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JAPAN PERSPECTIVES

No. 14

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JAPAN PERSPECTIVES

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Editor-in-Chief: Akiko Imai (Executive Director)
Senior Editor: Nozomu Kawamoto (Public Communications)
Associate Editors: Kaoru Matsushita (Public Communications)
Junko Suzuki (Public Communications)
Mikiko Fujiwara (Public Communications)
Production Manager: Asako Uemura (Public Communications)

The Nippon Foundation Bldg, 3rd Floor, 1-2-2 Akasaka, Minato-ku, Tokyo 107-0052, Japan
Tel: +81-3-6229-5504 (Public Communications) Fax: +81-3-6229-5508
E-mail: info@tkfd.or.jp URL: www.tokyofoundation.org/en

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September 16, 2015

A Branding Strategy for Creating Shared Value

Kirin Group

The Tokyo Foundation

Achieving Growth in a Mature Market

The Japanese beverage market is extremely competitive. Not only is the overall market shrinking due to the low birthrate and aging population but young people are also drinking less alcohol. *Happoshu* and other beer-like drinks have become popular with the public, and price competition is getting fiercer. The retailing structure is also changing, with a shift from old-fashioned neighborhood liquor stores to large-scale chains. A similar situation is faced by the soft drinks sector, where a gradual fall in prices is continuing.

While this might be welcomed by consumers, it is a tough situation for companies. For those competing in this mature market, achieving sustainable growth is more important than ever. When we look at the global food and beverage industry, we see that companies like Nestle and Unilever have been proactive in placing CSR at the center of their corporate strategy.

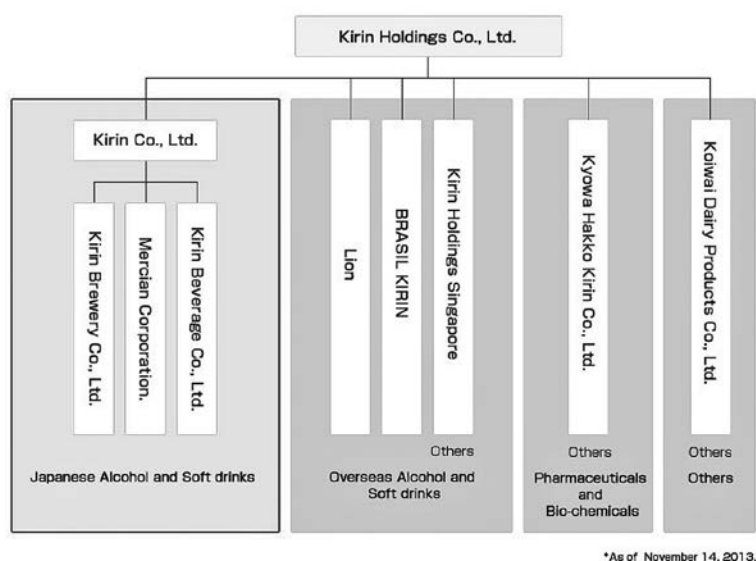
The Kirin Group's regional headquarters for Japan, Kirin Company, Ltd., benchmarked the practices of those industry leaders and outlined what it should do (Figure 1). The first answer was "operational restructuring". The second was a move to "brand-centered management."

Kirin has resolved to shift from conventional CSR (corporate social responsibility) to CSV (creating shared value) with the aim of creating synergies between its social initiatives and business operations. The concept of CSV has been expounded by Harvard University professor Michael Porter based on the idea that creating value shared by both society and businesses is integral to the competitive strategies of those companies.

Consumers do not usually think about the global impact of everyday products. For example, it might be difficult for them to picture how the manufacturing process of a product affects the ecosystem of a distant part of the world.

But this could change if companies had greater awareness of how their business operations are connected to social issues and informed customers of their efforts

Figure 1. Operations of the Kirin Group



Source: Kirin Group.

to address them. The result would be a fuller understanding of those issues, which could lead to stronger affinity with the company.

Kirin strives to create social value through six themes: (1) protecting human rights and working conditions and (2) prevention of corruption, which are compliance issues; (3) food safety and security and (4) protecting the environment, which relate to sustainability; and (5) strengthening bonds between people and society and (6) well-being, which are themes that Kirin is characteristically well-positioned to address.

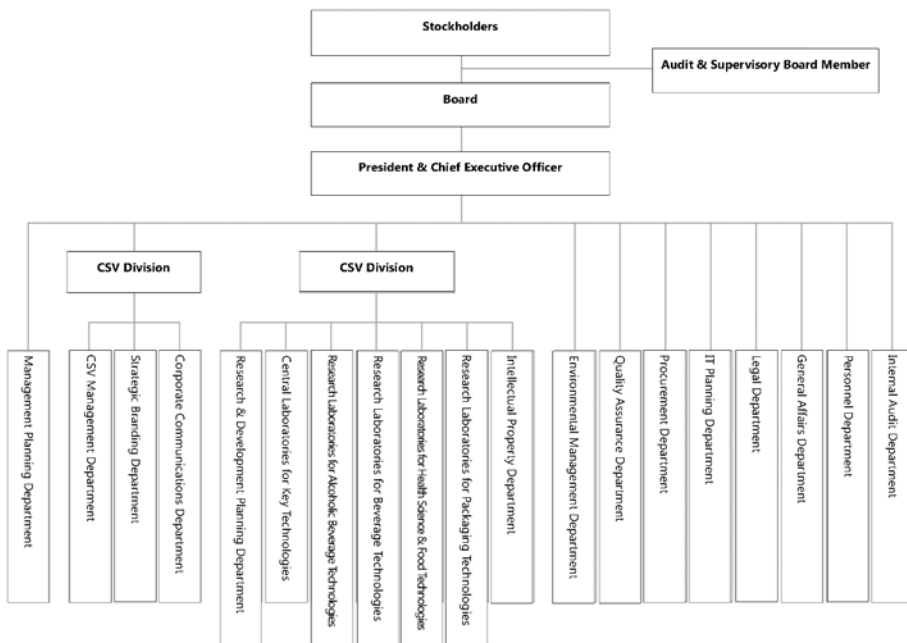
CSV Division

So how exactly does Kirin go about realizing a brand strategy that creates social value? Kirin has realigned and consolidated its domestic drinks business (Figure 2). First, it merged its separate R&D departments for beer (and other alcoholic drinks), nonalcoholic drinks, and wine into the Research & Development Planning Department.

It also set up a CSV Division to look after brand strategy, as well as to advance the integration of the company's initiatives to address social issues and its main business operations.

The CSV Division consists of the CSV Management Department, Strategic

Figure 2. Kirin's Corporate Structure (as of January 2013)



Branding Department, and Corporate Communications Department, and its mission is to advance “brand-centered management,” employing a long-term perspective based on unified management of CSV and product brand strategy.

Typically, CSR departments that deal with social issues work and think according to a longer timescale than other departments and can find itself at odds with the rest of the company. But at Kirin, because the department is also responsible for brand strategy—which, too, employs a longer timescale—the company has created an environment where CSR initiatives are not forced to conform to the short-term pace of other business operations. Even when differences in perception arise, they can be harmonized over a longer span of time.

Because it is also responsible for branding, the CSV Division has the resources and the authority to undertake those activities. And by drawing on its corporate communications functions, it is capable of supporting new marketing approaches. Needless to say, the division is responsible for promoting the integration of the company’s social initiatives and business operations. By linking these various functions it can deepen understanding of CSV and facilitate its implementation. It has been given a solid position within the company’s human resources structure, indicating the strong commitment the company is making to pursuing CSV.

There are few companies with a similar philosophy of creating shared value for

society and business or that place the department responsible for such creation at the core of its business strategy and corporate structure. In most cases, CSR departments are positioned within such administrative divisions as general affairs or public relations. It is rare for them to be incorporated into management planning or for them to share strategies with core business operations.

Companies will increasingly need to integrate their social initiatives and business operations to secure a respected place in society, and the failure to do so will expose them social “landmines” that could seriously damage the company’s reputation or public image. The restructuring of Kirin’s business is one organizational response to achieving that integration.

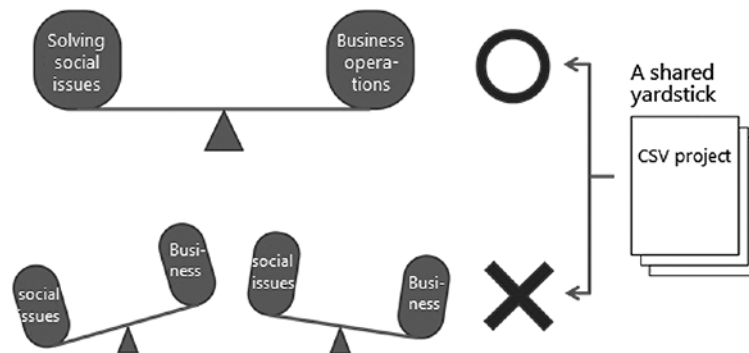
A Framework for Integration

Kirin’s innovations are not just organizational; they are found throughout the company’s operations and in the work performed by individual employees.

When many companies plan to launch a new project or make an investment, they usually base their decisions on internal documents that summarize the meaning of the project for the company and include such information as market potential, the company’s strengths, and the amount to be invested and likely returns. When the decision is about ways to innovate or improve business practices, the document may contain facts about required technologies and cost advantage so as to facilitate decision-making by management and further discussions by the departments concerned. The document becomes a guide for action and may be described as the project’s DNA. It can also serve as a catalyst for further innovation, so companies devote considerable energy to creating the most useful documents they can.

Kirin believes that creating social value will enhance its brand strength, promote human resources development, and ultimately boost its competitiveness. This requires striking a balance between its social initiatives and business operations. To check whether this balance has been achieved, Kirin has created a common yardstick to measure the success of both activities, which is used throughout the company (Figure 3). When a CSV project is heavily focused on solving social issues without relevance to business operations, it will be little more than conventional corporate philanthropy. If, on the other hand, it is slanted toward profit (which both management and employees are inherently pursuing), the company will find itself trapped within the constraints of a competitive business environment.

Kirin likely decided on this approach because of Japan’s highly competitive

Figure 3. Kirin's Integration Strategy

Source: Based on interviews conducted by the Tokyo Foundation.

beverages market. In this environment, many new products have very short lifespans, quickly falling by the wayside as victims of price competition.

This may also be regarded as the roots of Kirin's CSV, as it needed to manufacture products with shared value for both society and business under what is called the Kirin integration strategy.

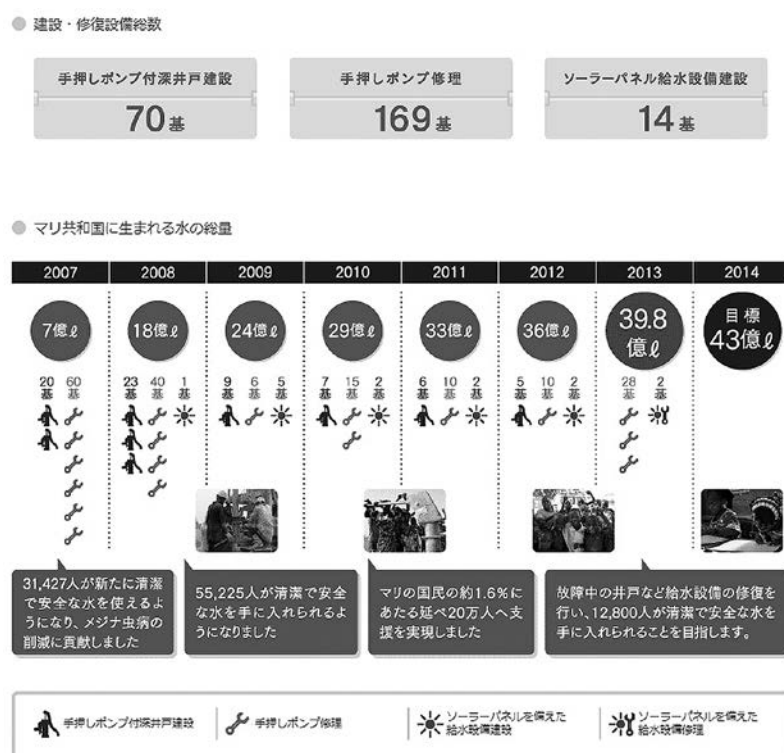
Learning from Past Successes

A philosophy is often not enough to significantly boost competitiveness. Kirin thus took a renewed look at its past successes and discovered a common point among them: they all combined social initiatives and business operations. Examples of such success were shared among the managers and staff.

The Great Tokyo Earthquake of September 1923, for example, damaged Kirin's Yokohama factory, forcing it to boost production at its newly built factory in Sendai. While it succeeded in increasing output, it faced a problem in shipment. At the time, bottled beer was packed in wooden crates, and the bottles would strike against each other and often break during transport.

So that the bottles would not break, the Sendai factory asked local farmers to produce bundles of rice straw as cushioning material. From the company's perspective, they were able to reduce the number of damaged bottles, while from the farmers' viewpoint, they were able to earn twice as much money as from their usual rope-making side work during the off-season, meaning that they did not need to leave their farms to find work in the cities. Kirin regards this project as the start of its CSV initiatives—a project that created value both for the local community and the company itself.

Figure 4. Support Enabled by Volvic's "Drink 1, Give 10" Campaign



Source: Kirin's website

Another example is a project initiated by Volvic, a mineral water company that is now part of the Kirin Group. The project's name is "Drink 1, Give 10." Each time a customer buys a liter of bottled water, the company donates funds to UNICEF to enable the provision of 10 liters of drinking water to residents in Mali (Figure 4).

UNICEF's Mali office has a project to dig wells and maintain them for the first 10 years of use. The program has provided 3.98 million liters of clean water from 70 new wells, repaired 169 hand pumps, and installed 14 solar-powered water supply systems (as of September 2013). The under-5 mortality rate in Mali is quite high, partly due to infectious diseases. The clean and safe water from this project can help prevent infection and can allow children—who no longer need to walk long distances to fetch water—to go to school.

This program has led to a significant increase in Volvic's sales. Customers were attracted by the opportunity to support the lives of people in a far-off country simply through their purchase of mineral water.

Helping Prevent Drunken Driving

A third example is the launch of Kirin Free, a nonalcoholic, beer-like beverage. This product was born from the company's desire to eradicate drunken driving. Japan's liquor tax law classifies drinks containing less than 1% alcohol as "nonalcoholic." But you would still be guilty of drunken driving if you operate a car after drinking such a beverage. Kirin Free is a drink with 0.0% alcohol. The company promotes Kirin Free for people who need to drive home from parties, golf trips, and barbecues.

As part of its marketing for the product, Kirin chose to support the "Designated Driver" campaign, under which one member of a group at a restaurant or bar is chosen as the driver. The designated driver does not consume alcohol, and the others (including shop employees) also make sure that he or she does not drink. The driver is responsible for driving everyone back home safely.

While the immediate motive for creating this product was to address a social issue, Kirin Free caught on with consumers other than those interested in preventing drunken driving. It was embraced by a much broader segment of society, leading to the creation of a new, nonalcoholic drinks market.

Upstream Innovations

Kirin's successes in creating new markets also include initiatives upstream in the value chain, including in the procurement of raw materials. Mercian, a member of the Kirin Group that makes wine, established the Mariko Vineyard in Ueda, Nagano Prefecture, in 2003 and launched its own grape cultivation with an eye to improving the quality of domestic wine and boosting consumption.

While the land was suitable for grape cultivation, it had lain idle for years. With the help of local volunteers, Mercian built a farm and began growing grapes. Seven years later, in 2010, Mercian sold its first vintage wine. It was immediately praised for its high quality, winning a gold medal at a domestic wine competition. This project enabled Mercian to not only expand the market for domestically produced wine but to also enhance the value of its brand.

Other value chain improvements include the development of lighter bottles that lessen the impact on the environmental and make them easier to handle for consumers. The weight of its large-size beer bottle was reduced by 21%, making it the lightest in Japan. It also developed the country's lightest 330 ml single-use bottle for carbonated drinks.

As for cans, Kirin led the industry in reducing the diameter of the lid and using

thinner material for the sides. It also introduced a can that does not require a cleaning process during its manufacture. By reducing the diameter and thinning the sides, Kirin achieved a 29% reduction in weight, cutting down on its use of aluminum. The total amount of raw material saved between 1994 and 2012 was approximately 270,000 tons, leading to the reduction 2.25 million tons in carbon dioxide emissions.

In addition, Kirin introduced light, thin, and easily crushable PET bottles for some of its products, and it was the first in the industry to use cardboard cartons for canned drinks that have a triangular section trimmed from their corners.

These projects save the company money, reduce the amount of materials used, and save shipment costs. They, too, are examples of efforts to integrate the solution of social issues and its business operations.

Kirin realized from reviewing past successes that CSR and CSV are not new developments but initiatives that it has been implementing for years.

Sustainable Tea Farming in Sri Lanka

Kirin's integration strategy was launched only in 2013, but by having employees at all levels revisit the success stories from the past, Kirin was able to make a flying start. One recent example involves improvements to its value chain.

Kirin uses large volumes of black tea. About 60% of such tea imported into Japan is produced in Sri Lanka, and about a fourth of that total is used for a Kirin product: Afternoon Tea.

Bearing this in mind, Kirin examined the sustainability of the tea farms in Sri Lanka and found that, due to financial difficulties, many farms in the country were unable to obtain certification in farming methods that protect the ecosystem.

To help interested farmers receive certification from the Rainforest Alliance, an international sustainable farming certification system, Kirin decided to provide the funds necessary for certification training. In 2013, the project's first year, assistance was provided for 15 farms. In a related project Kirin is supporting the education of children brought up on these tea farms by donating textbooks.

From a short-term perspective, such a project will lead to higher costs; but a longer-term view will reveal that such efforts help to ensure a stable and sustainable supply of high quality tea. Since this contributes to meeting customers' demands for safety and reassurance, there is a strong business argument for such investment.

Some consumers, concerned about chemical residues in tea leaves, are showing greater interest in where the tea is produced. This is a trend that may suddenly

accelerate, so the company must be prepared for such risks. In that sense, Kirin's decision to support sustainable tea farming in Sri Lanka was a wise and timely one from the standpoint of both meeting consumer expectations and ensuring business continuity.

Recovery and Reconstruction Support

Kirin suffered considerable damage from the Great East Japan Earthquake of March 11, 2011. Tsunami waves as high as seven meters struck Kirin Brewery's Sendai Plant, located next to the city's port, toppling several large tanks. The grounds were strewn with wreckage carried by the waves, including employee cars, parts of prefabricated buildings, and equipment from the plant.

At a press conference in Sendai on April 7, 2011, the company pledged to rebuild the plant; on September 26, 200 days after the disaster, the plant returned to operation, and it made its first shipment since the quake on November 2. A herculean effort was needed for these achievements, and it was no doubt propelled by memories of the role the Sendai Plant played following the 1923 earthquake, the strong links that have since been formed with the local community, and the conviction that resuming operations was the best way to help the disaster hit area recover.



Kirin's Sendai factory following the March 2011 earthquake.

In thinking of what else it could do to support the reconstruction effort, Kirin launched a project aimed at creating shared value with the local community, donating part of the proceeds from the sale of certain products to support the recovery.

Six billion yen was raised over three years for the Kirin Kizuna Project, which the Kirin Group set up in July 2011 to strengthen *kizuna* (community ties) in disaster hit areas in three ways: by restoring the local food culture and food industry; bringing smiles to children's faces; and improving the mental and physical wellness of local residents.

Kirin's strengths were particularly evident in its support for the local food culture and food industry. Since Kirin provides products that enrich the experiences and lives of consumers, the company's main focus is generally considered to be on food. Healthy agriculture and fisheries are essential to getting food to the dining

table, though, and so are healthy secondary, food-processing industries and tertiary, service industries.

Kirin thus conceptualized its support according to the principle of a “senary industry” involving the vertical integration of the primary, secondary, and tertiary sectors to achieve greater value. To provide agricultural training in Tohoku, for example, it set up two projects: an agricultural leaders’ network in Tohoku and an agricultural producer’s curriculum in Tokyo. And in 2013 the company launched the second stage of its support based on the theme of “support from production to table.” Kirin simultaneously extended its assistance for brand development for agricultural and fisheries products and the expansion of sales channels towards the creation of a senary industry.

Pears from Fukushima

One new product that was born of the company’s reconstruction assistance is Kirin Hyoketsu Wanashi, a *shochu* cocktail that uses pears from Fukushima, the sale of which fell dramatically due to ungrounded radiation fears. Hyoketsu is a top-selling brand of canned *shochu* cocktails. A limited number of Wanashi products made using pears grown in Fukushima in 2013 went on sale in November, and, needless to say, part of the proceeds from each can sold went to support the recovery of Tohoku’s farming and fishing industries.

This initiative enabled Kirin to reach a new group of customers and to work with the media, local governments, and civic groups in new ways. The product also gave great encouragement to Fukushima’s farmers. One local paper reported that the project encouraged farmers, their friends, and relatives to buy more Kirin products. This, too, is a good example of CSV and Kirin’s integration strategy.

In one sense, Kirin’s CSV efforts have only just begun in earnest, but in another they are part of a rich history of shared value creation. Its integra-



A flier for Kirin Hyoketsu Wanashi.

tion strategy is not just a natural outgrowth of its past, however, for Kirin has made great effort to redefine its links with society.

