

sustainable japan

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Japan Tobacco sows seeds for a diversified future

Unraveling Japanese Companies

HIROKO NAKATA
CONTRIBUTING WRITER

In the early 1990s, when Japan was experiencing a feeble economy after its boom and bust, Japan Tobacco Inc. released a forward-looking business philosophy.

The "4S" model was based on the four stakeholder groups of consumers, shareholders, employees and society. It looks familiar today because "stakeholder capitalism" has become a key term for business management. But at that time, many companies strived for higher revenues and profits based on shareholder capitalism instead.

In 1985, the former government-owned monopoly was privatized. In 1994, JT was listed on the stock exchanges in Tokyo and other cities, started to reconsider its approach to management and compiled the 4S.

"It means that our management philosophy should be providing fulfillment with good balance at a high level," Mutsuo Iwai, chairperson of the board of Japan Tobacco, said in a recent interview, part of a monthly series by Naonori Kimura, a partner for the consulting firm Industrial Growth Platform Inc.

The company's website says, "We

always try to exceed the expectations of our four stakeholder groups wherever we can, based on the principles of the 4S model."

For consumers, the philosophy means providing "exceptional products and services that deliver value beyond fulfillment of diverse needs and preferences," the website says. For shareholders, the company aims to raise returns by achieving profit growth over the medium to long term, striking a balance between growth and returns. For employees, it aims to be an attractive place to work. To fulfill its responsibility as a member of society and contribute to sustainable development, the website says, "JT will work with a range of stakeholders to solve various issues."

At the time when the philosophy was formed, Iwai said, "companies tended to pursue shareholder capitalism. But we thought that was not what we wanted to do." Since then, the 4S model has been the basis for its decision-making and the center of its sustainability efforts, he added.

But as time passed, public criticism against smoking has become stronger, and governments around the world have come to place stricter rules on smoking and cigarette sales. The domestic tobacco market has been shrinking. According to the Tobacco Institute of Japan, cigarette sales totaled about ¥3.8 trillion in fiscal 1994 (equivalent to about \$25 billion now) but declined to ¥2.5 trillion by last year.



Mutsuo Iwai, chairperson of the board of Japan Tobacco Inc. HIROMICHI MATONO

As its domestic tobacco sales dwindled, the JT group acquired other companies overseas, making it the third-largest tobacco company in the world. The group acquired R.J. Reynolds' non-U.S. tobacco business in 1999 and Gallaher Group PLC in 2007. It also bought companies in countries including Russia, the Philippines and Indonesia. Today, more than half of the group's sales come from foreign markets.

The group has also diversified its business portfolio. Today, its three pillars are tobacco, processed food and medicine. But the businesses other than tobacco are still rather nascent, with 91% of its overall revenue coming from tobacco, 5.9% from processed food and 3.1% from pharmaceuticals.

Partly to unite its group companies

across the world, this year JT created its group purpose: "Fulfilling moments, enriching life."

Expounding on the group purpose, Iwai said: "Tobacco is not a daily necessity, but something people favor. We have provided such products, and that's our strength. People always want not only tobacco or cigarettes, but something to do with internal delight."

"The group purpose is like our pole star that we continue to head toward as we continue our existing businesses as well as new businesses in the future," he said.

Despite the uncertainty of the future, the tobacco maker has marked record earnings results. For the business year that ended in December 2022, its net profit rose 30.8% from the previous year to ¥443

billion on sales of ¥2.66 trillion, thanks to the yen's sharp decline against the dollar and the rise in tobacco prices. For this business year, the firm expects a net profit of ¥460 billion.

Meanwhile, the company has sown seeds for the future. Iwai said one step is a collaboration with Kyoto University's Institute for the Future of Human Society to study "delight" academically. The second one is to search and invest in potential technologies and businesses that could realize delightfulness in the future. It makes investments through its own fund and operates offices in locations including Singapore, Israel and Europe. The last step is to create new products. For example, in 2022 a subsidiary started to sell devices that look like e-cigarettes but do not contain nicotine or tar. Instead, they heat liquid inside a cartridge whose contents include caffeine or the dietary supplement GABA (gamma-aminobutyric acid), which when inhaled work to lower blood pressure and stabilize the user's mental state.

These activities are conducted by an R&D team called D-Lab, consisting of about 40 young workers with a mission to find business seeds at home and abroad. "We aim to create businesses that can provide 'delight' for a time span of 20 to 30 years," Iwai said.

