Zollet thought about how she could involve more female students. She said many entrepreneurship classes in Japan tend to discourage female student participation. "Many female entrepreneurs are motivated by changing things in the world rather than money or fame and so on, so that's why we decided to frame the course around social and local issues," she explained.

Startups in Japan

Hiroshima Gov. Yuzaki, himself an entrepreneur with experience working in venture capital in Silicon Valley during the late 1990s, is striving every day to make development of entrepreneurship a major initiative in the prefecture. Speaking on education, he said that the focus is still on skills but that "more fundamentally, what we think is more important. We need to encourage an action-taking attitude from a very young age." From primary schools through to universities, the focus is being changed from "teaching" to "learning."

"This is related to critical thinking, interpersonal skills and how knowledge is used in interpersonal dynamics," Yuzaki said. Sarasvathy was also on hand to ask the governor questions and to promote dialogue. "Why do we teach entrepreneurship only for potential entrepreneurs?" she queried. "Imagine only teaching science to future scientists!" She said more needs to be done than "what is done at Silicon Valley — there was no idea of the middle class before the 18th century" and insisted that everyday people need access to entre-



Professor Saras Sarasvathy UNIVERSITY OF VIRGINIA, THE DARDEN SCHOOL

preneurship education. Yuzaki outlined some of the critical issues facing policymakers regarding entrepreneurship, saying objectives need to be clear. "Is our objective to create jobs? One way is to create many small startups, but they may not survive. Another way is to focus on large startups, but how many of those will grow to become the next Google?" The governor explained that for the past 10 years, the policy has been encouraging as many startups as possible, although results have been limited. Both admitted that too many startups could lead to negative outcomes. "If everyone wants to start their own company, then who would work for them?" Sarasvathy asked rhetorically.

In Yuzaki's estimation, Japan's problem is that, unlike the United States, where Sarasvathy is based, it is difficult to find people who want to do a startup. Clearly, Japan and the United States are in different situations and have different cultures and value systems, but both agreed that more entrepreneurship in Japan would be highly desirable.

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Panelists share challenges and opportunities in education EMERGING TECHNOLOGIES & KAREN MAKINO