Such efforts also underpin Kirin’s development of innovative new products. Finding solutions for a single need may be easy, but meeting both social and busi-

ness needs is far more difficult. Such needs often appear incompatible from a short term perspective.

But the attempt to balance conflicting needs is precisely what leads to innovation. It may have been the highly competitive business environment in which Kirin operates that has enabled it to learn this important lesson. (Researched by Zentaro Kamei, Tokyo Foundation)

September 9, 2015

Incorporating Diversity as a Core Business Value

Dentsu Inc.

The Tokyo Foundation

The focus of Dentsu's CSR activities is on human rights. As Japan's biggest advertising agency, it has developed great sensitivity to and amassed a wealth of experience regarding human rights issues while helping client companies formulate and disseminate their message to consumers.

In general, the scope of most corporate human rights initiatives is limited to providing training and workshops for employees or setting up systems to answer employee queries. Dentsu goes much further, addressing a broad array of issues in many different ways. One example is its longstanding sponsorship of two human rights contests: the first calls on employees to submit human rights slogans, for which there were 9,866 entries in 2013; the second is for the design of human rights posters, which has evolved into a collaborative project with several art universities.

Promoting Cross-Sector Information Sharing

Dentsu also has what it calls Labs where employees from different departments can come together to work on projects that are not directly related to their daily responsibilities.

By the nature of its work, the company has ready access to the latest technologies and know-how, but such information tends to accumulate in disparate workplaces, such as departments that deal with client firms and the media, as well as sections for production and design and those in the solutions and management business. It was with the aim of pooling such expertise that Labs were created on the initiative of individual employees to promote the interdepartmental and cross-sector flow of information.

Labs are flexibly organized so members can engage in projects that are not directly related to their work. They are regarded as being part of the company's normal operations, though, so as long as they have the understanding of their bosses and colleagues, employees can devote themselves to their Lab projects

Dentsu Human Rights Slogans and Posters (Fiscal 2012)



Eliminating discriminatory, hate-inspired remarks on the Internet
Slogan: When is a "Send" button like an "Attack" button?
Meaning: Encourage people to think twice before making condemning online comments.



Increasing awareness of people with disabilities
Slogan: Who are you excluding when you say, "Anyone can do it"?
Meaning: Help people realize that just because they can do something easily does not mean that "everyone" can.

Dentsu Human Rights Art Project Poster (Fiscal 2012)



during working hours. Labs can apply for and secure their own operating budgets, and their activities are independent of any department within the company.

The Labs are generally organized to address various social issues. They not only help find solutions to those issues but also serve to maintain and increase the morale of employees who have an interest in such activities. By working with outside specialists, the Labs help the company to acquire new expertise. And they also bring benefits to Dentsu's main business as an advertising company, fulfilling a function as an incubator of new ideas and approaches and contributing to its marketing operations.

A similar, well-known example of using working hours to address social issues is Google's 20 percent time program, which is an outgrowth of 3M's 15 percent time (one result of which was the Post-It Note.) At Google, employees are allowed to spend 20% of their work time—or one day per five-day workweek—engaging in research or a project of their own choosing. Some choose to apply themselves to addressing social issues, and the program is credited with having greatly broadened the range of services that Google provides.

In Dentsu's case, participation in the Labs is optional, and there is no pre-

scribed amount of time one can devote to such activities. The Labs are not focused on the pursuit of personal interests, moreover, but on tapping employees' enthusiasm for work that contributes to society's well-being.

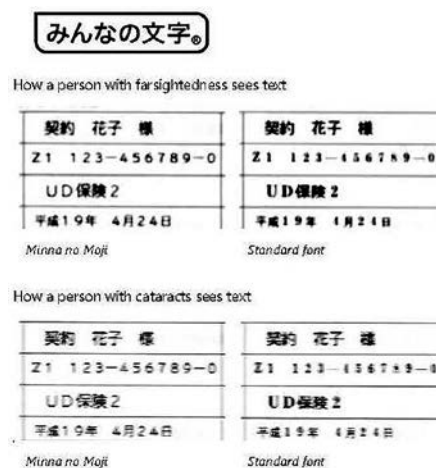
Designing a New Universal Font

The largest Lab, with some 100 participants, is the Dentsu Diversity Lab (DDL), which has its roots in a request from a client. A consumer goods company was concerned about the small typeface used in its manuals and other documents and hoped to make them easier to read, especially for older customers and those with reading disabilities.

Japan's Universal Communication Design Association points out that when a page of text contains more than a certain number of characters it becomes hard to read. A page crammed with too many letters may therefore be regarded as deliberately having been made difficult to read. This has now become common knowledge, so if companies want to act responsibly toward their customers, they must not issue such documents. This is an issue that affects all of society, not just individual companies or customers.

Dentsu gathered a team of specialists with various skills to find a solution to this client's problem, which could also lend itself to addressing a concern for society as a whole. In June 2011, the company launched its development of Minna no

Minna no Moji



Minna no Moji is a universal design font developed by Dentsu, UCDA, and Iwata Corp.

Source: Dentsu website.

Moji (Typeface for Everyone), a universal design font that can be easily read by elderly people and those with visual impairments. The team included Dentsu designers and client managers, as well universal communication experts at UCDA; members of Tokyo Denki University to conduct consumer surveys; and font specialists at Iwata Corp.

The first thing they considered was why some texts are hard to read. The three major reasons they cited were (1) visual issues on the reader's side, including age-related impairments or cataracts and fatigue; (2) poor reading environment, such as low lighting or reduced contrast; and (3) loss of clarity when enlarged or shrunk during photocopying, such as text becoming too faint or thick and loss of space between the letters. The team prepared various fonts to deal with these issues, staging a large number of experiments with trial subjects to determine which letters, words, and passages were the easiest to read. They examined exactly the qualities that make text more readable, and the result was a high legibility font called Minna no Moji.

Today, the font is used in a variety of corporate documents, such as operating manuals and contracts for financial products.

Meeting "Everyone's" Communication Needs

The Mina no Moji project enabled Dentsu to provide a practical solution to a real social problem. The company also gained insights into the efforts required to create a society in which diversity is fully acknowledged and respected.

Employees involved in the project wondered whether there are not many other communication issues waiting to be solved through similar initiatives and expressed a wish to continue working to meet such needs. The result was the establishment of an expanded, companywide team that today has become Dentsu Diversity Lab.

DDL began addressing the needs of people with hearing impediments. While hearing aids are used by many people in the United States and Europe in their sixties, these devices are often not worn in Japan until people reach their seventies, when their hearing has already become quite poor. Many people who could benefit from wearing hearing aids do not use them, the result being that some cannot hear what they want to hear, and the people to whom they are talking cannot fully convey what they wish to communicate.

This is thus a social issue. At the same time, it is also a business issue, not just for manufacturers of hearing devices but also for communication specialists, whose message may not be reaching their audiences as effectively as they had assumed.

CSR WHITE PAPER

From the perspective of the advertising industry, there may be a sizable number of people unable to understand the information aired during a 15-second TV commercial. Recognizing and respecting diversity is a popular CSR theme, but it is also much more; there is a need to accurately ascertain who people with special communication needs are and how large a share they make up in society.

The answers DDL came up with are shown in Figure 1. These are the people in Japan who might require special attention in meeting their communication needs. Visual and hearing disabilities can impede reading and the ability to converse, as can physical disabilities. For sexual minorities (lesbian, gay, bisexual, and transgender), misunderstanding and prejudice can become a barrier to communication. DDL discovered that 16.9 million people, or 13% of the Japanese population, fall into one or more of these categories. Elderly people may also be classified as having special needs as they develop various physical impairments and grow frail. If people 65 and older are included in the total, the targets of diversity initiatives would account for some 36% of the population.

The figure does not include children, those with minor impairments, or those afflicted by chronic illness, so there may be a much larger pool of people with special communication needs in Japan.

DDL believes that creating a society that respects diversity means considering the needs of these groups. Inasmuch as this group comprises at least 36% of the population, DDL refers to them as *minna* (everyone).

If one in three people in Japan belongs to this group, then they are already all around us, among friends and family; in fact, we may be among the “special” ones ourselves. So the problems that affect *minna* really do concern “everyone” in soci-

Figure 1. “Everyone” (People with Special Communication Needs) Includes . . .
(1,000 people)

Hearing disabilities	360	6 million when including people with minor impairments
Visual disabilities	315	1.3 million when including people with weak eyesight
Physical disabilities	3,663	
Cognitive disabilities	547	
Color blind	3,190	5% of men
Resident non-Japanese	2,130	
LGBT	6,660	5.2% of population
Above total	16,865	13% of population
65 and older	29,410	(Projected to reach 41% of population in 2055)
Total	46,275	Around 36% of population

Note: Results are estimates, as some individuals may fall into more than one category.

Source: Dentsu Diversity Lab.

ety. Rather than seeing differences in terms of better or worse, respecting diversity should mean construing divergent needs as expressions of individuality and regarding their problems as our own. This is the approach embraced by DDL: to identify social issues—starting with communication—and find solutions to them.

“Diversity Thinking”

As the word suggests, diversity means thinking about people with divergent needs, including among those who share the same disability. This is why DDL began its activities by engaging in “diversity thinking.”

Diversity thinking lies at the heart of all initiatives directed at addressing people’s special needs. Without a full understanding of what diversity really is, there is little point in measures that, on the surface, appears to address this issues, whether in how we work or how we operate a business. They will simply be ego-gratifying exercises that do nothing to solve real issues affecting “everyone.”

For example, consider a situation that takes place in a suburban restaurant, the sort of place where one would go to eat something special: the price may be a bit high, but it has a good reputation—a trendy restaurant for which you would want to dress up a little.

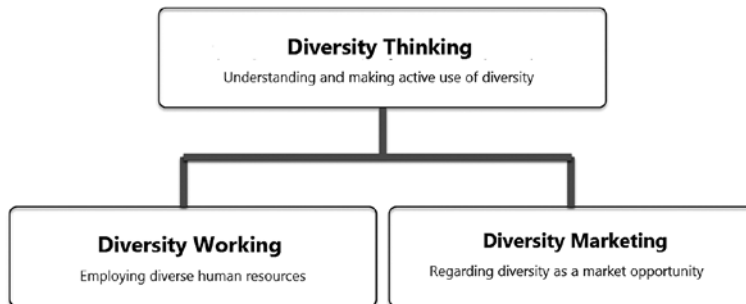
Now imagine that a family of four arrives, including a person in a wheelchair. You greet the group as the head waiter and, taking note of the wheelchair, suggest a table for four by the window, which gets plenty of sun and should be perfect for the family. You turn to instruct the waiting staff to remove the chair next to the window to make room for the wheelchair. Thanks to your quick thinking, the family of four has a very pleasant dining experience.

Now this, at first glance, appears to be a perfect example of respect for diversity, but is it really? You have gone out of your way to accommodate someone with a physical disability so that the entire family can have an enjoyable meal. But this may not be what the person in the wheelchair actually wanted.

Some wheelchair users might prefer to sit in the same chairs as other diners. The table might be too high, making it difficult to eat while seated in a wheelchair. Or they might prefer not to draw attention to themselves. You have done what you can to provide the best service possible. What could you have done differently?

For one thing, you could have asked what their preferences were. After explaining that there is a nice table by the window, you could have asked the wheelchair user if they would like to use the same chairs as everyone else or sit in their wheelchair at the table.

A failure to ask is not likely to earn any rebukes; after all, you were merely

Figure 2. Keywords in Creating a Future for “Everyone”

Source: Dentsu Diversity Lab.

trying to be helpful. But the irony is that many of the things we unthinkingly do, assuming that they would be appreciated, may not necessarily be what is desired.

So, what can we do for people with disabilities? The answer is to talk to them and ask what they really want. This might sound obvious, but in practice it is rarely done, for most of us simply do—and keep doing—what we think is best based on past experience.

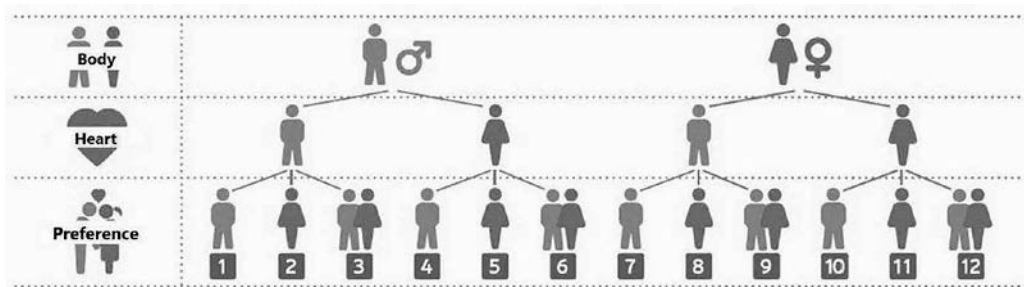
Diversity thinking can thus lead to changes in our basic attitudes toward how we work or run a business. The restaurant in the above example may have gained some very enthusiastic and loyal new customers if it had simply confirmed the wishes of a person with a disability (Figure 2).

Another manifestation of diversity thinking at DDL is Minna no Kaigi (Conferences for “Everyone”), organized in conjunction with the Accessible Design Foundation of Japan to encourage the application of this thinking toward Dentsu’s customers, products, and solutions.

Steps and other height differentials, for example, are a hindrance for wheelchair users; accessibility would be greatly enhanced if there were no steps at all. But for the visually impaired who rely on white canes to get around, physical obstacles provide much needed guidance. While steps cause problems for some, they are essential for others. At first glance, a compromise may appear impossible. But during a Minna no Kaigi conference, people with different disabilities can sit down together to learn about each other’s needs and wishes and suggest ways to meet many different requirements (Figure 3).

The LGBT Survey and “Diversity Marketing”

When Dentsu Diversity Lab was launched, a hundred employees expressed an in-

Figure 4. Varieties of Sexual Minorities

Finding oneself on the gender map means examining one's physiological gender identity, psychological gender identity, and sexual orientation.

Source: Dentsu Diversity Lab.

the United States and Europe to secure human rights for LGBTs, and in 2011 the United Nations Human Rights Council adopted a resolution protecting their human rights. The LGBT market is estimated to be around ¥77 trillion in the United States and ¥7 trillion in Britain.

Since many people conceal their sexual orientation due to fear of discrimination, the actual number LGBT people in Japan cannot be easily ascertained. With the help of specialists, DDL thus conducted fact-finding research of various LGBT groups.

In February 2012 the Dentsu Innovation Institute conducted an Internet survey of 70,000 people to gain an idea of the number of LGBT people in Japan and to shed light on their preferences, attitudes, and behavior.

The survey revealed that of the 70,000 respondents, 5.2% fell into one of the LGBT categories—that is, 1 in 20 people. Around 10%, moreover, said that they personally knew of an LGBT person. These findings showed Dentsu that the LGBT issue cannot be ignored, either from its perspective as an employer or in terms of the potential LGBT market.

Dentsu has revised its stance and has become more supportive, adding a clause to the Dentsu Group Code of Conduct to end all discriminatory practices toward LGBT people and making changes to work styles and office layouts. It has also produced an easy-to-read pamphlet with frequently asked questions and answers to eliminate discrimination and prejudice.

These efforts have not just helped protect the human rights of Dentsu employees but also led to requests to organize human rights workshops from client companies. Dentsu is also looking to tap the sizable the LGBT market, encouraging companies to include same-sex couples as targets of their family-oriented products

and services. Dentsu is thus promoting diversity not just as part of CSR but also because it sees market and business potential there.

Working with Outside Experts

Dentsu treats “everyone” else with special communication needs in the same way. Many companies already offer various solutions for people with visual and hearing disabilities—quite unlike the situation faced by LGBTs, whose very presence had largely been invisible. Yet, those solutions have not always met their needs. The DDL disability team thus chose to apply diversity thinking and seek the cooperation of outside companies with expertise in these areas.

One example is Uni-Voice. People with visual disabilities are either unable to read text or have great difficulty doing so. This might not be a problem when they want to access the news or read notifications from the local government office, since they can either ask someone to read it out loud or obtain the information through braille.

But there are other times when the text includes private information, such as bank balances or pension statements. Sharing such information may make both the reader and listener uncomfortable and could even lead to unwanted worries and doubts about not being told the truth or being deceived.

Uni-Voice is a technology developed by JAVIS (Japan Association for the Visually-impaired Information Support) that can turn text into an audio message with the use of a smartphone or cellphone. It converts up to 800 characters of text into a two-dimensional barcode, which can then be “read” aloud by a phone by using the phone’s camera. DDL chose to work with JAVIS to expand the use of this technology to meet specific social needs.

For people with visual impairments, Uni-Voice offers a way of accessing written information that they would prefer to keep private. This system was first used for pension statements and is now being extended to tax payment slips and bank balance statements. Its use is also being promoted in pharmacies to ensure that information about medication and medical expenses are conveyed accurately.

An added feature is a translation function, which enables users to have the information contained in the scanned barcode read out in English, Chinese, or



A document containing a Uni-Voice barcode and the device used to read it.

Korean. Such a function may be quite useful for tourists during the 2020 Tokyo Olympics and Paralympics, as well as for confirming one's bank balance and obtaining pharmaceutical information.

Integration with Main Business Operations

The mission of DDL is to draw on Dentsu's communication expertise to promote diversity in the workplace and in society, eliminating prejudice, shedding light on "everyone's" various needs, and making diversity a fact of life. The biggest challenge it faces may be to synergistically integrate DDL's initiatives and Dentsu's main business operations. From the company's perspective, there must be tangible results to match the money it spends.

DDL members express a wish to more fully integrate its activities with the company's operations, precisely because the work it does has value for society. Dentsu is a communications specialist, so diversity is a field that could easily lead to new business opportunities.

Some DDL participants may be satisfied doing pro bono work in their field of expertise, contributing something to society without seeking anything in return. But it is often by integrating such activities with business operations that the solutions offered can be made to conform to the exacting, professional standards society demands. A serious business approach can abet the development of truly effective solutions.

Dentsu is fully aware of the merits of integration and endorses DDL's activities and employee participation precisely for this reason. It sees DDL as not only contributing to the solution of social issues but also enriching its own value chain. The ideas, frameworks, and solutions developed through DDL are actively being applied in Dentsu's business operations, helping the company to enhance diversity-oriented R&D and marketing at the top of the value chain. (Researched by Zentaro Kamei, Tokyo Foundation)

September 8, 2015

ESG Investing as an Antidote to Myopic Management

Mariko Kawaguchi

Investors can play a major role in promoting CSR by encouraging businesses to deepen their commitment to addressing social issues and restoring a long-term perspective to financial markets. Enabling socially responsible investment, says CSR expert Mariko Kawaguchi, requires the disclosure of a company's environmental, social, and governance performance and policies, in addition to financial data.

* * *

To the extent that corporate social responsibility consists of efforts by individual companies to contribute to the resolution of social problems through their own business activities, investors have an important role to play as corporate stakeholders in promoting CSR. By using their own perspectives to assess corporate value on the basis of CSR criteria, investors can not only encourage businesses to deepen their commitment to CSR but also help restore a long-term perspective to financial markets that have become all too preoccupied with short-term results. In the following, I discuss the importance of a long-term approach and the role of environmental, social, and governance investment criteria in fostering long-term thinking, drawing on the results of the Tokyo Foundation's CSR survey.

Long-Term Versus Short-Term Management

The global financial crisis precipitated by the 2008 Wall Street meltdown led to harsh scrutiny of the "greed is good" brand of finance capitalism. In fact, some of the major market players, recognizing the pitfalls of short-term profit seeking, have

Mariko Kawaguchi Managing Director and Senior Analyst, ESG Research Department, Daiwa Institute of Research.

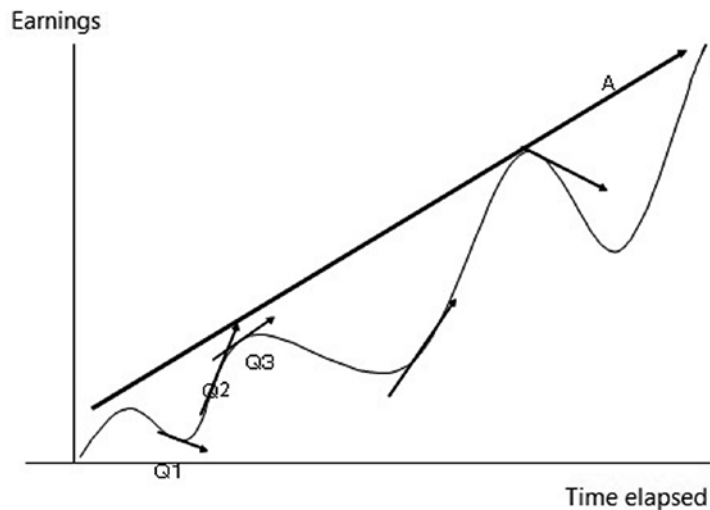
joined in the effort to reconsider the way these markets function. One focus of these reforms is to mitigate the emphasis on short-term results.

Many players have come to recognize the negative impact of short-term corporate valuation on financial markets—particularly the way quarterly financial reports affect corporate investment and stock prices. This priority on quarterly results encourages corporate executives to target their resources toward efforts to maximize sales growth during each three-month period, instead of research and development or other long-term strategic investment.