In the long term, Iwai said, it is important to maintain the existing business while reaching for new opportunities based on the group purpose. As long as frontier cigarette markets that JT can invest in, such as in Africa and Asia, grow, the company will do its best there while also focusing on e-cigarettes. At the same time, it will also continue its efforts to diversify its businesses.

"Right now, 90% of our revenue is from tobacco. But the trend will change for sure. We hope we can raise the value of our overall business in the future," Iwai said.

NAONORI KIMURA
INDUSTRIAL GROWTH PLATFORM INC. (IGPI) PARTNER



Japan Tobacco Inc., which was privatized in 1985, in 1994 created the "4S" model that has constituted its philosophical core.

The 4S refers to

four stakeholder groups: consumers, shareholders, employees and society. According to this management philosophy, striking a balance at a high level among various elements leads to sustainable improvement of the company.

Based on that, this year the company created its group purpose: "Fulfilling moments, enriching life." In all of its major business segments, it aims to provide value that fulfills its customers and suits a society that is diverse and changing.

As for business development, now that it has become a fully global company through a series of mergers and acquisitions, it reflects diversifying values in its business management so that its employees across the world will feel it is easy to work for. Also, D-Lab explores how to provide value with a view to the long term. It not only searches for new businesses, but also studies fulfillment, which exactly meshes with the purpose.

The tobacco segment contributes to industrial growth in Africa, aiming to support the development of its global supply chains. In Japan, where there is a sense of stagnation, fulfillment is what people need. In that sense, I hope the sustainable future that JT is aiming at will be realized.



"Companies tended to pursue shareholder capitalism. But we thought that was not what we wanted to do," said Iwai. HIROMICHI MATONO

Oryouri Fujii

Restaurant preserves Toyama's craft culture



TAEKO TERAO
CONTRIBUTING WRITER



Address
Oryouri Fujii
93, Iwasebunkamachi,
Toyama, Toyama
<https://www.oryouri-fujii.jp>

Iwase, home of the restaurant Oryouri Fujii, is a beautiful district in Toyama on the Sea of Japan coast, just a 20-minute streetcar ride from Toyama Station.

Like other regional cities, Iwase had long been in decline. But in 2004, it was reinvigorated by a renewal project in the prefectural capital that was spearheaded by Masudashuzo, the sake brewery famous for the Masuzumi brand. By inviting artisans, chefs and others to make use of its traditional buildings, Iwase succeeded in transforming itself into a base for the dissemination of Toyama culture.

One of those buildings, formerly the residence of a wealthy maritime merchant, now houses Oryouri Fujii. A splendid Japanese garden greets those passing through the front gate, and guests can gaze at this garden while savoring the restaurant's omakase course menu for ¥27,500 (\$180). Sake is poured into cups chosen by guests from a tray bearing a multicolored assortment.

Owner Hironori Fujii, who was born and raised in Toyama and opened his restaurant there after training in Kanazawa and Kyoto, is a supporter of Masudashuzo's renewal project. Fujii uses ingredients and tableware

from the Hokuriku region, with a focus on Toyama Prefecture. While some of the dishes are antiques, he also orders items from local creators to contribute to the development of outstanding artisans. This is significant, as it connects with the culture of future generations. His decision to relocate here signals that Fujii wants to be accepted by the people

rather than to go at it alone as the owner of a high-class Japanese restaurant. For that reason, he actively builds connections not only with food producers and artisans, but also with residents via preschools and festivals. Without a doubt, this is one factor in the harmonious atmosphere that pervades Oryouri Fujii.

HACHIRO NITTA
GOVERNOR OF TOYAMA



I would like to congratulate Oryouri Fujii for being selected as one of the Destination Restaurants 2023.

Toyama Prefecture is blessed with a beautiful and rich natural environment and is a treasure trove of fresh and delicious food from the sea, fields and mountains. At Oryouri Fujii, you will be able to experience the "foundation of happiness" that Toyama prides itself on through the carefully prepared dishes.

We hope you will experience the various charms of Toyama Prefecture along with Oryouri Fujii's gastronomic delights.

HIROHISA FUJII
MAYOR OF TOYAMA



I am very happy to have Oryouri Fujii selected as one of The Japan Times' Destination Restaurants 2023.