Take the case of a business that relies on timber resources. From the standpoint of quarterly earnings, it might be advantageous to boost the business's short-term cost-competitiveness by importing cheap Southeast Asian lumber harvested through clearcutting, instead of pursuing the costlier option of sustainably managing its own forest. From a long-term perspective, however, such procurement practices not only destroy forest ecosystems and promote desertification but also impact the company's future access to raw materials. In the case of agribusinesses, a short-term orientation is likely to discourage organic farming, which generally results in lower yields, and incentivize the large-scale application of agrichemicals to boost short-term yields, even at the cost of depleted soil and poor harvests farther down the road (not to mention the costs of the agrichemicals themselves).

One need not look far to find companies that have sustained serious damage as a result of myopic cost cutting. In the fall of 2013, Japan was rocked by a series of revelations regarding false labeling by top-tier hotels and restaurants. These establishments became the objects of stinging criticism after admitting to the use of cheap substitutes for more expensive ingredients like lobster. In April 2013, more than 1,100 garment workers died after a factory collapsed in Bangladesh, a major supplier of cheaply made apparel to companies around the world. This led to local demonstrations and major public campaigns by nongovernmental organizations directed against foreign businesses, which were ultimately forced to implement major changes in their supplier agreements to substantially upgrade working and living conditions for garment workers.

When businesses focus narrowly on near-term profits, they not only miss opportunities to maximize long-term gains but can even jeopardize their own survival through unethical or unsustainable practices, such as mislabeling, complicity in child labor or poor labor conditions, and indiscriminate sourcing of timber and other resources. Good quarterly performance can mask such practices, their impact on society, and their risk for long-term performance. Even while keeping an eye on short-term fluctuations in earnings, investors need to avoid being distracted by

Figure 1. Short-Term Business Forecasts and Long-Term Trends

Source: Daiwa Institute of Research.

such “noise” and judge companies by their long-term business strategies if they want sustained performance.

Quarterly financial results can also fluctuate widely in response to temporary developments, including stages in the product cycle, the presence or absence of a hit product, shifting customer preferences, exchange rate fluctuations, weather conditions, and tax payments. In order to determine a company’s true trajectory, investors must look beyond such passing events and scrutinize the long-term trend. Figure 1 is a schematic representation of the relationship between long-term and short-term trends.

The curve traces actual short-term performance. The slope of the curve at the end of each quarter (Q1, Q2, etc.) shifts dramatically from quarter to quarter, meaning that forecasts based on quarterly business performance would also fluctuate widely. But the long-term trend, represented by line A, is actually quite consistent. We should be using this trend line to make long-term assessments of business performance.

Long-Term Evaluation and ESG Investment

However, the figures companies are required to release are those corresponding to Q1, Q2, Q3, and so forth. What do investors need in order to see the big picture, represented by line A? In addition to financial data, they need information about a

company's environmental (E), social (S), and governance (G) performance and policies.

The rise of socially responsible investing (SRI), also known as ethical investing, dates back to the 1960s in North America and to the 1990s in Europe. It emerged and took hold as a niche strategy oriented to religious organizations, labor unions, and other asset owners anxious to avoid investing in businesses that violated their religious or ethical principles (corporations involved in alcohol or tobacco were a prime example).

Then around 2006, a different style of SRI began to gain ground. Commonly known as ESG investing, it is aimed at achieving better long-term performance and compliance with fiduciary duties by taking into account factors pertaining to the three basic elements of CSR: environmental responsibility, social responsibility, and good governance. This approach was codified in the Principles for Responsible Investment adopted in 2006. The PRI were drawn up under the leadership of major American and European pension funds, such as Calpers and Hermes, with the support of the UNEP (United Nations Environment Programme) Finance Initiative and the UN Global Compact. They have gained widespread support from those involved in long-term asset management—including public pension funds—from the standpoint of promoting socially responsible investment geared toward compliance with fiduciary duties, better performance, and the resolution of social issues. As of the end of July 2015, a total of 1,357 institutions (including asset owners like pension funds, investment managers, and financial service partners) had signed on to the PRI and were pursuing ESG investing based on those principles.

What is the overall scale, then, of ESG-conscious investing? According to the *Global Sustainable Investment Review*, published by the Global Sustainable Investment Alliance, the SRI market in all the regions covered by the report totaled \$21.4

Table 1. Global Sustainable Investment by Region

	SRI assets (\$ billion)			Share of global SRI assets (%)		SRI's share of managed assets (%)	
	2012	2014	% growth	2012	2014	2012	2014
Europe	8,758	13,608	55	66.0	63.7	49.0	58.8
United States	3,740	6,572	76	28.2	30.8	11.2	17.9
Canada	589	945	60	4.4	4.4	20.2	31.3
Oceania	134	180	34	1.0	0.8	18.0	16.6
Asia	40	53	33	0.3	0.2	2.9	0.8
Total	13,261	21,358	61	100	100	21.5	30.2

Source: *Global Sustainable Investment Alliance*, 2014 *Global Sustainable Investment Review*, <http://gsiareview2014.gsi-alliance.org/>

trillion in 2014, about 30.2% of the total. By region, Europe (63.7%), the United States (30.8%), and Canada (4.4%) accounted for nearly 99% of this investment. Of the remaining 1%, Oceania accounted for 0.8% and Asian countries for 0.2% of the global total (Table 1).¹ It is noteworthy that the European and the US SRI market expanded by 55% and 76%, respectively, between 2012 and 2014.

The Significance of ESG Criteria

What are the factors driving the growth in ESG-conscious investment outside of Japan? As we have seen, one is the demand by investors for a more accurate and multifaceted evaluation of corporate value and performance. A second factor is the desire to contribute to the resolution of problems like environmental degradation and poverty through socially responsible investing. And a third factor is the growing recognition that ESG criteria provide a valuable tool for assessing corporate value over the long term.

How, then, do ESG criteria correlate with the assessment of corporate value?

The first point to keep in mind is that most key ESG goals, including environment-friendly business operations and sound human resources development, require long-term investment. For example, the administration of Prime Minister Shinzo Abe has placed great emphasis on more active participation by women in the workforce, but substantially increasing the percentage of executive posts occupied by women is a multiyear undertaking under the best of circumstances and in some settings may take a generation to accomplish. After all, women must be trained to function in executive posts, and in Japan, where executives generally rise up from the company ranks, such training must occur predominantly within each company. Similarly, environmental measures like afforestation and tree planting, clean-water programs, and other initiatives can take years or decades to show results. Large-scale investment in energy-saving equipment and processes generally pay off in cost savings as well as reduced CO₂ emissions, but they offer no financial benefits over the short term.

Using a sports analogy, quarterly performance can be likened to running a 100-meter dash, while CSR corresponds to an athlete's overall physical condition as gauged by such fundamentals as weight, height, pulse, blood pressure, muscle tone and strength, and the health of the heart, the liver, and other internal organs. Of course, one needs more than strong muscles, heart, and bones to run like Usain Bolt. An athlete who suffers from a chronic ailment like heart disease or high blood

¹ <http://www.gsi-alliance.org/resources/>

pressure carries a high risk of collapsing. Maintaining good performance over the long term requires careful management of one's total health and fitness. CSR is the health and fitness a company needs to run a good race, not only once or twice but repeatedly over time, with ESG corresponding to the specific components of that health, such as the muscles, bones, heart, and blood pressure.

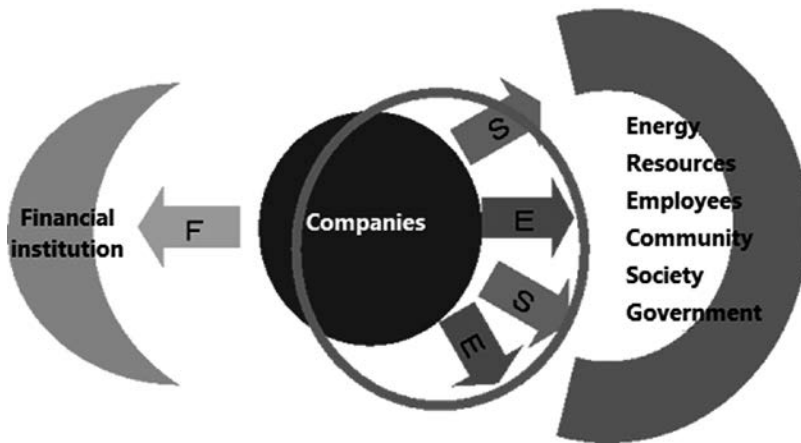
At a December 2013 investment seminar organized by MSCI Japan—publisher of financial indexes for global investors—Executive Director Seiichiro Uchi explained the importance of ESG factors as follows:

- ESG factors examine a company's adaptability and durability in the face of future changes in the game's very premises. Traditional financial analyses sometimes took these factors into account, but the analyst's focus was always on a company's competitiveness and attractiveness at a certain moment in time.
- Child labor, worker exploitation, and other abusive labor practices are a major problem in many emerging markets. Yet traditional financial analysis offers no means of evaluating a company in terms of the role such practices play in its cost-cutting strategy. Without ESG expertise, it is impossible to judge whether a company should get high marks for cost cutting or low marks for human rights issues.
- Why is ESG important? Because there is a need to scrutinize corporate practices for their potential impact on society.²

Figure 2 illustrates the relationship between ESG and financial figures. Using capital from investors and lenders, each corporation hires personnel (S), builds offices and plants in compliance with local rules and regulations (E, S), and uses energy and resources (E) under a unified management policy (G) for the purpose of providing goods and services at a profit (F).

Financial results (F) that investors watch closely are thus the outcome of ESG contributions. Yet until fairly recently, it was impossible to obtain data regarding each of these contributing factors, and in the absence of information to judge their impact on financial results, companies were evaluated on the basis of financial data alone. However, as companies began to incorporate CSR policies and programs into their management strategies and publishing CSR reports, more information became available from the companies themselves. Armed with this data, PRI sig-

² Seiichiro Uchi, "ESG toshi no nami" (The Wave of ESG Investing), summary of presentation to MSCI pension seminar, Tokyo, December 6, 2013.

Figure 2. Relationship Between ESG and Financial Results

Source: Daiwa Institute of Research.

natories have been able to identify the ways in which ESG factors affect profit and risk, and investors have become increasingly interested in the correlation between ESG and long-term performance.

ESG and Long-Term Strategy

This trend has received a recent boost from the 2013 publication of the International Integrated Reporting Framework, compiled by the International Integrated Reporting Council, or IIRC. The framework defines integrated reporting as “a process . . . that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation” and defines an integrated report as “a concise communication about how an organization’s strategy, governance, performance, and prospects, in the context of its external environment, lead to the creation of value in the short, medium, and long term.”³

The International IR Framework identifies six forms of capital that contribute to the creation of value: financial capital, manufactured capital, intellectual capital, human capital, social and relationship capital, and natural capital. Students of economics and business who have been inculcated with the notion that there are three categories of capital may find it difficult to adjust to the idea of expanding the definition to include ESG factors, represented by the last three items. Classical

³ <http://www.theiirc.org/>

economics treated water and air as free goods and did not recognize society or the community as capital. But given the growing global water shortage and the air pollution crisis affecting many parts of China, it is increasingly clear that clean water and air are finite assets that come at a price. The notion of human capital is perhaps less foreign, since classical economics classifies labor as an asset, and the idea of human resources as the core of a business's nonfinancial value has become commonplace in recent years. By focusing on these "six capitals," the International IR Framework helps clarify the connection between ESG and the process of value creation in order to facilitate decisions regarding sustainable investment using ESG criteria.

For fiscal 2014, more than 100 companies intend to prepare integrated reports, according to the IIRC. As a result of such initiatives, more and more companies can be expected to disclose key elements of their long-term business strategy, and such nonfinancial data can be expected to play an increasingly prominent role in investment decisions. Whether this trend bears fruit in Japan will depend on how well each company is able to integrate CSR into its strategy for long-term value creation.

Insights from the Tokyo Foundation Survey

What insights can the Tokyo Foundation's Survey on Corporate Social Responsibility provide when ESG is regarded as part of a company's long-term business strategy?

The survey asked businesses about their initiatives for nine social issues and the benefits of those efforts to the company. The responses overall indicate that most companies place low priority on areas in which CSR efforts are thought (by the CSR officer) to be of little benefit to the company or on areas with no clear connection to the company's core business.

Topping the list in terms of CSR initiatives and perceived benefits were domestic and overseas programs aimed at environmental sustainability, followed by domestic efforts to raise the status of women. The emphasis on these two areas is not difficult to understand. Fifteen years ago, when the Kyoto Protocol was adopted, environmental efforts were still regarded as an aspect of social philanthropy. Nowadays they occupy a more central place in business strategy, functioning not only to reduce a business's environmental burden and to cut costs but, in many cases, to spur the development of new goods and services for the global market.

The focus on women's empowerment can be explained by such factors as the current administration's goal of boosting women's participation in the labor force,

the large gap between the status of women in Japan and in the rest of the industrialized world, and the growing realization among many businesses that henceforth women must be part of any sustainable strategy for securing and developing human resources.

By contrast, only 31 of the companies surveyed reported that they were engaged in efforts aimed at fighting poverty and hunger in Japan, while 175 indicated that they were not. Those supporting programs to fight poverty and hunger overseas, on the other hand, numbered 74. This gap may reflect a view that poverty is a serious problem only in other countries, not in Japan. Or it may stem from a sense that the company has little to gain from domestic anti-poverty initiatives or that domestic poverty has little bearing on the company's businesses. In any case, given the growing problem of the working poor in Japan and rising concerns over schoolchildren unable to pay the fee for their school lunch program, one cannot but feel that this is an area in need of greater attention.

Corporate initiatives to fight childhood poverty are likewise primarily undertaken overseas. On the other hand, initiatives pertaining to community involvement and the preservation of local culture were more prevalent in Japan, with 154 companies indicating that they had domestic programs in place but only 70 reporting such activities overseas. Among those respondents that claimed to be actively considering a community initiative of some sort, 129 said that the focus of the proposed initiative was domestic, and only 58 were considering such a program overseas. Perhaps this discrepancy stems from a relative lack of familiarity with and understanding of local customs in foreign countries.

In terms of how CSR activities benefit the companies that engage in them, most respondents emphasized the contribution to employee education, securing of qualified human resources, and corporate image. Very few reported a positive impact on business earnings from any CSR initiatives save those pertaining to the environment in Japan or overseas. In short, the economic impact of CSR policies on Japanese corporations thus far has been limited mainly to enhancement of overall corporate health, as discussed above, through improvements in human resource development and brand value that lead to value creation over the long term. The challenge facing Japanese CSR officers now is to convert such basic improvements into concrete performance.

Generally speaking, Japanese corporations seem eager to pursue mainstream themes that are easy for their CSR officers to grasp and that are already widely embraced by Japanese society. Issues that are serious but have a lower social profile are much less likely to receive attention from Japanese companies, even though programs targeting such issues might be of greater potential value to society. Even

if the officers in charge of CSR recognize such an issue's importance, they need the support of the people around them in order to mobilize the organization's resources. And gaining that support is difficult unless the problem has escalated to a level where it can no longer be ignored.

Japanese society today faces a number of emerging issues, including child labor and other human-rights abuses, that have thus far received little attention yet pose serious long-term risks if not confronted and addressed. Inhumane treatment of animals is another emerging issue; in late January 2014, a convenience store chain suspended sales of a box lunch containing foie gras (a decision that drew lively debate on the Internet) following accusations of cruelty to animals.⁴ The latter development highlights the need for greater awareness on the part of Japanese CSR officers of new horizons in corporate ethics—especially in the West, where rights issues increasingly apply to animals as well as human beings—and the need for companies to map out a clear policy in response to new issues and changing values.

The results of the Survey on Corporate Social Responsibility lead one to the unsurprising conclusion that Japanese companies are working fairly hard on the “easy” initiatives—that is, those that already enjoy a high level of public awareness and corporate support—but that they are less actively engaged in other areas. Instead of merely following the leader and ignoring low-profile issues on the grounds that no one else is tackling them, CSR departments need to focus on problems that are still relatively small in scale. Once a problem has spread and escalated into a major social issue, no one needs the CSR department to explain its importance.

I believe that one of the most critical jobs of a CSR officer is identifying and following emerging issues and their potential impact on the company. Henceforth an increasingly important aspect of CSR management will be identifying risks in previously overlooked areas of corporate responsibility. The companies that succeed in doing so will have the best chance of boosting and creating new value over the long term.

⁴ http://www.family.co.jp/company/news_releases/2014/140124_01.pdf

October 26, 2015

Japanese CSR in the Age of Responsible Global Investing

Hiroshi Komori

Recent years have witnessed important milestones in the global trend toward sustainable investment. In May 2013 the Global Reporting Initiative released the G4 Sustainability Reporting Guidelines at the Global Conference on Sustainability and Transparency in Amsterdam. And in December that year, following a period of public comment, the International Integrated Reporting Council published the final draft of its International IR Framework. In the following, I would like to discuss the challenges facing Japanese companies amid these developments, as seen from the perspective of the foreign institutional investors with whom I have worked for more than a decade. Note that the opinions expressed here are my own and do not reflect those of any organization or institution.

Institutional Investors and CSR Reporting

Institutional investors consist broadly of two types: asset owners, such as pension funds and foundations, which provide the funds to be invested; and asset managers, to whom the asset owners delegate the management of their funds.

Of the foreign institutional investors who invest in Japanese equities, only a very small portion actually read the individual corporate social responsibility reports published by Japanese corporations. One reason for this is limited resources. Investment firms with global portfolios hold shares in a huge number of companies: between 1,000 and 2,000 in the case of mid-sized asset managers, and 5,000 or more in the case of the big management firms. These days most of the larger asset management firms have departments dedicated to ESG (environmental, social, and governance) risk assessment, but even so, reviewing the CSR report of each and every listed company is physically impossible.

Hiroshi Komori Associate General Manager, Stock Transfer Agency Business Advisory Department, Sumitomo Mitsui Trust Bank, Ltd.

Who, then, is reading them? The most important readers of CSR reports are ESG rating agencies. These are organizations that analyze and rate the ESG performance of stock-issuing companies on behalf of institutional investors, mostly on the basis of data from the companies' environmental, social, and governance information in CSR reports, along with answers to questionnaires and, occasionally, interviews and observation. These agencies may bring their own special research methods to bear, and virtually all global investors depend on them for ESG information.

In these ratings, Japanese companies as a whole fall somewhere between the middle and bottom of the global rankings, and there has been no appreciable change in this position over the years. In the environmental component, Japanese corporations rank near the top. However, in the social component they rank in the middle or lower, and when it comes to corporate governance, they are near the bottom. These results are consistently seen among all the reports compiled by these agencies.

New Trends in Institutional Investing

Such is the situation today. How has CSR as an investment criterion evolved over the past decade? Until about five years ago, no foreign institutional investor hardly made any mention of CSR to me. To some degree this reflects my personal concerns, which until then were focused squarely on corporate governance. A more fundamental reason, though, is that until fairly recently, investors—even those involved in medium- and long-term asset management—were preoccupied with short-term returns. The only exceptions were a few specialized SRI (socially responsible investment) funds. But all this began to change after the 2007–2008 global financial crisis.

Investors, particularly asset owners, were among those hardest hit by the crisis. In its aftermath, there was much soul searching regarding the obsession with short-term gains, particularly on the part of pension funds charged with managing assets over a period of decades. The result was a new consensus that investment management should entail not only the pursuit of high returns—a basic premise of institutional investing—but also medium- to long-term investments guided by lasting corporate value so as to minimize the risk of investment losses. From this consensus arose the concept of ESG.

How, then, does ESG differ from CSR? I have explained the difference as follows. “CSR encompasses the basic corporate activities and policies that help ensure a business's medium- and long-term survival by considering the welfare of all stakeholders, while ESG refers to activities and policies oriented to institutional inves-

tors who are seeking steady and reliable growth in corporate value.” In other words, ESG is not something distinct from CSR. Rather, ESG ratings and reports highlight the so-called “material issues” of CSR—aspects of CSR that are especially meaningful in terms of disclosure to institutional investors and extended two-way communication because they are relevant to corporate value. ESG in no way diminishes the importance of CSR in corporate management. What it does is to meet institutional investors’ need for concrete data on factors pertaining to long-term corporate value that are not adequately covered by the typical CSR report.

New Challenges for Japanese Corporations

In this context, what are the major challenges facing Japanese stock-issuing corporations today with respect to institutional investors?

SHIFT TO INTEGRATED REPORTING The reporting trends embodied in the G4 Sustainable Reporting Guidelines and the International IR Framework emerged in response to the new emphasis on longer-term value among institutional investors. While retaining the original structure of the GRI’s sustainability reporting framework, with its focus on multiple stakeholders, the G4 Guidelines introduce the element of corporate value into the equation via the concept of “materiality.”

Integrated reporting likewise attempts to address the demand by institutional investors for information needed to assess long-term corporate value—information effectively conveyed by neither the traditional annual report, the typical CSR report, nor the two combined.

From the standpoint of institutional investors (and rating services), the annual report and the CSR report will retain their utility as information sources to be included in the database. But integrated reporting is something new, drawing on both financial and nonfinancial information to succinctly communicate “the full range of factors that materially affect the ability of an organization to create value over time.” The challenge in adopting integrated reporting is to avoid the temptation simply to combine the annual report and the CSR report into one massive publication, increasing the quantity of information yet communicating less of material relevance .

PROBLEMS WITH CURRENT CSR REPORTING As I have noted, Japan’s overall ESG ratings, based primarily on individual companies’ CSR reports, are consistently at or below average for advanced industrial countries. In fact, Japan is in danger of being overtaken by emerging economies like Brazil and South Africa. The

Japanese CSR officers and others who have spent hours preparing voluminous CSR reports for their companies may well wonder why their efforts are not rewarded by better ratings. Most of the rating agencies use Japanese researchers to compile and analyze data on Japanese companies, but my discussions with these experts reveal the following problems.

First, from the standpoint of foreign institutional investors, Japanese equities are usually part of a global or Asian portfolio and have been for some time. This means that they are evaluated by global standards, with no allowances for circumstances that are special to Japan. Moreover, the basis for comparison is not other Japanese corporations but all corporations in the global portfolio.

Second, when rating stocks by global standards, the corporation is never given the benefit of the doubt. If a CSR policy or initiative is not spelled out in the report, then the raters assume that the company is not doing it.

Third, many research and rating agencies send companies follow-up questionnaires to verify items not specified in the CSR report. In the case of Japanese companies, researchers find that the same items must be verified year after year, and the responses they receive are often inadequate.

Fourth, when it comes to corporate governance systems, Japanese companies almost invariably lag behind their Western counterparts in such social responsibility measures as supply chain management, human rights, labor practices, and diversity.

As for the public-relations effectiveness of Japanese CSR reports, the comments I have heard highlight the same basic issues uncovered by the Tokyo Foundation's CSR Survey. The very act of publishing a report appears to have become an end in itself, with the result that the content varies minimally from year to year. One senses little attention to such essentials of purpose-driven marketing as who will be reading the reports and what the readers are looking for, and which companies in what countries provide the basis for comparison and what sorts of reports they have published. There are too few specifics pertaining to the identification and resolution of problems and shortcomings.

These are generalizations, of course, and exceptions to the rule do exist. A few Japanese companies earn high overall ESG ratings. Unfortunately, when the country as a whole ranks low in the ratings, there is little motivation for investors to seek out those exceptions.

Learning from Institutional Investors

Japanese corporations, for their part, often find it hard to believe that ESG consid-

erations figure prominently into the decisions of fund managers and analysts. This is understandable. The main thing asset managers look at when they make an investment decision is the stock's target price, and this is based on an analysis of the financial data. To the best of my knowledge, this basic practice has not changed even after the financial crisis. This may explain why the CSR departments of Japanese corporations remain segregated from the investor relations and general affairs departments, and why ESG is rarely a topic at IR meetings. Judging from my recent discussions with corporate officers overseas, this is true to some extent at American and European companies as well. Enterprises that have recognized the importance of ESG—including those in Japan—meanwhile, also understand the need for good communication among company divisions.

It must also be stressed that foreign institutional investors are diverse in their orientation. They include long-term investors as well as hedge-fund managers and high-frequency traders oriented to short-term profits. In Japan there is an underlying assumption that long-term investment is good and short-term investment is bad. But there is nothing inherently good or bad about market transactions. Every institutional investor represents a certain range of clients who provide the assets to be invested, and it is this range that creates market depth and determines share prices.

That said, it is undeniable that the new focus on integrated reporting and ESG is being driven by investors and asset owners—the latter in particular—with a medium- to long-term investment time frame. The asset owners who were burned so badly by the Lehman meltdown want to know how well a stock will hold up over the long run.

This means that when it comes to two-way communication regarding ESG issues, companies need to place top priority on the opinions of asset owners. Within the asset management sector, they should be dialoguing with ESG officers who analyze risk using nonfinancial data and exercise voting rights, not the portfolio managers, who use financial data to monitor the performance of stocks that have already been purchased. Through such ESG-oriented dialogue, Japanese companies can play a more active role in cultivating the kind of medium- and long-term institutional investors best suited to their business.

Integrated Reporting and Japanese Business

Finally, I would like to comment on the significance of ESG and integrated reporting for Japanese companies. Ten years ago, my own interests were more narrowly focused on corporate governance. What caused me to broaden that focus to CSR

and ESG was the shifting approach of foreign institutional investors in the wake of the financial crisis. As I contemplated the role and significance of nonfinancial investment criteria for Japanese businesses, I realized that the basic principles of CSR coincide substantially with the founding philosophies and corporate codes of most major Japanese corporations.

The similarity testifies to the long-term thinking of the business leaders who built modern Japanese industry. Virtually every entrepreneur back then wanted to build a business capable of making money while contributing to society over the long run—a business that rewarded long-term investors and proved its enduring worth to all stakeholders. Unfortunately, many Japanese business leaders began to lose sight of the big picture after the collapse of the 1980s asset bubble. As they struggled to cope with intensifying global competition, domestic deflation and its attendant price wars, the high value of the yen, and the demographic crisis, not to mention various natural disasters, many became too preoccupied with day-to-day survival to think about the next 5, 10, or 20 years. Japanese companies themselves fell into the trap of short-term thinking.

Now Japanese industry is regaining its confidence as earnings and stock prices respond to the economic policies of Prime Minister Shinzo Abe. I believe it is time for each management team to recommit to the principles on which the company was founded and enter into serious discussions on ways to enhance long-term corporate value and ensure the health of the business for generations to come.

Integrated reporting is merely a framework for such discussion. The material issues to be reported are decided by each corporation. At this point, institutional investors have no rigid ideas about what an integrated report should look like. The content of any given integrated report will depend on the company's definition of value, its business strategy, and its ongoing dialogue with institutional investors. (Researched by Zentaro Kamei, Tokyo Foundation)

July 30, 2015

Creating and Sustaining Corporate Value through Global Dialogue

Takeda Pharmaceutical

The Tokyo Foundation

As clearly demonstrated by the rich pool of global human resources who hold key positions at Takeda Pharmaceutical—including the president and chief executive officer—the company is striving to globalize its operations and become a world-ranking pharmaceutical company. This is also closely linked to the efforts Takeda is making to place its CSR activities at the core of its corporate management.

The 2010 Patent Cliff

Corporate social responsibility is generally considered to have two main functions: the first is to enhance corporate value through positive contributions to society and the second is to protect it from various risks that could damage its reputation. The terms Takeda uses for these dual functions are “creating” and “sustaining” corporate value. All employees, from senior executives to the rank and file, are thus called upon to apply their own insights to the company’s CSR activities. This is the source of Takeda’s ability to smoothly integrate CSR into its corporate management and operations.

Takeda may be Japan’s largest pharmaceutical company, but globally it is only the sixteenth largest (in 2013), and the value of its pharmaceutical sales is one-third of market-leader Pfizer. A wave of international M&As swept through the pharmaceutical industry in the 1990s, resulting in the formation of giant, multinational companies. Since the 2000s, a different type of restructuring has emerged, with smaller companies specializing in the research and development of new drugs being bought up by larger manufacturers.

One reason that pharmaceutical companies expanded their operations was the considerable resources and time required to support the development of new drugs. The success rate of new drugs is quite low, so companies must run many research

projects concurrently to hedge against the risk of failure. Human resources and money are needed to collect data and investigate the relationship to existing patents. Performing basic experiments and clinical trials also take great time.

A problem faced by many pharmaceutical companies at the time was something known as the “patent cliff.” Patents on many best-selling drugs were due to expire around 2010, at which point companies would be unable to sustain their sales and profits.

Once these patents expired, cheaper generic drugs would enter the market. This may be a welcome development from the patients’ perspective, since they would be able to purchase drugs with proven effectiveness and well-known side effects at lower prices. It would also be a boon for public health insurance schemes facing severe fiscal constraints and expanding demand for medical services. But for the pharmaceutical sector, a market dominated by generic drugs would make it difficult to secure the funds for the development of new drugs, hindering research and slowing advances in medicinal technology.

This was the impetus for the flurry of corporate acquisitions focusing on specialized, research-orientated companies, as the giant pharmaceuticals sought new platforms for the development of new drugs.

Takeda was no exception. Its patents on drugs that accounted for ¥100 billion in annual sales, including proton-pump inhibitor Takepron, were due to expire around 2010. To minimize this impact, the company needed to quickly bring new products to market. In 2008 Takeda purchased Millennium Pharmaceuticals for approximately ¥900 billion, and in 2011 it acquired Nycomed International Management for ¥11 trillion (prices and exchange rates at the time of merger).

Avoiding Pitfalls

The effort to globalize its operations and emerge as a leading player had the unanticipated consequence of bringing Takeda face to face with a new challenge: one that was closely linked to the industry’s relationship with society.

In March 2001, a group of 39 European and North American pharmaceutical companies took the South African government to court to protest a new law allowing the import and manufacture of generic copies of patented HIV/AIDS drugs. The companies argued that if the South African legislation went unchallenged, the international patent and intellectual property system would be undermined.

The government, along with international NGOs, countered that there were large numbers of people with HIV/AIDS in Africa and that neither individuals nor governments had the financial resources to cover the cost of treatment. They

stressed that the drugs were expensive because of the patent licenses and that without them it would be possible to save many lives.

In April 2011 the 39 companies dropped their suit, partly to prevent a deterioration in their image. By then, though, the damage had been done; public opinion not just in South Africa but all over the world turned against Big Pharma, which was seen as putting business and profits ahead of human lives.

As noted above, the development of new drugs requires a huge investment, and very few new drugs actually make it to market. If a company is unable to sell their products at appropriate prices, the business will become unsustainable, and the development of the next generation of drugs will come to a halt. To that extent, the pharmaceutical companies had a right to protest.

But the legal action taken by the European and American firms sparked an outrage. The number of people with HIV is still rising, although the pace has moderated somewhat, and the disease has yet to be brought under control. The share of HIV patients is particularly high in sub-Saharan Africa, with infection rates increasing in extremely poor areas—where 7 in 10 people live on less than \$2 a day. If we consider that the mission of pharmaceutical companies is to contribute to the health of people around the world through the provision of medical drugs, can we still say that they were justified in launching their lawsuit?

This experience prompted many pharmaceutical companies to rethink their ties with and their mission in society as they realized that a weak relationship could become a risk affecting the company's entire operations.

Having joined the ranks of the industry's top global companies, Takeda, too, took this lesson to heart. Both management and labor came to the understanding that CSR activities to "sustain" corporate value meant maintaining a vigilant, risk-management watch over social issues.

Identifying Common Social Concerns

Takeda's corporate mission is to "strive towards better health for people worldwide through leading innovation in medicine"—a goal that in itself lies at the heart of corporate social responsibility. The company seeks to improve business operations with a full awareness of how its entire value chain affects its various stakeholders and works to create a sustainable society as a good corporate citizen.

How, then, is it going about integrating its business pursuits with efforts to resolve social issues? Takeda's approach is quite unique.

It identifies material issues common to global companies through participation in UN Global Compact LEAD conferences and annual Business for Social Respon-

Figure 1. Three-Step Process for Identifying Material Issues

* IFPMA = *International Federation of Pharmaceutical Manufacturers and Associations*

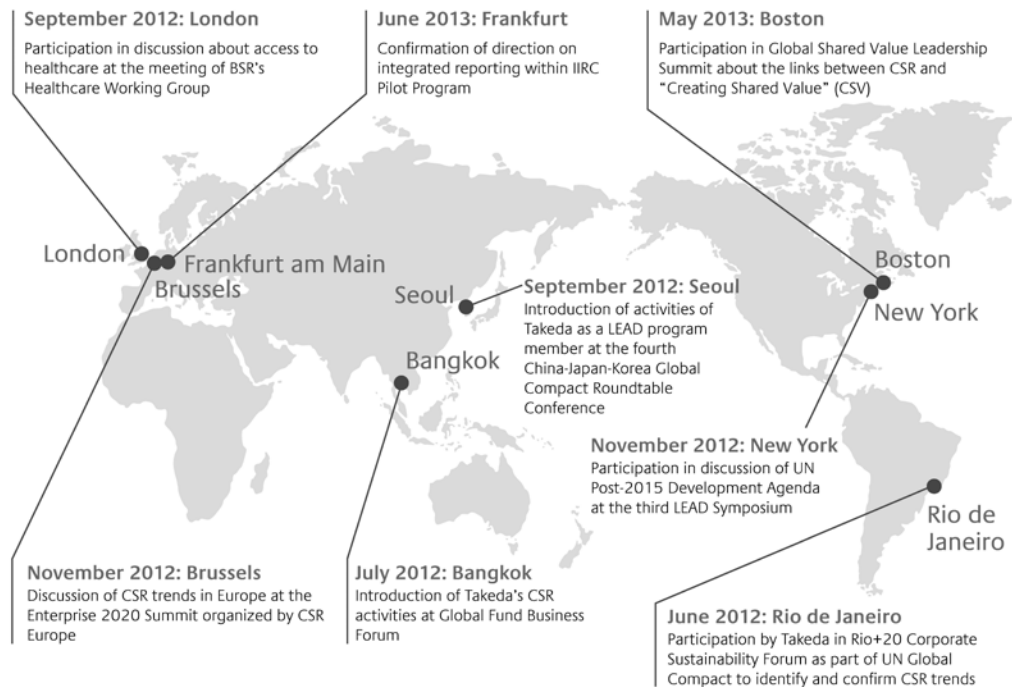
sibility (BSR) conferences, as well as by actively engaging in discussions with international organizations and NGOs (Section 1, Figure 1).

It also identifies material issues specific to the global pharmaceutical industry by participating in conferences of the International Federation of Pharmaceutical Manufacturers and Associations (IFPMA) and the BSR Healthcare Working Group and conducting discussions with the Global Fund to Fight AIDS, Tuberculosis, and Malaria and other healthcare NGOs (Section 2, Figure 1). This gives the company a fuller understanding of global trends by learning about the issues other companies are facing and—through participation in such trendsetting projects as those of the International Integrated Reporting Council (IIRC)—allows it to lead the discussion between pharmaceutical companies and other industries.

These two initiatives help Takeda to identify those social issues that it is in the best position to address in the light of its management strategies and within the confines of its management resources.

The conclusions Takeda reached through this process were that it can best address two material issues. The first is comprehensive “access to healthcare” for people around the world through both its business operations and corporate citizenship activities. The second is “value chain management,” under which it advances CSR initiatives at each stage of the value chain within the core ISO 26000 framework.

Figure 2. International Conferences Attended by Takeda (June 2012 to June 2013)



Source: Takeda Pharmaceutical 2013 annual report.

The former covers corporate citizenship activities aimed at “creating” corporate value, while the latter seeks to fully integrate CSR into business operations with a view to “sustaining” corporate value.

Sompo Japan’s CSR focuses on dialogue with stakeholders and Itochu’s on an employee-based bottom-up approach. Takeda’s CSR, meanwhile, involves ongoing discussions with other global companies, including pharmaceutical firms, and their civil-sector partners to examine the role the company should play in society, the relationship it should seek to build with society, and ways to more fully integrate its business operations with initiatives that help meet society’s needs. This is the path that is enabling Takeda to both bolster its corporate vision and strengthen risk management.

Traveling around the world to take part in various international forums may seem like a luxury (Figure 2). But this is probably the most efficient and effective way for Takeda to create and sustain its corporate value. As the fallout from the lawsuit in South Africa shows, a company risks severe damage to its business if it fails to build a strong relationship with society. Given the broad array of issues to

address, there is no telling what, when, and where problems may arise. Since there is a limit to what one company can do to keep abreast of various social developments, the most rational course of action is to maintain dialogue with other pharmaceutical companies and international NGO that are keeping an eye on such changes.

Sharing Case Studies

In identifying material issues, Takeda pays particularly close attention to risks and crises that other companies have faced in dealing with society. The South Africa court case is just one example of the risks that pharmaceutical companies constantly face. Because they are engaged at the leading edge of bioethics, companies may even become the source of new social controversies.

With environmental protection rules growing tougher, moreover, new issues may come to the fore. Drugs taken by patients may find their way into rivers and seas, disrupting the food chain and posing a danger to people and other living organisms. No longer is it enough for a company to focus its attention on simply providing effective drugs to help patients recover from illness and improve their health.

There are many pitfalls for globally active companies. Those that have operated only in Japan may not fully appreciate the different values peoples in other countries have. “Sustaining” corporate value is a task requiring both managers and staff to look at issues from the viewpoint of people on the ground.

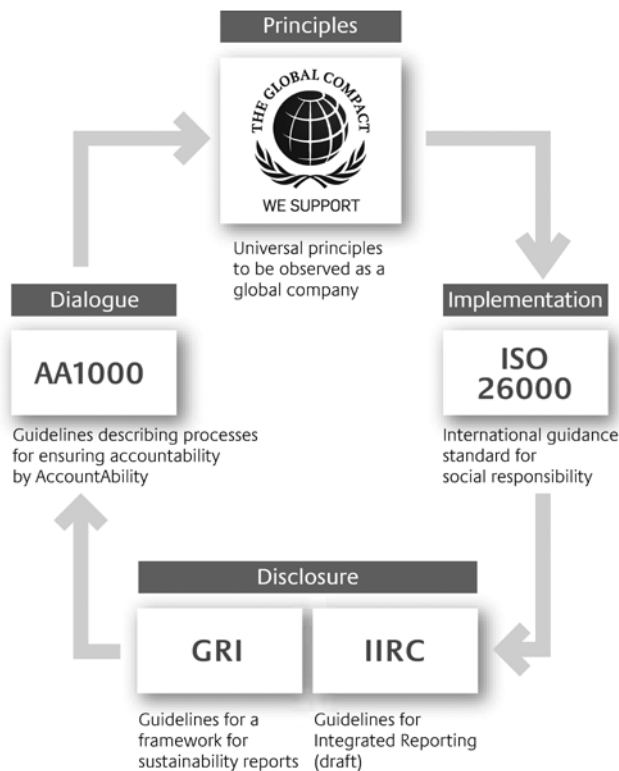
The CSR department at Takeda thus actively collects and internally shares case studies of risks and crises faced by other relevant companies around the world: those affecting global companies in general, those impacting the chemical and food industries, and those pertaining particularly to global pharmaceutical companies (Figure 3).

This information enables management and individual departments to assess risks more accurately. The steady sharing of information has led Takeda employees

Figure 3. Case Studies Shared by Takeda’s CSR Department



Figure 4. CSR Guidelines for Reference



Source: Takeda Pharmaceutical 2013 annual report.

at all levels to give greater thought to the company's relationship with society in their daily activities.

Embracing International CSR Guidelines

Takeda has thus been quite successful in integrating its business operations with efforts to address social issues. It has also made effective use of international CSR guidelines.

Its initiatives are quite transparent to the public (Figure 4): Its basic principles are informed by the Global Compact; analysis and implementation are guided by ISO 26000; disclosures are made in accordance with the Global Reporting Initiative; and accountable dialogue is advanced based on the AA1000 guidelines of Britain's AccountAbility.

Some companies may prefer to use their own standards. But international guidelines like the Global Compact and ISO 26000 offer the benefit of expertise

accumulated through dialogue with stakeholders around the world. Takeda makes active use of these public resources—something made possible by the thorough understanding of these guidelines by its CSR officers.

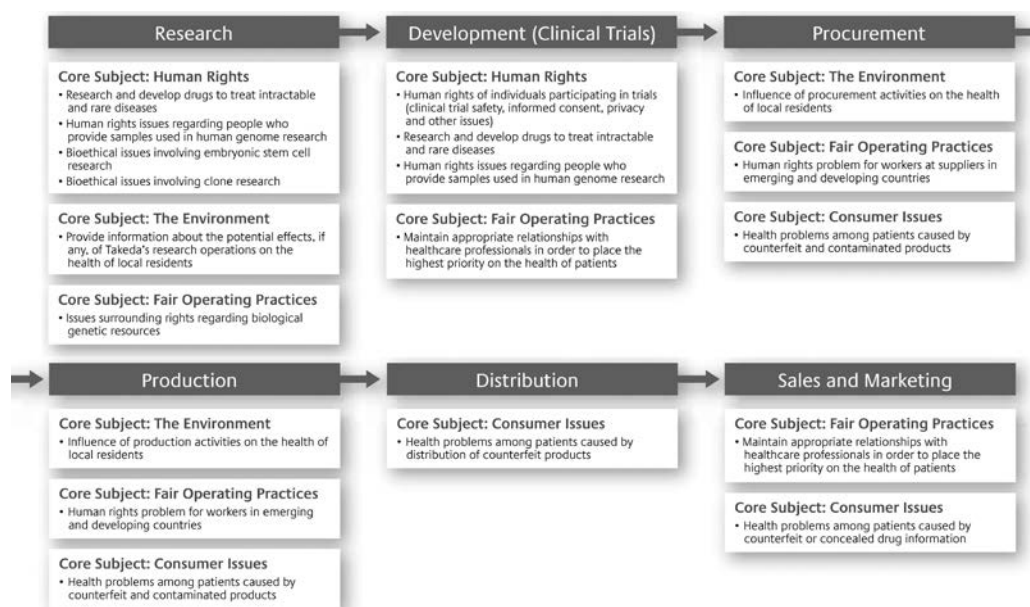
Addressing Social Issues through the Value Chain

Takeda skillfully utilizes the guidelines to identify and address various social issues through the value chain. Gaining a grasp of a full range of social issues on one's own can be a daunting task, so the company refers to the seven “core subjects” of ISO 26000 in analyzing its social responsibilities to both help create and sustain corporate value (Figure 5).