Located alongside the grand Tateyama mountain range and Toyama Bay, which is known as a natural fish preserve, Toyama city has a rich harvest from the mountains and the sea, as well as a diverse culinary culture. In such a blessed environment, please enjoy the exquisite cuisine prepared by the highly refined skills of the owner, Mr. Hironori Fujii, and spend a pleasant time savoring the beauty of the seasons with all of your senses.

Mita Kosan develops real estate, community in central Tokyo area

ESG/SDGs

MAIKO MURAOKA
CONTRIBUTING WRITER

Mita Kosan Co. Ltd., a real estate developer and leasing company, is housed in an office building right across the road from Keio University's East Gate in the Mita district of Tokyo's Minato Ward. The area has a uniquely mixed atmosphere: premium and academic, yet homey with a lot of small local eateries and shops.

President Masamichi Idemitsu, who was born and raised in Mita, launched the company three years ago with a passion to contribute to his home district. "I still live in this area, interacting with our tenants, other business contacts, local shop owners and residents every day. I've just come back from lunch at a soba noodle shop around the corner," he said.

Most of the buildings that the company owns or manages are in Mita. The main feature of the MA Building Mita, completed in November 2023, is its environmentally and human-friendly design and facilities. "One of the elevators is spacious enough for a stretcher in case of an emergency, and an accessible toilet is installed on the ground floor. The building has a rooftop garden and wall greenery in the entrance area, contributing to the environment and the well-being of users," he said.

"The building has acquired ZEB Ready certification, one of the four levels of the net-zero energy buildings promoted by Japan's Ministry of the Environment."



The MA building Mita, completed in November. MITA KOSAN

Idemitsu explained. The certification is granted to buildings that have achieved a 50% reduction in energy use compared to conventional buildings of the same size. The building will soon be equipped with battery chargers for electric cars. Two-thirds of the buildings it owns will get electricity 100% from renewable sources such as wind power. The electricity will be supplied by Idemitsu Green Power K.K., owned by Idemitsu Kosan Co., an energy company with a history of over a century founded by Idemitsu's grandfather Sazo Idemitsu.

Similar efforts have also been steadily made for the company's existing buildings, which are filled with a variety of domestic and international tenants, including from China, Australia and Hungary. "I interview every potential tenant myself to make sure that our buildings are rented to those who benefit the community regardless of their country of origin," Idemitsu said.

Mita Kosan also tries to maintain close and lasting relationships with its tenants. "We invite not only our tenants but also many other stakeholders, including real estate agents, to our annual tennis event, where participants can enjoy the rare opportunity of interacting and playing with Naho Sato and Naoki Tajima, professional tennis players that we sponsor," he said.

Sato is a graduate of Keio, which is also Idemitsu's alma mater. The company provides support to the university's English-taught Global Passport Program and a CEMS master's program in international management. Idemitsu, who studied abroad in Saudi Arabia during his college years, places importance on international exchange. "I was immersed in a truly international environment in Saudi Arabia, my second home. I had human-to-human interactions with students from all corners of the world, which I think is necessary to achieve global peace," he said. He encourages Japanese and foreign students to learn from each other in the university's multinational environment. "Just as the university is open to students of diverse nationalities, the district of Mita



From left: Naho Sato, President Masamichi Idemitsu and Naoki Tajima. MITA KOSAN

is also home to many foreign residents and workers," he said, stressing that the foreign population is an important part of Mita's community. "One of our buildings is rented to the Hungarian Embassy, and there are several other embassies in this area."

"To keep the community vibrant and attractive, we need every stakeholder's engagement, including residents, companies, administrators, schools, hospitals and local shopping streets," Idemitsu said.

As a proactive member of the community, Mita Kosan is a supporter of the Mita Festival, held every July. The company has also been a "green sponsor" for Tokyo Saiseikai Central Hospital, providing financial support to maintain indoor plants. "I hope the greenery helps soothe the minds of those who are hospitalized for a long time and those who visit the hospital frequently," he said.

In addition, the company recently decided to let a Mita neighborhood association use a room in one of its buildings for free for its meetings and activities. "We will continue to do what we can for the district and to connect people, not only as a real estate developer but also as an active member of the community," Idemitsu said.

Mita Kosan is a member of the Sustainable Japan Network, a group of companies that cooperate with this newspaper to spread information about sustainability in Japan. You can also be part of the network; scan the QR code for more details.