One core subject is human rights. Takeda highlights possible issues along the value chain, from research and development (including clinical trials) to procurement, production, distribution, and sales and marketing, so that each department has a full awareness of what to keep in mind.

For example, the research department conducts its activities in line with a set of policies and rules aimed at respecting dignity and human rights. Specifically, a Research Ethics Investigation Committee has been set up to deliberate on issues like the use of such human-derived specimens as blood, tissue, and cells.

Figure 5: Addressing Core Subjects in the Value Chain



Source: Takeda Pharmaceutical 2013 annual report.

CSR WHITE PAPER

To address issues in procurement, production, and distribution, meanwhile, the company established a Global Purchasing Policy and Guidelines for Socially Responsible Purchasing calling for the rights of all people to be respected and the elimination of discriminatory or unfair practices based on nationality, race, ethnicity, creed, religion, gender, age, disability, disease, or social status. In addition to rooting out discrimination in its own operations, Takeda shares these principles with its suppliers and encourages their implementation.

The important thing is to think ahead in identifying relevant issues and considering what action to take. Most companies surveyed or interviewed by the Tokyo Foundation for the white paper had few initiatives regarding human rights other than organizing conventional workshops for employees.

Only when these issues are fully incorporated into the value chain, as Takeda has done, though, will they be perceived as being part of a company's routine business operations.

Vaccines to Fight Communicable Diseases

In its efforts to create corporate value, Takeda prioritizes two CSR material issues: “access to healthcare” and “value chain management.” The latter has been described above, so the former will be discussed here.

Access to healthcare refers to the broad range of initiatives aimed at enhancing the availability of healthcare services for people around the world. Part of this effort involves addressing unmet medical needs—situations where medical services are locally unavailable or where effective treatment does not yet exist. This can mean dealing with situations in developing countries where economic conditions prevent people from receiving existing vaccines or treatment and also cases in richer countries where preventative medicine or treatment has not yet been developed.

Many people around the world still die from communicable diseases for which vaccines already exist. Takeda thus aims to become a top vaccine manufacturer by 2020 by enhancing its R&D, approval, and sales efforts in key markets for vaccines considered to be public-health priorities.

In addition to investing in its own research efforts, Takeda has moved to acquire companies with promising pipeline drugs. In October 2012 Takeda purchased LigoCyte Pharmaceuticals, a company working on a vaccine for the norovirus. The biotechnology company specialized in the development of new vaccines using their proprietary virus-like particle technology. Norovirus is the primary cause of gastroenteritis and food poisoning in developed countries, making 21 million people ill each year; in developing nations it causes 200,000 deaths a year.

CSR WHITE PAPER

In May 2013 Takeda also purchased Inviragen, a company developing vaccines for dengue fever and hand, foot, and mouth disease. A mosquito-borne disease, dengue fever is a serious ailment in developing countries for which no effective treatment currently exists—despite the fact that 400 million people are infected each year, with around 100 million developing symptoms. The World Health Organization identifies dengue fever as one of four diseases urgently requiring a vaccine.

Taking these social needs into account, Takeda is allocating ample resources to the development of pipeline vaccines, including through mergers and acquisitions. By carefully considering its relationship with society Takeda has been able to more sharply define its corporate mission and enhance the value of its main business operations. This, too, is CSR that creates corporate value.

Disaster Relief and Takeda-ism

Some may unfavorably liken Takeda's recent acquisitions to the activities of an investment bank. But a closer look reveals that they are attempts to both create and sustain corporate value through a vigilant focus on the company's corporate mission, risk management, and its relationship with society.

Informing the decisions of both managers and staff is a long-standing corporate philosophy known as Takeda-ism that pervades the company's operations (Figure 6).

At the heart of Takeda-ism is integrity—that is, fairness, honesty, and perseverance. Around these core values are such principles as diversity, teamwork, commitment, transparency, innovation, and passion.

Figure 6. Takeda-ism and Values



Source: Takeda Pharmaceutical 2013 annual report.

ment, transparency, innovation, and passion, which are upheld in one's daily activities. Takeda employees are thus called upon to strive toward integrity in all aspects of their work. Integrity means compliance with the highest ethical standards and a basic stance of fairness and honesty. It also requires a spirit of perseverance focused on constant improvement.

This philosophy of integrity was evident following the Great East Japan Earthquake of March 2011. Takeda cooperated with the recovery efforts of the Japan NPO Center in two ways: providing grants to nonprofits and other groups directly engaged in reconstruction and implementing projects either independently or with partners.

Takeda's assistance for NPOs was aimed at supporting the day-to-day lives of survivors—particularly vulnerable members of society like children, the elderly, people with disabilities, disaster orphans, those who lost family and relatives, and people in financial difficulties—so they may live with dignity. These efforts were aimed at rebuilding people's lives by improving health and welfare conditions and also at rebuilding livelihoods by offering places to live and work. Estimating that the recovery would take about a decade, Takeda is maintaining these support programs through 2020.

The five projects implemented by Takeda and with partners—all with an emphasis on cultivating human resources—demonstrate the company's philosophy even more clearly. It has (1) established the Japan Civil Network for information sharing among disaster relief groups; (2) analyzed the progress and trends in private relief efforts with the Japan NPO Research Association; (3) worked with groups in three disaster-hit prefectures engaged in supporting disabled people and providing related services; (4) supported people who lost family members with Lifelink, a suicide-prevention NPO; and (5) promoted information sharing on reconstruction assistance measures and issued proposals on ways to improve those measures with the Coalition for Legislation to Support Citizens' Organizations (C's).

All five projects have close links to networks for the reconstruction of disaster-hit areas. They seek to assess civil-sector assistance to date and offer a prognosis for the future in an attempt to build a foundation for smoother communication among the various groups—a foundation focused not on systems or infrastructure but on people on the ground.

This person-centered approach is typical of the company's reconstruction assistance and its CSR initiatives as a whole. Creating and sustaining corporate value is really all about people. Many companies ponder what they should achieve through CSR and how it should be integrated into their business operations. Takeda's efforts provide one answer to such queries. (Researched by Zentaro Kamei, Tokyo Foundation)

July 30, 2015

A Bottom-Up Approach to CSR

Itochu Corporation

The Tokyo Foundation

One of Itochu Corp.'s notable CSR initiatives is the Pre Organic Cotton Program, which helps cotton farmers in India transition to organic cultivation methods. Cotton grown under this program is used to add value to products that are marketed to consumers and to help stabilize the incomes of farmers further upstream in the supply chain.

Genetically modified seeds began being used in cotton cultivation in India in the 1960s in tandem with the increased prevalence of agrochemicals and chemical fertilizers. This has led to serious environmental degradation and a deterioration in farmers' health and livelihoods. Cotton farms account for only 5% of the world's total farmland, but growers in India account for 25% of the insecticides used globally. The cost of seeds and agrochemicals were a heavy financial burden for them, and the repeated use of chemicals was degrading the soil.

It All Began with a Pop Concert

Itochu first learned of the plight facing Indian cotton farmers through its involvement in a concert by a popular Japanese pop rock group. One of the musicians requested that organic cotton be used for the T-shirts and other merchandise sold at the concert. A member of Itochu's staff in charge of procuring cotton fabric flew to India to meet that request.

There, he learned of the health and environmental damage caused by highly toxic agrochemicals, which ravage the skin when touched with bare hands or feet and cause respiratory and visceral disorders when inhaled. They also kill the microorganisms in the soil, making it barren and gradually leading to smaller crop yields. Agrochemicals in the soil also seep into the groundwater, causing incalculable health damage to people and livestock that drink water from the well. Agrochemicals are costly, and the more they are used, the poorer the soil quality and lower the yields become, forcing farmers to buy yet more chemicals. Trapped in this vicious circle, they become so poor that they can no longer borrow money from

banks. They are forced to turn to usurious money lenders and are driven further into poverty and—in some cases—to suicide.

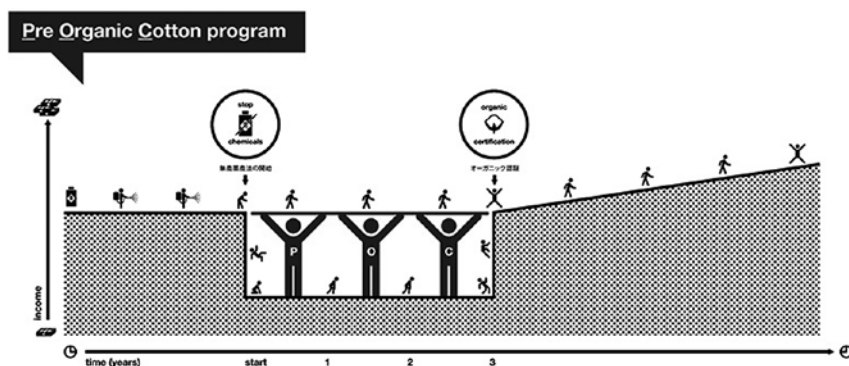
If they could stop using agrochemicals and make the switch to organic farming, they would be able to escape this vicious circle, resulting in both health and economic benefits. But they faced a major obstacle.

Three years were required before harvests could be certified as being organic. During that time, crop yields would decrease from insect damage and lack of nutrients in the soil. Farmers were unable to use GM seeds, moreover, and were forced to purchase non-modified seeds. Because they could not charge a higher price until certification, their income would drop by 20% to 30% for several years. Most farmers were reluctant to take such risks to transition to a type of farming in which they had no experience.

The Itochu employee had an idea. Could not a support program be instituted with the understanding of clothing makers and consumers who were aware of the benefits of organic cultivation to cover the three-year period until farmers can gain certification?

The cotton produced during the transition period would be labeled “pre-organic cotton,” and necessary support would be provided to farmers who chose to make the switch. They would be given the non-GM seeds that they needed to be certified as organic, receive instruction from experts, and gain advice from accreditation inspectors. To compensate for reduced yields, the harvests would be purchased at a higher price than the market rate. Such support during the transition period would enable farmers to gain accreditation and embark on full-scale organic farming.

Figure 1: Pre-Organic Cotton Program



Source: Itochu website.

The Program's Impact

Since the launch of the program in 2008, 3,848 farming households have taken part, and 1,179 have successfully received organic certification. In 2013, over 1,500 tons of pre-organic cotton were sold to over 40 companies and were used in related products that rang up sales of ¥500 million. The 2014 harvest is thought to have reached 2,500 tons, with the expanding pre-organic-cotton market being driven by clothing makers and natural cosmetics manufacturers. The market will likely further expand to Europe and the United States, with targets of 5,000 tons and ¥2.3 billion in sales in 2015, and 10,000 tons and ¥5 billion in 2017.

The program began from a single musician's comment and evolved as Itochu staff traveled to India, saw the situation firsthand, learned of the plight of local farmers, and decided that something should be done about it. The program thus exemplifies how an attempt to protect the environment and human rights led to the resolution of a grave social issue and embodies the two characteristics of Itochu's CSR: its grass-roots, bottom-up focus and its links to core business operations.

The Great East Japan Earthquake

The grass-roots nature of Itochu's CSR was also evident in its reconstruction support after the Great East Japan Earthquake. The projects the company implemented were not on a very large scale, considering Itochu's size, and appeared quite isolated and without much focus. Yet there was a common thread running through all of them—the fact that they were all initiated by individual employees.

The staff from Itochu who volunteered in disaster-hit areas spent time getting to know the local people, after which they were able to talk freely about their deepest concerns. Itochu's reconstruction assistance began from the things that employees had directly seen and heard. Their trading company background meant that they were experienced in launching new ventures from the ground up and knew how to move organizations to make things happen. Many of their conversations they had with local residents may have seemed inconsequential, but these discussions produced significant results, growing into various support projects and even new businesses opportunities.

Why Bottom Up?

Itochu's CSR initiatives begin at the individual level. Sompo Japan makes use of

outside experts to guide its initiatives, but Itochu seeks answers from its own employees.

This focus on employees is closely linked to the nature of the work trading companies do. Each business area has its own business model, with some seeking profit through investments and loans, some through imports and exports, some through logistics services, some through retail sales, and others through licensing fees for trademarks and intellectual property. Because so many different business models exist, understanding what trading companies do can be difficult. A person on the street would probably be unable to give a clear answer to a question on what a trading company should do to address social issues. This is why Itochu has its employees do the thinking.

Pre-Modern Roots of Itochu's CSR

Itochu was founded in 1858, when Chubei Itoh began selling linen in Nagasaki. He took the *sanpo yoshi* philosophy of the Omi (now Shiga Prefecture) merchants of his birthplace and made it the foundation of his company. *Sanpo yoshi* (“three-way good”) teaches that the secret of success is to do business in a way that is good for the buyer, good for the seller, and good for society. Itoh’s favorite motto was: “Trading is a compassionate business. It is noble when it accords with the spirit of Buddha by profiting those who sell and those who buy and supplying the needs of society.” At first glance, it can be difficult to see how “trading is a compassionate business.” But as “supplying the needs of society” suggests, Itoh believed that the *raison d’être* for a company was to respond to society’s requests.

Based on this founding philosophy, in 1992 Itochu chose “Committed to the Global Good” as its corporate philosophy. Itochu’s then approximately 10,000 employees around the world participated in discussions over the course of a year to select this philosophy.

When the company conducted an employee survey in 2013 to help decide its CSR policy, it was surprised to receive replies from 6,505 of the 6,738 individuals to whom the questionnaires were sent—an astonishing response rate of 96.5%. Itochu employees in Japan had a 99.5% response rate (4,818 out of 4,844), while overseas workers had a 89.1% rate (1,687 out of 1,894).

In identifying which social issues to address, the company consulted with outside experts. While these discussions were conducted by the president and senior managers, their contents were shared openly with all employees.

This process resulted in the identification of four material issues: (1) climate change, (2) sustainable use of resources, (3) respect and consideration for human

rights, and (4) contributions to the local community. The questionnaires also asked how the company should address these issues. In 2010, 40.8% of respondents chose “promoting businesses that help solve social issues,” but in 2012 that figure rose to 54.8%—more than half. This finding suggests that more employees have come to understand the importance of integrating efforts to address social issues with the company’s main business operations. As a result, the number of projects like the pre-organic cotton program has increased.

A Special Issue on CSR

Even with such a corporate culture, creating a system to support bottom-up CSR activities is not easy. Itochu publishes a monthly, bilingual in-house newsletter for its employees worldwide, and the September issue each year carries a special feature on CSR.

The cover of the September 2013 issue shows a map of the world with illustrations of the various CSR projects Itochu is undertaking. The title of the feature is “Itochu’s CSR Vision,” and the articles in the magazine describe the various CSR initiatives being implemented at the grass-roots level. Anyone can see at a glance

Figure 2: Itochu’s CSR Vision



Cover of Itochu’s 2013 CSR Report with a map of the company’s global CSR initiatives.

how the company's employees are working to address various social issues around the globe

The September 2013 issue of the newsletter starts with a message from Itochu President Masahiro Okafuji, which begins, "Itochu's basic approach to CSR activities is to contribute to achieving a sustainable society through our business activities. I strongly urge all of you to take this opportunity to think about the relationship between our business operations and society."

The message continues: "When I was just starting out, in the early years, I once proposed a solution to the problem of a wholesaler customer who strongly needed to get rid of some inventory. Itochu didn't bear any responsibility to that customer in terms of business once Itochu had sold them the goods, which had then become inventory, but still I couldn't abandon a customer in need. So I made a tremendous effort to think through the problem. My subsequent proposal was successful and the customer was very happy that Itochu had continued to make such efforts even after the business transaction. As a result, the customer was able to build a relationship of trust with us. This is just one episode from my business activities, but I think it well illustrates how this approach to solving a customer's problems also holds true for how we should think about CSR activities.

"At first glance, CSR sounds a little difficult, but I think it becomes a bit easier to understand if we see that in the same way we work to solve any problems that our customers might have when we are doing business, we must also work to solve any problems that we find right in front of us.

"We must clearly grasp Itochu's impact on human rights and the environment as we pursue our business activities, and ascertain whether we are indirectly contributing to infringements of human rights or cases of environmental pollution occurring in our supply chain. And, we must take steps to check any such occurrences with international standards. It is by no means an easy matter to create a sustainable business based on a framework of values shared by the Company and society. We can take no short cuts; rather, we must adopt a respectful attitude to society, listening to what it is telling us, and using every ounce of our wisdom."

This message conveys two things in an easy to understand way: that the relationship between a company and society is its very *raison d'être* and indispensable to its growth; and that if a company cannot deal effectively with social issues, its value as a company will suffer.

Sharing Schemes and Ideas

Also in the issue is a roundtable discussion among the leaders of various projects

in which social issues are addressed as part of Itochu's core business. The participants include those in charge of the pre-organic cotton program from the Textile Company, the lithium ion battery project from the Energy and Chemicals Company, and the Indonesia geothermal power generation project from the Machinery Company. The first topic they discuss is the difficulty of balancing social contributions and profitability. They indicate that the process of seeking out social issues at the grass-roots level, then using the company's strengths to turn them into new businesses, can lead to achieving that balance. They also address the question of what is social contribution.

"We may think we're doing something good for society, but we always have to be on our guard against becoming smug or complacent," one of the participants said. "There may also be times when we feel we're contradicting ourselves. In that sense, the opinions and assessments of outside experts can help set us in the direction where we really want to go."

The purpose of the roundtable is not just to introduce the content of the company's CSR projects but also to share the thinking that went into their organization.

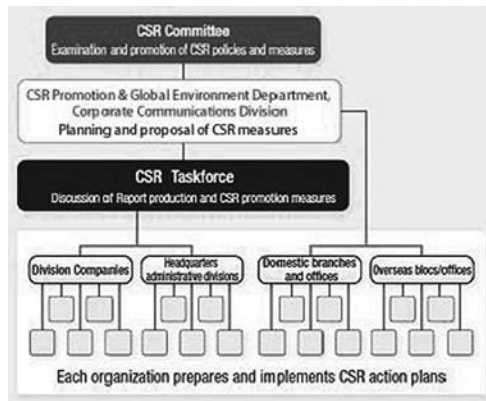
In an article titled "Exploring Business and Human Rights," the relationship between social issues and business is explained in an easy-to-understand way from the perspective not just of launching new ventures but also of managing and averting risks. It covers basic questions about human rights and why they must be considered, as well as issues more specific to a multinational trading company. It introduces recent developments around the world, including codes of conduct, and concrete examples of issues that might actually occur on the job, thus encouraging employees to think about how they would handle a human rights situation.

The article is linked to an online confirmation test (and the questionnaire survey mentioned above), thus spurring employees to take action, not just to read. The test is issued in Japanese, English, and Chinese and was completed by 96.5% of employees.

CSR Action Plans of Each Division Company

Although Itochu's CSR promotion system requires various departments to run a plan-do-check-act (PDCA) cycle, it does not go so far as to expect quantification. In that sense, the system is characterized by a level of autonomy (Figure 3).

Itochu asks all its division companies (Textile, Machinery, Metals and Minerals, Energy and Chemicals, Food, and ICT, General Products & Realty) in Japan and abroad to produce a CSR action plan. The various departments within each

Figure 3: Itochu's CSR Promotion System

Source: Itochu website.

company identify their CSR and social issues, after which an annual plan is drafted. The plan is used to analyze each year's achievement and to make a self-assessment, and a new plan for the following year is then drawn up based on these conclusions.

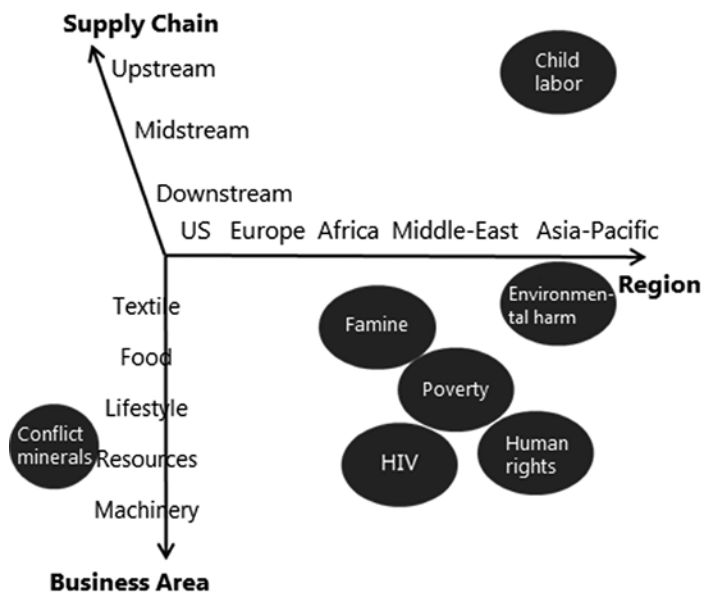
The plans drawn up by the division companies are published on Itochu's website and in its CSR report with statements by each president regarding their medium- to long-term growth strategies. They are, in effect, pledges that must be met with action. Despite the diversity of operations typical of a major trading company, Itochu here, too, emphasizes a bottom-up approach.

Social Issues that Directly Affect Business Operations

By their very nature, trading companies work across national borders, and they face the risk of local issues directly affecting their business operations (Figure 4).

For example, they need to be mindful of child labor and other failures to respect human rights in developing countries that form part of the supply chain, such as during the procurement of raw material or the production process. Even if the trading company itself takes steps to ensure compliance with human rights standards, it will still be taken to task if its business partners are found to have violated those standards.

Many companies dealing with resources often confront the issue of conflict minerals, which are extracted in conflict zones and sold to perpetuate civil wars or conflicts resulting in grave violations of human rights, as well as to sustain the activities of armed groups and antigovernment organizations. In 2010 the Dodd-Frank Wall Street Reform and Consumer Protection Act was enacted in the United

Figure 4: Trading Company's Business Areas and Risks

Source: Itochu documents.

States requiring US-listed companies using such minerals (tantalum, tin, gold, tungsten ores, etc.) from or near the Democratic Republic of Congo (formerly Zaire) to provide the US Securities and Exchange Commission with information on how the minerals were acquired. This is to ensure that the purchase and use of the relevant minerals do not become a source of income for armed groups and exacerbate human rights violations in conflict zones.

Tantalum is used in products such as cellphones, camera lenses, inkjet printers, personal computers, televisions, and jet engines. Tin is used as food containers, in aerosol cans, solder, tin plating, kitchen goods, and integrated circuits. Tungsten is used in light bulbs, X-ray tubes, integrated circuits, and heat sinks. All of these end products are a familiar part of our everyday lives.

The scale of human rights violations in the Democratic Republic of the Congo is severe. Despite being rich in natural resources, the country is afflicted by conflict, poverty, human rights violations, and the spread of infectious diseases. The problem of sexual violence towards women is especially appalling. The Dodd-Frank Act regulates companies that have direct or indirect dealings in conflict minerals, its purpose being to stop the growth of armed groups with a record of grave human rights violations. So, while legally it does not apply to Japanese companies that are not listed on the US stock exchange, it barely needs saying that—considering the

law's aims—Japanese companies are expected to abide by the spirit of the law.

The issue of how to implement a global response not just to conflict minerals but also to human rights abuses, environmental degradation, and other problems is extremely important. One human rights issue is the protection of indigenous people living in areas rich in natural resources. There are examples throughout history—essentially during the colonial era—of peoples who were dispossessed of their lands because they happened to have mineral deposits. In 2007 the UN General Assembly adopted the UN Declaration on the Rights of Indigenous Peoples. While it is not legally binding, there is a social consensus on the need to protect the rights of indigenous peoples and preserve their culture. Companies are being called upon to respond responsibly to these initiatives.

Identifying Specific Human Rights Issues

One example of a potential human rights issue that might crop up on the job, cited in the newsletter's "Exploring Business and Human Rights" article, is as follows:

Company ABC launched a new resource development project with a partner firm and had obtained the approval of the local government. When the project actually began, though, a large number of local residents, including indigenous people who have long been living on the land, launched a protest. ABC requested the services of its security contractor to keep the protesters under control, and it set up a meeting with local leaders, who lodged the complaint that the project was begun without their knowledge or consent.

Readers are then asked to identify specific human rights issues at stake in this example. The answers, as they apply to Itochu's value chain, were as follows:

The first right that was infringed upon was the right to free, prior, and informed consent of local residents. Special consideration must also be made for indigenous people with unique histories and cultures. When launching a large-scale development project, ABC should have conducted dialogue with local residents in advance and obtained their consent. Furthermore, when the services of a security company are used, there is a need to draw up policies to ensure that the use of arms by security personnel do not lead to an infringement of the rights of protesters.

There may be many other issues to consider. But the important thing is to deal with each one individually, as they all require a separate response. There is no panacea for all human rights issues.

The last thing a company wants to do is to become a cause of poverty, famine, or environmental degradation in the regions where it does business. Not doing anything to address such problems could also threaten the sustainability and

growth of its business. Trading companies that invest in the food or raw materials sector in developing countries may need to be patient before they reap any significant returns. This is why Itochu addresses social issues not just from a risk management perspective but also with the intention of helping improve local conditions.

The Food Company's support for agriculture in Africa is one example. It partnered with a Japanese processed food manufacture with world-class R&D capacities to launch an agricultural development project for smallholder farmers in Mozambique. They are working in Japan and Mozambique to develop seeds that are suitable for growing ingredients that are easy to process into food and setting up a scheme so that those agricultural products can be sold at a higher price. The aim of the project is to raise the living standards of farmers in Mozambique and to provide a stable food procurement source for Japan.

Sharing CSR Action Guidelines with Suppliers

Itochu has established a set of CSR action guidelines to avert the various risks linked to social issues in Itochu's supply chain. The guidelines are intended to promote respect for human rights, avoid child and forced labor, avoid workplace discrimination, prevent unfairly low wages, protect the environment and ecosystems, promote preemptive action to prevent environmental pollution, promote fair trade, and prevent corruption—as well as to disseminate information about these issues.

The company also implements a CSR survey for group companies and suppliers, both direct and indirect, working in high-risk countries, selected trade products, and high-volume businesses. The CSR action guidelines are shared with these companies and the concepts are explained, and the partner companies are encouraged to put them into practice. The survey is not conducted by Itochu's CSR department but by the departments that deal directly with suppliers, members of which visit the suppliers to conduct interviews and distribute the questionnaires.

In addition to the 10 standard items covering human rights, labor, and the environment, there are extra check items tailored to each division company's specific businesses so that the survey results better reflect actual conditions. For example, forest conservation items were added for the surveys conducted by the Forest Products & General Merchandise Division (lumber, pulp, and paper); food product safety items for the Food Company; and intellectual property protection items for the Textiles Company.

The survey is conducted annually, and in 2012 it covered 430 companies. By repeating this process, not only does Itochu communicate its CSR stance to suppli-

ers but at the same time its own employees gain a better understanding of social issues from the perspective of risk management.

The CSR Dimension of M&As

During the prolonged period of the yen's appreciation, with the dollar dropping to 76.25 yen in March 2013, many Japanese companies stepped up their foreign investments. This included capital investment by overseas subsidiaries and acquisitions of foreign firms. Itochu was no exception, and, as part of this process, much attention was given to risk management relating to social issues.

M&As are undertaken for a variety of reasons: to acquire market share, expand business opportunities; establish new sales, manufacturing, or development bases; or secure human resources. It can enable a company to take the next step forward. It is also a means of shortening the time needed to achieve growth, namely, by grafting new operations onto an existing organization. But at the same time, acquiring a new company means taking on new risks that were previously unthinkable. Differences in corporate culture that are difficult to harmonize are one often-mentioned risk, but there are also others that are linked to various social issues.

Before an agreement is reached on a merger or acquisition, investors usually arrange for a valuation of the company to be bought, a process known as due diligence. Traditionally, this is undertaken by financial specialists, such as accountants, and legal specialists, such as lawyers, to assess whether the company's assets have been fairly assessed, to ensure that the company's accounts have not been falsified, and to confirm that the company is not embroiled in a legal dispute.

There have recently been efforts to undertake new types assessments to guard against risks not covered by the traditional process and which is encouraged by CSR departments. It is due diligence that covers areas such as the environment and human rights.

As explained above, more attention is now being paid to risks linked to social issues. A company targeted for an acquisition may possess excellent technologies, but it could also have hidden issues: for example, it may lack environmental protection policies in the production of raw materials, it may have ignored the rights of indigenous people, its factory effluent could be flowing into local rivers, and its parts suppliers may be turning a blind eye to the use of child labor.

If such a business is acquired before such issues are discovered, the purchasing company is unlikely to receive a proper return on its investment; it may also be held responsible for activities that occurred before the purchase. For such reasons, due

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diligence is now increasingly also conducted by specialists in human rights and environmental issues.

At Itochu, the CSR department works closely with the operation divisions that often do not have a full knowledge of social issues—appointing outside experts where necessary—so that the pursuit of profit does not come at the expense of corporate responsibility.

There are two dimensions to Itochu's efforts to integrate social initiatives into the company's main business. The first is the close attention the company pays to conditions on the ground—making firsthand observations to identify people's real needs—both in its CSR initiatives and its business operations. Developing human resources well versed in this philosophy, it believes, will become a source of its corporate strength. At the same time, Itochu actively pools its expertise to implement locally focused programs of risk management as it continues to globalize its operations, well aware that social issues themselves have the potential to become risks for the company.

July 13, 2015

The Evolution of CSR Communication in Japan

From Reporting to Dialogue and Engagement

Hideto DeDe Kawakita

CSR and social communication expert Hideto DeDe Kawakita surveys the development of Japanese companies' CSR communication efforts over the last two decades and offers a prognosis for the future, when companies will need to engage more actively with civil society in deliberating, deciding, and acting on social issues.

* * *

The International Institute for Human, Organization, and the Earth (IIHOE), of which I am the chief executive officer, is a nonprofit organization dedicated to the “democratic and balanced development of all the lives on the Earth.” Since its inception in 1994, IIHOE has pursued a variety of projects and programs designed to support nonprofits, social enterprises, and other organizations in their efforts to address social issues. Not long after our establishment, we began responding to requests from private businesses with a special commitment to corporate social responsibility (CSR) and a need for independent feedback from the nonprofit sector.

In the following, I would like to use this experience as a platform from which to survey the development of CSR communication and stakeholder engagement by Japanese corporations over the last two decades and offer my vision of the next stage in this evolutionary process.

The Rise of Sustainability Reporting

The 1992 United Nations Conference on Environment and Development (UNCED),

Hideto DeDe Kawakita

CEO, International Institute for Human, Organization and the Earth (IIHOE).

or Earth Summit, held shortly after the collapse of the Soviet Union and the end of the Cold War, brought about a paradigm shift as international society awakened to the need for participation by private businesses and civil society in the resolution of issues formerly considered the exclusive domain of government negotiations. Japanese corporations became aware of the international community's rising expectations regarding their role in addressing these problems and of growing public concerns about environmental degradation, and they responded with a concerted effort to communicate their environmental commitment through ads stressing their earth friendly products or describing their nature conservation campaigns, recycling programs, and other environmental initiatives.

Two subsequent developments with a major impact on CSR communication in Japan were the publication of an international standard for environmental management systems (ISO 14001) and the release of the first Sustainability Reporting Guidelines by the organization that was later to become the Global Reporting Initiative.

Conformance with international standards for environmental management began to assume the character of a requirement for manufacturing companies that relied on exports to the European Union. Starting with such manufacturers, the push for ISO 14001 certification gained momentum through the supply chain, encompassing suppliers of materials and parts as well as logistics firms and distributors.

Many of these Japanese businesses took to heart the public communication provision (4.4.3) of ISO 14001 and spearheaded the publication of annual reports disclosing environmental performance data and experimented with opportunities for dialogue with nongovernmental organizations (NGOs).

At around the same time, a consensus was emerging that more disclosure would not lead to greater trust as long as companies were free to pick and choose the data that reflected most favorably on them. Talks between NGOs and businesses led to the birth of the Global Reporting Initiative, a movement to standardize the content and indicators of corporate social responsibility. The publication of the GRI Sustainability Reporting Guidelines had a major impact on Japan's more progressive companies, hastening the implementation of environmental management systems to facilitate monitoring and disclosure of environmental performance in conformance with international standards.

Generally speaking, however, environmental reporting by Japanese companies in the 1990s took the form of a rather self-serving monologue. In an effort to appear responsive to growing global concerns about the environment, Japanese businesses instituted environmental management systems and used them to collect

data that they published once a year in a printed and bound environmental report.

Two major factors were responsible for the subsequent shift away from annual reports: the spread of the Internet and the costs associated with print publications.

As more people gained access to the Internet, computer-savvy netizens began to seek up-to-date information from corporate websites and other online sources, instead of waiting for the mail carrier to deliver copies of annual environmental reports. At the same time, executives and others began to question the purpose and cost effectiveness of such publications.

For whom were these labor- and cost-intensive booklets intended? Those who cared enough about social and environmental issues to read the reports were demanding ever more comprehensive, detailed, and up-to-date information. At the same time, it was hard to see how such reporting translated into higher sales or built brand credibility. Corporate officers in charge of environmental management and public communications were facing tough questions regarding the purpose and efficacy of their activities.

The Key Role of Independent Opinions

A few progressive companies responded to this challenge by soliciting independent opinions as a means of fostering credibility and improving their CSR programs, even while recognizing that such efforts were unlikely to have a direct impact on sales. In 2001, Yasuda Fire & Marine Insurance Company (now Sompo Japan Nipponkoa) asked me to write an opinion for publication in the company's latest environmental report. Since then, I have written 117 opinions for 28 companies (Table 1).

More than 200 Japanese companies currently include independent opinions in their environmental and CSR reports. Unfortunately, the vast majority of these comments speak only to the content of the report, which is sent to the evaluator

Table 1. Number of Independent Opinions Provided by the Author (28 Companies as of February 2014)

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
No. of firms	1	2	4	6	10	12	13	13	12	13	11	9	10	1	117

Companies for which IIOHE provided independent opinions in 2013 were (in alphabetical order): Alpine, Brother Industries, Casio Computer, Denso, Hitachi Solutions, Kyowa Hakko Kirin, Sekisui House, SG Holdings, Sompo Japan Nipponkoa Holdings (formerly Yasuda Fire & Marine Insurance, Sompo Japan, NKSJ Holdings), and Yokohama Rubber.

shortly before publication. By rights, an independent opinion should be more than a book report. Companies that are serious about continuous improvement need to hear the opinions of objective outside sources—that is, parties that have no other business relationship with the company—regarding specific areas in need of correction or long-term improvement, and use that information to monitor and rate concrete progress within the company under the PDCA (plan, do, check, act) management cycle.

With this in mind, IIHOE has adopted a policy of securing the client's agreement on the following points before undertaking to write an independent opinion (<http://blog.canpan.info/iihoe/archive/34>, Japanese only).

1. The client shall impose no restrictions on the evaluator whatsoever with regard to the scope, content, or wording of his/her opinion or with regard to the scope of his/her pre-evaluation interviews.
2. The client shall impose no restrictions on whom the evaluator may interview for evaluation purposes.
3. The client shall respond promptly to the evaluator's requests for pre-evaluation interviews and tours or inspections.
4. The client must report on its subsequent progress in each area identified as "needing improvement" in the final opinion, either through its website or in its annual report for the next fiscal year.

Interviews are a must, as the foregoing suggests. An opinion can only be written after face-to-face meetings with the company's top environmental and CSR managers, as well as officers in charge of legal affairs, health and safety, information security, and business continuity planning. In fact, a typical opinion involves close to a dozen interviews, combined where possible with tours of production or sales sites. Those soliciting an independent opinion from IIHOE must be prepared to set aside at least one or two days for interviews and additional time to respond to follow-up questions. I have only the highest regard for those companies that have demonstrated their commitment to continuous improvement by requesting our services year after year.

When I first began writing these outside opinions, much of my criticism focused on the need to adopt management systems to ensure ongoing, companywide progress toward quantitative environmental goals and health and safety targets. In recent years, we have spent the bulk of our time with officers in charge of human resources and procurement. Generally speaking, these are the two divisions that have lagged behind in terms of internationalization, adoption of visual manage-

ment tools (using quantitative measures and visual feedback to clarify challenges, targets, and progress), and standardization of CSR policies among domestic and overseas subsidiaries. Among the more progressive corporations, however, reporting by these divisions has gradually improved in respect to both quantity and quality.

By communicating our objective opinion regarding a company's progress toward its own environmental and CSR goals on the basis of existing conditions and by identifying problem areas and suggesting future goals, we provide input critical to the C and A (check, act) phases of the PDCA cycle, helping supply a degree of discipline that is usually missing when all such evaluation is done internally.

Has Reporting Enhanced Public Trust?

The question remains: Have Japanese corporations succeeded in enhancing their credibility toward the public with respect to CSR?

One of the key tasks of NGOs like IIHOE is to prevent complacency and correct the innate tendency toward slanted, self-congratulatory reporting. Unfortunately, the influence of NGOs on the business community is relatively limited in Japan. This is one reason IIHOE, in partnership with NTT Resonant (operator of the environmental website Eco Goo and a member of NTT Group), has conducted an annual public opinion survey to monitor attitudes regarding sustainability reporting and CSR priorities. This survey, the only one of its kind in the world today, has expanded greatly in scope since it was first conducted in 2000. Initially limited to about 2,000 Japanese respondents, the sample now encompasses 30,000–40,000 residents in Japan and about 500 each in Britain, China, Germany, and Malaysia. In the following, I review some of the key points we have gleaned from 14 years of research.

If we compare the results of the most recent (2013) survey with that carried out 10 years earlier (Table 2), we see a substantial decrease in the number of people who have either read or seen a sustainability (environmental or CSR) report, from 36.7% to 27.7%. Meanwhile, the portion with no prior awareness of such reports rose from 25.1% to a full 39.2%. Even making allowances for the 10-fold increase in sample size, these results are discouraging.

With regard to the content of companies' sustainability reports, the percentage of respondents that deemed them either "quite trustworthy" or "fairly trustworthy" dropped from 54.2% to 47.9%. Yet the ratio that judged them "somewhat untrustworthy" or "completely untrustworthy" also dropped, from 12.3% to 9.9%. By

Table 2. Public Awareness of Environmental/CSR Reporting

	2003 (2,643 respondents)	2013 (23,657 respondents)
Familiarity with environmental/CSR reports		
Have read such a report	16.3%	12.6% (−3.7%)
Have seen such a report	20.4%	15.1% (−5.3%)
Aware of such reports but haven't seen one	38.2%	33.1% (−5.1%)
Unaware of such reports	25.1%	39.2% (+14.2%)
Trustworthiness of information in environmental/CSR reports		
Quite trustworthy	5.0%	5.5% (+0.5%)
Fairly trustworthy	49.2%	42.4% (−6.8%)
Can't say either way	33.0%	41.8% (+8.8%)
Somewhat untrustworthy	9.5%	6.3% (−3.2%)
Completely untrustworthy	2.8%	3.6% (+0.8%)

Source: NTT Group, “Kankyo/shakai hokokusho dokusha anketo” (Survey on Public Awareness of Environmental/CSR Reporting), 2003 and 2013.

contrast, those choosing the response “can’t say either way” rose from 33.0% to 41.8%. These trends may reflect the increasing complexity and detail of reporting in compliance with the GRI and ISO 26000 (social responsibility) guidelines, rendering the content difficult for the average reader to understand.

The survey also asked respondents which facets of CSR they considered most important for companies to report, choosing from the main GRI headings in the 2003 survey and from the ISO 26000 headings in 2013. The results are tabulated in Tables 3 and 4 below. In addition, in 2003 we were able to gather comparative data on the priorities of the reporting corporations themselves with the help of the Environmental Report Network (now the Sustainability Communication Network), an organization of corporate officers involved in environmental and CSR reporting (Table 3).

Since 2011, we have also been conducting the survey in selected countries overseas to gauge the perceived importance of CSR efforts under each of the ISO 26000 headings in Japan and overseas. Since then, a few noteworthy patterns have emerged.

First, Japanese respondents have consistently stressed the importance of labor and consumer issues, while respondents in Britain and Germany seem more concerned with human rights. Within Japan, a growing perception gap has emerged

Table 3. CSR Priorities for Citizens and Companies, 2003

Citizens' Priorities for Social Performance Reporting	Companies' Priorities for Social Performance Reporting
1. Fair hiring and labor practices	23. Corporate citizenship
3. Occupational health and safety	24. Community involvement
15. Customer health and safety	15. Customer health and safety
6. Respect for human rights	16. Product labeling
18. Respect for privacy	21. Public-interest activities
2. Labor-management relations	19. Bribery and corruption
5. Diversity and opportunity	18. Respect for privacy
13. Indigenous rights	4. Employee training and education
24. Community	5. Diversity and opportunity
20. Political contributions	3. Occupational health and safety
16. Product labeling	17. Ethical advertising
4. Employee training and education	7. Non-discrimination
17. Ethical advertising	22. Competition and pricing
7. Non-discrimination	6. Respect for human rights
12. Security practices	13. Indigenous rights
22. Competition and pricing	11. Disciplinary practices
10. Forced and compulsory labor	14. Supplier performance
19. Bribery and corruption	10. Forced and compulsory labor
23. Corporate citizenship	1. Fair hiring and labor practices
21. Public-interest activities	12. Security practices
11. Disciplinary practices	20. Political contributions
14. Supplier performance	2. Labor-management relations
9. Child labor	8. Freedom of association and collective bargaining
8. Freedom of association and collective bargaining	9. Child labor

Note: Numbers indicate the order in which the items were listed in the questionnaire.

Source: NTT Group, "Kankyo/shakai hokokusho dokusha anketo," 2003.

between the younger and older generations with regard to the relative importance of various CSR topics. When asked to choose as many as three important CSR topics from the ISO 26000 core subjects, respondents aged 50 and over were most apt to choose the environment (selected by 62.9%), with labor practices coming in second (54.7%). Among respondent under 30 years of age, the top response was labor practices (66.5%), followed by the environment (48.5%).

Within Japanese companies, we see a similar gap between the attitudes of the rank-and-file employees and members of management. The former attaches greater importance to labor issues than the environment, while the latter tends to feel that the company has fulfilled its social responsibility with its environmental policies and often has no plans for addressing such labor issues as diversity and equal opportunity over the medium or long term.

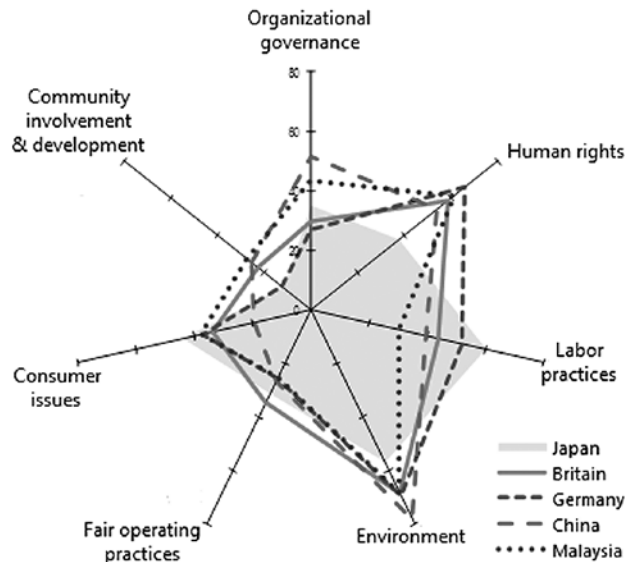
Table 4. Perceived Importance of ISO 26000 CSR Topics

(% responding “very important”)

	2012	2013
Prevention of pollution	41.8	41.7
Protecting consumers’ health and safety	39.8	39.9
Employment and employment relationships	36.6	36.7
Conditions of work and social protection	32.6	34.1
Anti-corruption	32.0	34.1
Fundamental principles and rights at work	30.2	31.6
Health and safety at work	29.9	30.8
Consumer data protection and privacy	31.4	30.7
Sustainable resource use	30.2	30.2
Discrimination and vulnerable groups	29.1	29.9
Human rights risk situations	29.1	29.5
Protection of the environment, biodiversity and restoration of natural habitats	27.0	28.1
Fair competition	26.3	27.1
Consumer service, support, and complaint and dispute resolution	23.4	25.4
Resolving grievances	24.6	25.3
Climate change mitigation and adaptation	23.1	24.9
Fair marketing, factual and unbiased information and fair contractual practices	24.8	24.8
Decision-making processes and structures	23.5	24.7
Human development and training in the workplace	21.8	22.2
Responsible political involvement	19.3	20.9
Access to essential services	19.4	20.8
Economic, social, and cultural rights	19.5	20.5
Sustainable consumption	19.2	20.2
Civil and political rights	18.1	19.8
Education and awareness	18.1	19.8
Avoidance of complicity	17.5	19.4
Due diligence	17.2	17.9
Social dialogue	15.3	16.9
Respect for property rights	16.3	16.8
Community health	16.0	16.7
Community employment creation and skills development	16.1	16.5
Promoting social responsibility in the value chain	13.7	15.1
Community social investment	14.1	14.6
Community wealth and income creation	13.3	13.9
Community technology development and access	12.8	13.3
Community education and culture	12.2	12.8
Community involvement	11.5	12.0

Source: NTT Group, “Kankyo/shakai hokokusho dokusha anketo,” 2013.

**Figure 1. Perceived Importance of ISO 26000 Core Subjects by Country, 2013
(Choose Up to Three)**



Source: NTT Group, "Kankyōshakai hokokusho dokusha anketo," 2013.

From Dialogue to Engagement

By illuminating perception gaps of this nature, our survey, we believe, has spurred CSR officers to push for new CSR initiatives and helped them make their case to executives and other corporate divisions. In this way, our survey is helping to raise the consciousness of Japanese CSR officers, and thereby contributing to the evolution of CSR policies and programs in Japan.

Each year the results of the latest survey are presented at the NTT Group's Environmental/CSR Reporting Symposium, held in conjunction with the December Eco-Products exhibition, Japan's largest environmental trade fair (sponsored by the Japan Environmental Management Association for Industry and Nikkei Inc.). For corporate employees involved in CSR, including personnel and procurement officers as well as CSR managers, the symposium has become one of the major events of the year. In addition to the survey results, each symposium features a panel discussion on a current CSR theme, chosen for its special relevance to Japanese business going forward.

A survey of the topics covered by the symposiums since 2000 (Table 5) underscores not only the evolution of CSR in Japan—including the shift from "monologue" to "dialogue" and the growth of efforts to stem climate change—but also

Table 5. Environmental/CSR Reporting Symposium Themes, 2000–2013

2000	Effective Communication through Environmental Reporting
2001	Moving to the Next Stage through Environmental Communication
2002	Environmental Management Reporting at the Dawn of Sustainability Communication
2003	What is Credibility in Reporting? Depth and Engagement in CSR Communication
2004	Has Business-Community Dialogue Advanced? From Environmental Reporting to CSR Communication
2005	Engagement-Oriented Reporting: A Preview of CSR Communication in 2010
2006	From Responsibility to Credibility: Involving Employees and the Community
2007	New Business Strategies for CSR Management: Innovation and Communication for a Low-Carbon Society
2008	Reducing Carbon Dependency and Protecting Biodiversity: Pressing Issues for the Next Decade
2009	Keys to Reducing CO2 by 80%: Structural Reforms and Zero-Carbon Scenarios
2010	Enhancing SR Communication with Our Asian Neighbors
2011	Preparing for the Post-Tsunami Paradigm
2012	From Safety Slogans to Trust Building: Promoting Action and Disclosure Across the Value Chain
2013	Workforce Portfolio for the 2020s: Is Your Organization Equipped for the Future?

the maturation of our discourse on the subject, as we tackled such timely themes as global credibility and organizational diversity.

In terms of production and sales, Japanese corporations are already active, successful participants in the global economy. But their success over the next two decades will likely hinge on whether they can align their values and governance structures to international standards. The key here will be their willingness to engage with civil society in deliberating, deciding, and acting on social issues, instead of simply thinking and acting on their own. At IIHOE, we hope to do what we can to encourage and support the kind of effective global engagement needed to maintain the prestige and popularity of Japanese brands around the world. (Researched by Zentaro Kamei, Tokyo Foundation)

June 29, 2015

Identifying Materiality through Stakeholder Engagement

Sompo Japan Nipponkoa

The Tokyo Foundation

Sompo Japan Nipponkoa is a nonlife insurance company that volunteered its office work expertise in support of areas affected by the March 2011 Tohoku earthquake and tsunami. It is also unique in emphasizing dialogue with stakeholders to identify key issues for its CSR initiatives. The following is from the section on “Businesses Driving Positive Social Change” of the Tokyo Foundation’s CSR White Book 2014.

* * *

Insurance is a scheme by which subscribers pay fixed premiums to prepare for future risks and unforeseen accidents, and it can be regarded a system of mutual assistance. Some insurance schemes are run by the government, including those for healthcare, pensions, unemployment, and seafaring workers. But others, such as life insurance and nonlife insurance, are generally the responsibility of the private sector.

The irony for insurance companies like Sompo Japan Nipponkoa and their employees is that it is during disasters, accidents, and other unwanted situations for their subscribers that they become most useful in society. This is because insurance companies perform their most important function—making payments—when subscribers are in the worst of situations.

This was especially true in the wake of the March 2011 Great East Japan Earthquake, when more than 3,000 Sompo employees were mobilized to meet the needs of those affected. The company had two key objectives: (1) to make insurance payments as quickly as possible and (2) to provide uninterrupted services, such as for new contracts. In the immediate aftermath of the disaster it sent support staff to the affected areas, set up an emergency response headquarters, conducted assessments of the situation on the ground, and addressed customer inquiries. The number of cases it handled was the largest in the company’s history.

For victims of a disaster, the money they receive from their insurance company is the first step toward rebuilding their lives. Seeing people doing their best to face up to a difficult situation gave many Sompo employees a renewed appreciation of the role and *raison d'être* of an insurance company.

Offering Expertise

The company's exposure to the disaster zone prompted a reassessment of its work in other ways as well. Working as volunteers in the affected areas and collecting donations were obviously quite helpful, but Sompo employees could make an even bigger contribution by offering their professional expertise, honed in the course of their daily work.

One such skill is the ability to process very technical paperwork, which is part of a nonlife insurer's work of collecting premiums and making payments. Like banking and life insurance, this involves handling customers' valued assets, so mistakes are not permitted. A huge volume of forms must be processed and accidents dealt with on a daily basis. A disaster on a scale of the Great East Japan Earthquake requires sophisticated and precise workflow to assess the damage and make payments. This might appear to be a matter of course for an insurance company, but predicting peak administrative volume and creating and continually improving the workflow for error-free operations requires great skill.

One example of how the company used its expertise was its administrative support for CANNUS Tohoku, an NGO operating along the Miyagi coast near Ishinomaki. CANNUS is a national organization headquartered in Fujisawa, Kanagawa, that registers and dispatches volunteer visiting nurses to provide medical and nursing care in the local community.

CANNUS Tohoku was set up following the March 2011 earthquake and has played a valuable role in providing a range of physical and mental healthcare services for the elderly. With volunteer nurses focused on meeting the caring needs of residents in the community, though, the CANNUS office faced a backlog of paperwork, resulting in failures to fully share information, especially when work was handed over to new volunteers. With its resources overstretched, the NGO was unable to keep systematic records of what the community lacked, hindering efforts to petition the authorities for fresh supplies. Visiting nurses often experienced long delays before their travel expenses were reimbursed, and opportunities to apply for grants came and went for lack of familiarity with the application procedures.

CANNUS Tohoku was exactly the kind of organization that could use Sompo's

administrative expertise. After confirming this hunch, the insurance company dispatched 10 employees to work at the local office for three months.

The Sampo staff reorganized CANNUS Tohoku's workflow. The employees even provided training in such areas as creating a user database, identifying local healthcare and welfare needs, using report forms and spreadsheet software, and applying for grants so that local workers would be able to handle these tasks on their own once Sampo left.

Such assistance ensured the sustainability of CANNUS Tohoku's operations and enhanced the usefulness of its services to the local community. It also had the effect of heightening Sampo employees' awareness of their own skills as office professionals—expertise that could be shared to assist the reconstruction of disaster-hit areas. Traveling to tsunami-affected areas to help clear debris, which many volunteers from around the country did, was not only way to help; they realized that they could put the skills they had acquired on the job to make an important contribution. They also gained a deeper understanding of the value of working as a group. These insights will no doubt have a great impact on their careers, as they now have a fuller grasp of the significance of their jobs.

Attendance at the Rio Summit

The roots of Sampo's CSR initiatives go back to the United Nations Conference on Environment and Development (Earth Summit), held in Rio de Janeiro from June 3 to 14, 1992. While the summit's Declaration on Environment and Development called for "new levels of cooperation among States, key sectors of societies and people," most participants from Japan were from the government. One of the few representatives of Japan's corporate community—and the only chief executive—was Yasuo Goto, then president of Yasuda Fire & Marine Insurance (which later became Sampo Japan Nipponkoa).

The Earth Summit was held just before the annual general shareholder meeting season, so most business leaders chose not to attend. Goto, however, was very interested in the summit, believing that the environment and sustainability were crucial issues for both society and business.

Yasuda Fire & Marine became well-known in Japan for its purchase of Van Gogh's *Sunflowers*, which was put on public display as a way of giving something back to society in a way other than through insurance payments. Later, the Nature Conservancy, a US conservation group, visited the company to meet the executive who had bought the painting, an encounter that deepened Goto's interest in environmental issues. Believing firmly that virtue and strength are keys to success as a

company, Goto attended the Earth Summit and oversaw the establishment of the Global Environment Office at Yasuda to deal with sustainability issues.

Yasuda was not just a company with principled leadership but also the second largest firm in the industry. In the early 1990s, the insurance sector was strictly regulated, and differentiating oneself from one's competitors in terms of products and pricing was quite difficult. Yasuda's focus on environmental issues, therefore, was an attempt to offer something unique, no doubt based on the conviction that customers would rather choose an insurer that valued the needs of society and its future.

A Groupwide Effort

CSR initiatives are often launched by top management, and they tend to lose steam following a leadership shuffle. This was not the case at Sompo, however, as these activities were pursued under the principles of “full-participation, steady and continuous progress, and acting with initiative,” which are still adhered to today. In 1993, the year after the Earth Summit, the company began engaging with civil society by launching a volunteer group for employees called the Chikyu (Earth) Club and organizing public seminars on the environment.

While the company's CSR initiatives began with a focus on the environment, they later came to cover a full range of issues. They were undertaken on a groupwide basis with the participation of all employees, who discussed concrete CSR case studies. Conducting such detailed and repeated discussions within and without the company became a matter of routine, a practice that continues to this day.

There is even a section concerning CSR initiatives in employee evaluation forms, with staff and their managers being called upon to discuss this topic. The intention is to get employees thinking about these issues, however, for the substance of such discussions is not used in the actual evaluation.

Assessing Stakeholders' Expectations

In integrating its CSR initiatives and business operations, Sompo focuses on what it calls “five material issues.” The first is “providing safety and security” to society, which refers to innovative services that meet customers' safety and security needs by mitigating various risks. The second is “tackling global environmental issues, including climate change.” In addition to dealing with climate risks on its own through “adaptation and mitigation,” Sompo also partners with groups in other sectors to develop new solutions. The third is “providing sustainable and respon-

sible financial services” to address social issues. The company promotes responsible investment incorporating ESG (environmental, social, and governance) criteria and develops financial and insurance products and services to help resolve various issues. The fourth is partnering with NGOs to help build a sustainable society through “community involvement and development.” And the fifth is “developing human resources and promoting diversity” to build a stronger organization. By creating dynamic workplaces where diverse human resources can fully apply their skills, Sampo is encouraging the development of employees who can make valuable contributions to society through their work.

These five “material issues” may not be unique to Sampo, but what sets them apart is the process by which they were arrived. They were not unilaterally issued by the CSR or corporate planning department nor by top management. They are the result of a three-step process consisting of (1) conducting analysis and implementing a questionnaire survey based on the ISO 26000 guidelines for social responsibility; (2) holding dialogue with experts; and (3) identifying specific issues.

Figure 1. Analysis of Material Issues Based on ISO 26000

Stakeholder expectations	<ul style="list-style-type: none"> • Employment creation and skill development • Activities that benefit local communities • Activities and information provision that benefit the public's health • Education and culture/art 	<ul style="list-style-type: none"> • Contribution to solving social issues • Respect for human rights and avoidance of involvement in activities that violate human rights • Human rights due diligence • Efforts to climate change mitigation 	<ul style="list-style-type: none"> • Active information disclosure • Efforts to improve customer services • Initiatives to respond to customer feedback • Courteous and detailed explanation to customers • Adaptation measures on climate change • Employment creation for the elderly
	<ul style="list-style-type: none"> • Preservation of biodiversity • Labour conditions and social protection • Sustainable use of resources 	<ul style="list-style-type: none"> • Stakeholder engagement • Decision-making process based on social responsibility • Efforts to eliminate discrimination and protect the socially vulnerable • Corporate governance • Diversity • Risk management • Employment creation for persons with disabilities 	<ul style="list-style-type: none"> • Promotion of products and services that contribute to environmental improvement • Services that help the socially vulnerable • Establishment of a mutually beneficial relationship with agents
	<ul style="list-style-type: none"> • Creation of a safe working environment • Management of conflict of interest 	<ul style="list-style-type: none"> • Fair marketing • Management of the health of employees • Promotion of fair transactions • Sustainable consumption • Prevention of misconduct • Measures against antisocial forces 	<ul style="list-style-type: none"> • Compliance • Dialogue with employees • Development of human resources
Importance to the NKSJ Group			

Source: NKSJ Holdings Corporate Responsibility Communication 2012.

Note: NKSJ Group refers to Sampo Japan Nipponkoa Holdings (since September 2014).

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During the first stage, social issues as outlined by ISO 26000 were mapped out, and a questionnaire survey was conducted to assess what the public expected from Sampo.

ISO 26000 was developed through discussions among a broad range of stakeholders in both developing and developed countries, including consumers, governments, private companies, organized labor, NGOs, and academic institutions. Unlike ISO 14001 for environmental management systems, ISO 26000 is not focused on certifying compliance with a set of standards but offers guidelines for the integration of corporate resources to enable companies to efficiently fulfill their responsibilities to stakeholders.

Importance is given in ISO 26000 to how organizations think about and implement strategies to deal with key issues. For human rights, for example, companies need to examine whose human rights are at stake and what the problems are, then use the guidelines to identify the most significant human rights issues for their respective organizations.

Sampo used ISO 26000 to identify possible focuses for its CSR initiatives, after which it conducted an online questionnaire (answered by 1,032 people) to discover the areas where stakeholders had high expectations of the company. It also analyzed which areas had the greatest significance for their business operations. Figure 1 is a mapping of “stakeholder expectations” and “importance to the NKSJ (now Sampo Japan Nipponkoa) Group” along the vertical and horizontal axes, respectively.

Reaching Out to Civil Society

Once this was done, Sampo moved to stage two: dialogue with outside experts. Top experts from the environmental and civic sectors were invited for discussions with not just members of the company’s CSR department but also staff at all levels, from senior management to newly hired employees.

This process has enabled the company to develop human resources who are fully aware of and are ready to meet the needs of society. The feedback received from outside experts during the process of identifying material issues is included in the company’s 2012 CSR report: NKSJ Holdings’ *Corporate Responsibility Communication 2012*. Examples include the following:

In Japan after the Great East Japan Earthquake, work to address global warming slowed down, but natural disasters, like the Thai floods, are likely to become more common from now on. So climate change will be a key issue for

insurance companies. I'd like to see the NKSJ Group maintain its broad perspective and take progressive measures while looking one step—or even slightly less than that—ahead. (Junko Edahiro, environmental journalist and chief executive, Japan for Sustainability)

Regarding the “provision of security and safety,” I think there are two basic ways to deliver such value: (1) through existing services and (2) through newly created services. Sampo's Eco & Safety Drive, for example, is a well-established service in Japan. But in developing countries, where traffic fatalities are likely to become an increasingly serious concern, there will be a growing need for such preventive services. (Hideto Kawakita, CEO, International Institute for Human, Organization, and the Earth)

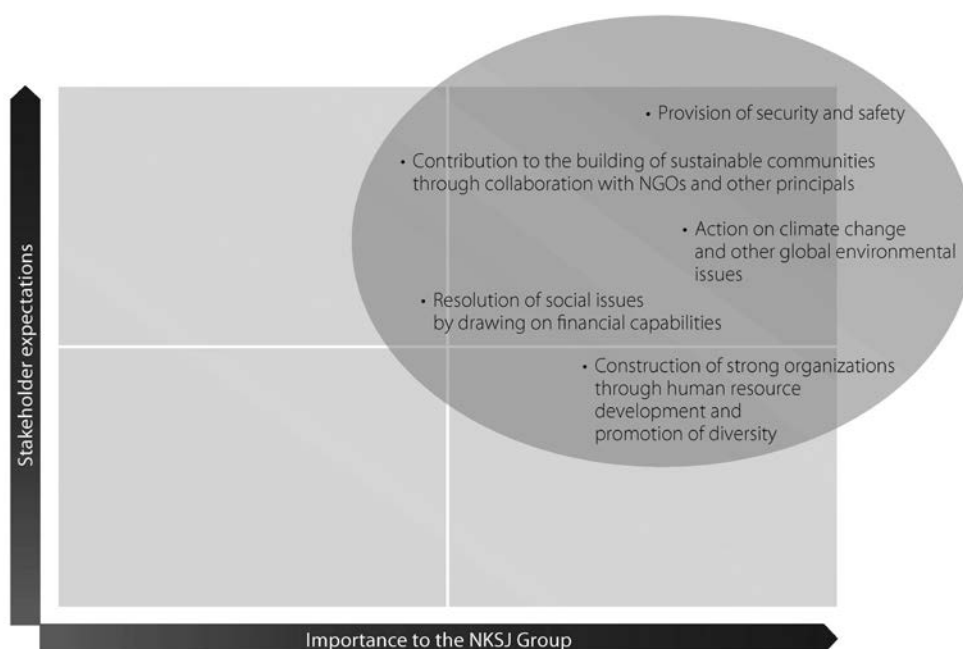
Dialogue with outside experts has enabled Sampo to gain fresh insights into the medium- to long-term, from both the personal and corporate points of view. The broadening of understanding has extended not only temporally into the future but also spatially to conditions in other countries.

The process has also led the company to reaffirm the importance of three concepts: (1) ongoing dialogue with a wide range of stakeholders; (2) identification of broader and deeper emerging issues; and (3) actively working with society to create new value.

Looking Ahead

As for the third and last stage of identifying specific CSR issues, Sampo mapped the results of the first two phases using, again, the two axes of stakeholder expectations and importance to the NKSJ Group, as shown in Figure 2. Some might wonder if going through so much trouble to identify key issues is really necessary, as the same conclusions might have been reached just by reviewing the work the company performs every day.

The important point about this process, though, is not really the issues themselves; of greater significance is that it enables the company to communicate its intentions to continue its dialogue with stakeholders in reassessing its business operations. Such a stance is premised on the recognition that society's biggest issues and their solutions are constantly changing—sometimes in unexpected ways—and involve a broad range of interdependent factors, such as the environment, public policy, economic trends and conditions, corporate behavior and business models, work styles, and household structures.

Figure 2. Mapping of Material Issues

Source: NKSJ Holdings Corporate Responsibility Communication 2012.

Note: The issues were revised in 2014 and now consist of "Six Group CSR Material Issues." (See: <http://www.nksj-hd.com/en/csr/system/>)

The dialogue with stakeholders and experts enables both top management and the rank and file to reflect on how flexibly they are dealing with such changes. Applying the same approaches year after year will not be enough to address emerging issues or to meet society's expectations. The forums for dialogue are thus an indispensable part of keeping fresh and up-to-date.

Companies have a tendency to fall into a routine, and once a pattern is established, it can be difficult to change. Sompo's foresight is in its understanding that to actively engage with society it must always look a step—even half-a-step or 0.7 steps—ahead and continue its dialogue with its stakeholders.

Meeting Social Challenges

What does the company do to address the material issues it has identified? In the field of "tackling global environmental issues, including climate change," for example, it sees the issue not just in terms of risk management but also as an opportunity for business creation and for growth through market leadership.

The number of climate-related natural disasters has been on the rise since the 1980s, and this has had a large economic impact on many places around the globe. The probability of being adversely affected by a natural disaster is far higher in a developing country than in an industrially advanced member of the Organization for Economic Cooperation and Development (19:1 versus 1,500:1), moreover, meaning that areas that already face tough economic conditions are hit hardest by environmental issues. The insurance industry, too, is affected by disasters, which results in higher payments and premiums and can make the stable provision of insurance more difficult.

On the other hand, the situation presents opportunities for the insurance industry to create and develop new markets through a process of “adaptation and mitigation.” Through adaptation, insurance can help to reduce the damage caused by climate change, lower the risks of renewable energy initiatives; and promote innovative technologies to create a low-carbon society.

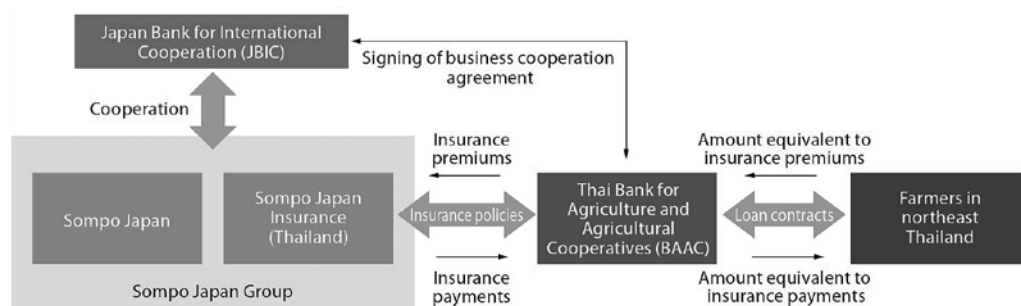
As for mitigation, Sompo is helping reduce greenhouse gas emissions by, for example, encouraging the use of recycled parts in repairing cars after accidents; reducing paper waste by promoting the shift to online contracts; introducing green procurement; and promoting the company’s Eco & Safety Drive service. The company also encourages the implementation of these measures by local insurance agents, auto repair firms, suppliers of raw materials, and other business partners and is asking its customers to take similar measures. In these ways, each department can take concrete steps in “tackling global environmental issues” in accordance with their place along the value chain.

To foster the spread of renewable energy, Sompo has developed a new type of policy to compensate for lost operating income when electricity sales from solar power generation, for instance, declines due to fire or natural disaster. This product insures against lost income and reduces the risks faced by power generating businesses, thereby supporting the spread of renewable electricity.

Helping Thai Farmers Hedge against Climate Change Risk

Another “adaptation” measure is the weather index insurance developed in 2010 to insure farmers in northeast Thailand against climate change risk. When rainfall, as measured by the Thai Meteorological Department, falls below a certain threshold, Sompo pays a fixed amount to farmers, helping to reduce the damage from drought.

Typically, local farmers borrow money before growing crops, sell their harvest to get income, and use that money to pay off their loans. When there is a drought,

Figure 3. Weather Index Insurance for Farmers in Northeast Thailand

though, their income drops, and they do not have enough to pay back their debt. To hedge against such risks, banks are wont to raise interest rates, but this only makes things more different for the farmers; uncertainty over harvest volume is a serious problem for farmers and banks alike.

A reasonably priced insurance product to cover the risks associated with climate change was thus of great value to the local community. With infrastructure for accurate meteorological measurements already in place, weather index insurance was ready for launch. The product was offered as a package with a loan agreement, with payments designed to cover the amount borrowed.

Sompo Japan developed a local risk finance mechanism and partnered with the Bank for Agriculture and Agricultural Cooperatives of Thailand (BAAC) to offer the product to local farmers (Figure 3).

In developing this product, the company tapped its expertise in risk evaluation and financial instruments-based risk finance. It also listened carefully to the views of local farmers unfamiliar with insurance to design a simple and easy-to-understand product.

Sales of weather index insurance began in Khon Kaen Province in 2010 and expanded to five provinces the following year and to nine in 2012. The insurance's benefits were soon recognized when farmers who had purchased the product were able to avoid a loss of income despite a drought in some areas in 2012.

Visualizing and Quantifying CSR Targets

Sompo's CSR initiatives are characterized not only by the time-consuming process through which the material issues are identified but also for quantified targets that are set for implementing each of the five issues, which in turn generate ideas for future action through a PDCA (plan, do, check, act) cycle.

Quantification and visualization are essential components of implementing *kai-zen* improvements in the workplace, which many Japanese companies apply to their manufacturing and sales processes. But quantification has largely remained elusive in the field of CSR. Such efforts tend to be more advanced at CSR-savvy foreign firms, with their nonfinancial reports providing not just qualitative descriptions but also quantitative data so that readers—that is, stakeholders—can have a better idea of the impact and scale of the initiatives.



Hideto Kawakita, left, and Junko Edahiro offer their comments on Sompo's CSR initiatives.

Why has the effort at quantification been slow in Japan? Certainly it is not because Japanese companies do not have such skills, for they are more than capable of keeping detailed track of their manufacturing activities. The real reason might well be that most companies still think that quantification is unnecessary in CSR.

Sompo, though, is an exception. Through dialogue with experts, it is setting up key performance indicators for its CSR initiatives, as can be gleaned from the following comments published in NKSJ Holdings' *Corporate Responsibility Communication 2013*:

In my view, KPIs represent future outcomes that are desirable and that should be emphasized. The first key point for identifying your KPIs is to take a back casting approach and define your ideal future. You don't need to pay attention to—or at least shouldn't be bound by—whether this is something that can be measured or openly disclosed. The second key point is to continue to elaborate the KPIs. You may not be able to get everything fully prepared at the beginning because you don't know how to obtain the data. But this is fine. All you need to do is to make sure that the KPIs will continue to evolve. The third key point is to run the PDCA cycle for the KPIs themselves. Rather than simply being content with your current KPIs, you need to be both resilient and flexible enough to make sure that they will continue to live up to the societal expectations of the day. KPIs are not goals but means. (Junko Edahiro, environmental journalist and chief executive, Japan for Sustainability)

KPIs are milestones in a long-term roadmap and should be set in such a way that they can be used as annual goals over a period of about five to seven years.

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Not all the annual results have to be publicly disclosed, but you should be sure to check whether the management indicators set as goals have been followed and to determine how close you were to achieving the goals and by when the goals will be accomplished. KPIs should be set high and determined by considering what impact you want to have on society through your CSR management policy. It is therefore important to set not just short-term goals but also mid- to long-term goals from a sufficiently broad and deep perspective. (Hideto Kawakita, CEO, International Institute for Human, Organization, and the Earth)

The company's replies to these comments were as follows:

Setting our KPIs and visualizing our performance will become the engine that drives such evolution. It became very clear to me how important it is to ensure that the KPIs are designed in such a way that they will lead to increased trust and dialogue with stakeholders." (Takaya Isogai, senior managing executive officer, Sompo Japan Nipponkoa)

Consideration about KPIs means profound thoughts on the NKSJ Group's social responsibility. This makes it a starting point for the discussion on CSR aimed at exploring how we can maximize our positive impact on society and what goals we should set to achieve this maximization. We will advance our plan to realize the KPIs based on the advice of the two experts." (Masao Seki, senior advisor on CSR, Sompo Japan Nipponkoa)

Creating KPIs for CSR is not an easy task, but Sompo has given it priority, no doubt considering it important in clarifying its relations to society, identifying what it can do to address social issues, ascertaining its rightful role in society, and offering fresh insights into what a private business can offer to its stakeholders.

July 16, 2015

The Unchanging Face of Japanese Employment

Ryo Kambayashi

The employment practices for which Japanese business gained fame—and later notoriety—are alive and well according to economist Ryo Kambayashi, who uses statistical analysis to challenge some widespread assumptions about the Japanese labor market.

* * *

1. Introduction

Once hailed for their flexibility and economic rationality, the Japanese Employment System in the post–World War II era came under attack in the 1990s as a cause of economic stagnation. Opinion leaders began publicly advocating an overhaul of the legal and social institutions supporting Japan’s labor market, and virtually every government or think-tank report dealing with labor and employment gave lip service to the idea of labor market reform.

Two decades on, it is difficult to point to any clear signs of progress. In recent years commentators have begun using the discouraging term “bedrock regulations” in reference to labor laws and regulations that have resisted reform due to the political influence of vested interests. But this interpretation assumes the existence of regulators and rules that are deliberately blocking change in the labor market. Instead, I would suggest that the Japanese labor market is not subject to any *particular* decision-making entity but an accumulated result of local agreements among multiple stakeholders.

In this paper I highlight the persistence of certain self-sustaining Japanese employment practices, despite regulatory reforms, summarizing two recent studies that I carried out in collaboration with a colleague. After providing an overview of

Ryo Kambayashi *Research Fellow, Tokyo Foundation; Associate Professor, Institute of Economic Research, Hitotsubashi University.*

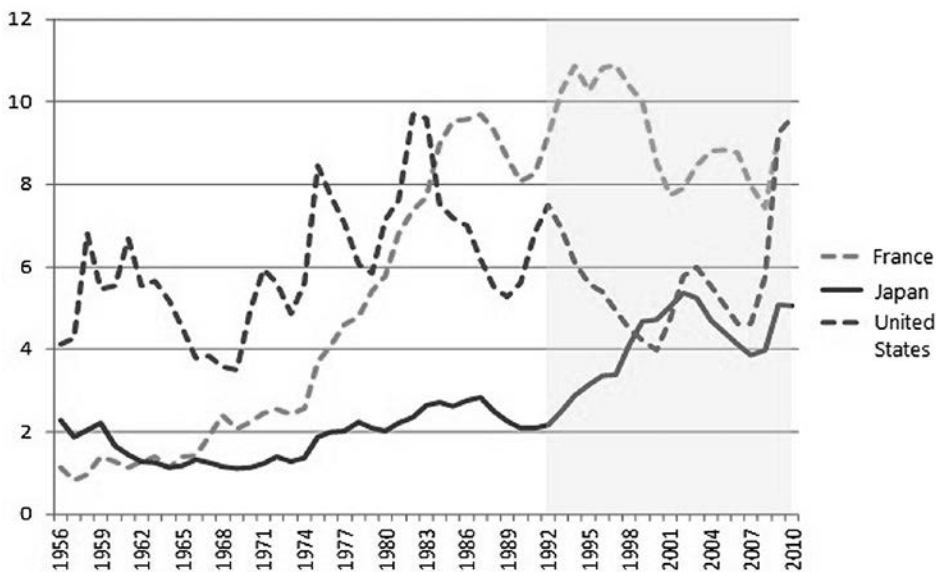
the labor market since the 1990s in section 2, I turn my attention in section 3 to trends in long-term employment, the mainstay of the Japanese Employment System, calling into question the widespread assumption that long-term employment is in a steep decline in Japan.

But how can long-term employment be alive and well, given the oft-cited rise in Japanese companies' use of "nonstandard" employees? In section 4, citing the decline in the number of workers classified as "self-employed and others," I explain why the increase in nonstandard employment is not synonymous with a decline in long-term employment. In section 5, I assess the persistence of another key feature of the Japanese Employment System, seniority-based wages. And in section 6, I conclude with a discussion of the deeply rooted Japanese tradition of local collective agreements as a key factor underlying the persistence of such practices.

2. Overview of the Labor Market since the 1990s

Let us start by looking at basic trends in the Japanese labor market over the past two decades or so, beginning with the unemployment rate. Figure 1 is based on unemployment figures compiled by the Organization for Economic Cooperation and Development, which are adjusted to enable a valid international comparison.

Figure 1. Unemployment Rate as a Percentage of the Civilian Labor Force by Country, 1956–2010



Source: OECD statistics.

To illuminate long-term trends, I have included figures going back to the 1950s. The shaded section represents the period following the collapse of Japan's asset bubble in 1992.

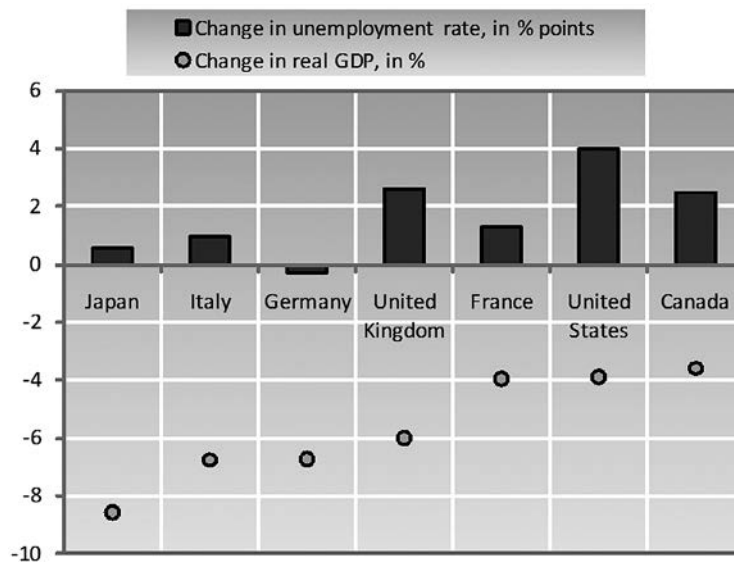
As the graph indicates, Japan's unemployment rate remained consistently low until the collapse of the bubble economy in 1992. After that, we see a marked upward trajectory that continues until 2002. The situation improved thereafter until the global recession precipitated by the 2007–8 financial crisis, at which point unemployment surged once again.

Still, while Japan experienced a marked rise in joblessness over the past two decades, it enjoyed both a lower rate of unemployment overall and far less dramatic fluctuation than the other major OECD countries. This suggests a disconnect between the performance of the Japanese labor market in an international context and the perception of that market within Japan.

This disconnect was particularly marked during the global recession. The graph below, also compiled from OECD figures, charts the shock caused by the financial crisis in the major OECD countries (as changes in real gross domestic product) and the reaction of the labor market to the crash (as changes in the unemployment rate).

In terms of GDP, the financial crisis and ensuing recession had a greater impact

Figure 2. Impact of the Global Recession on GDP and Unemployment in Selected OECD Countries (change from peak to trough)



Note: Peaks and troughs were determined using real GDP series in levels.

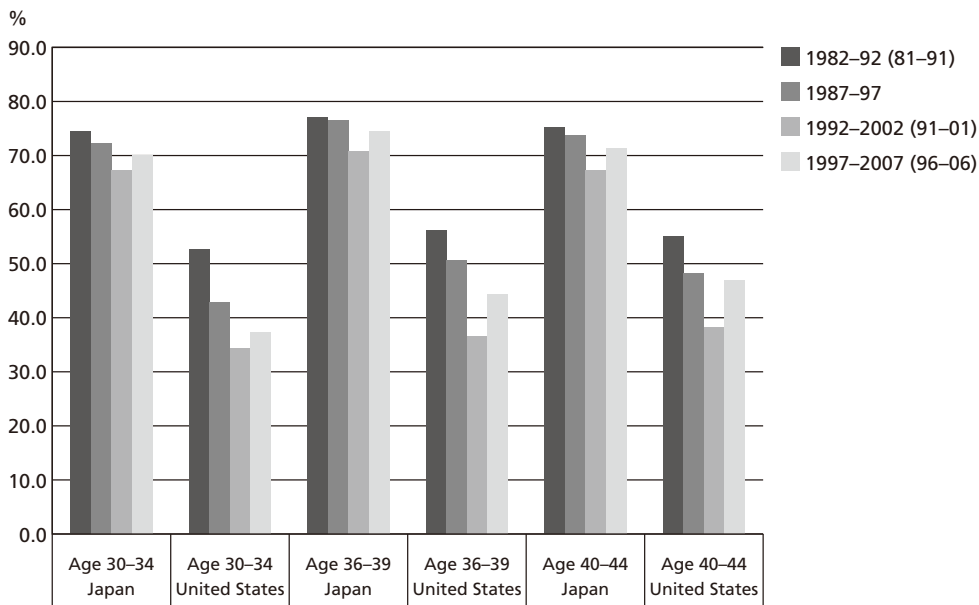
Source: OECD, Main Economic Indicators Database.

on Japan than on Britain, France, Germany, Italy, or the United States. Yet the increase in unemployment was relatively small. In other words, while Japan experienced a bigger economic contraction than any of the other countries, the labor market was somehow cushioned from direct impact. This kind of cushion calls to mind one of the well-known mechanisms of the Japanese Employment System, in which companies rely on adjustments in pay and working hours, rather than workforce cuts, to adapt to business slowdowns. It suggests that, even in the face of the worst recession in a hundred years, this aspect of the Japanese labor market remained fundamentally unchanged.

3. The State of Long-Term Employment

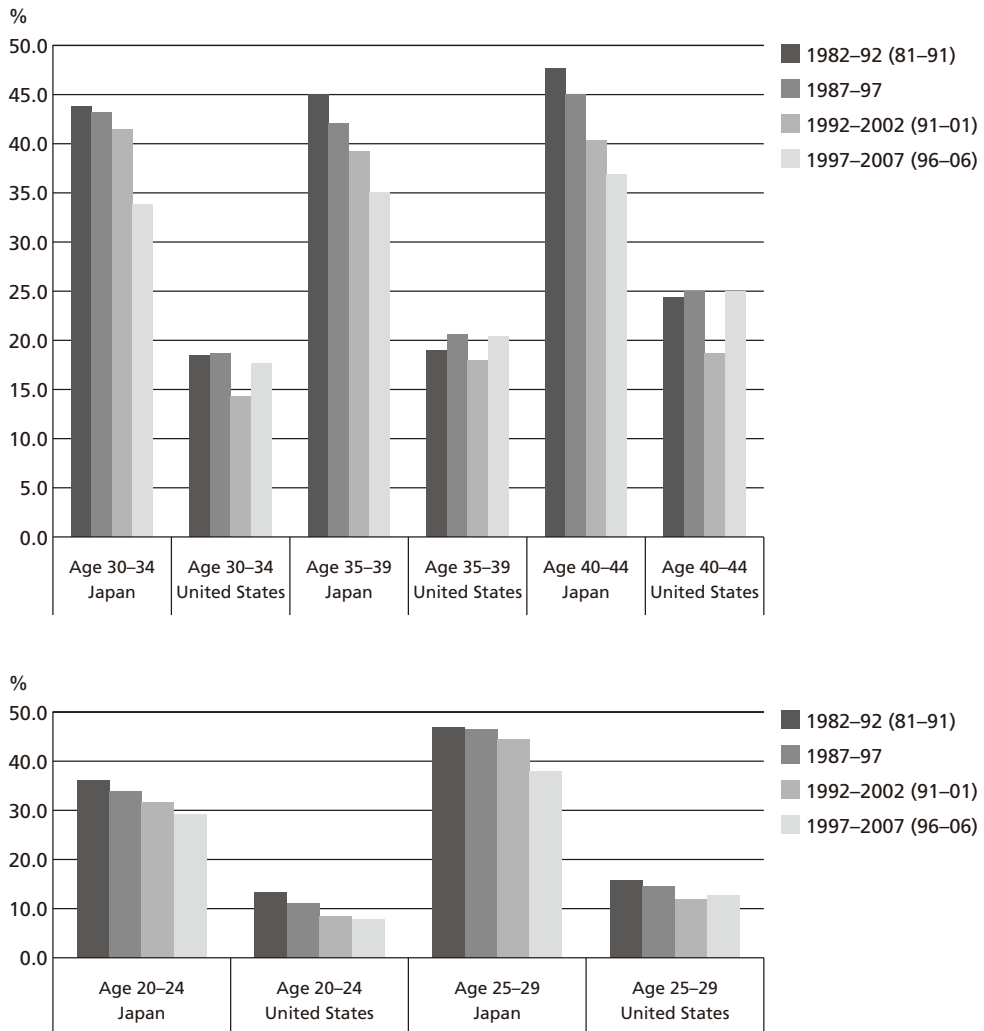
This survey of the Japanese labor market through the fundamental macroeconomic lens of unemployment should be enough to call into question the widely held belief that the market has changed fundamentally since the 1990s. But it is not the only evidence contradicting that assumption. In 2012 Takao Kato and I published a working paper analyzing trends in long-term employment among Japanese companies. Using data from the Japanese government's Employment Status Survey and

Figure 3. Change in 10-Year Job Retention Rate for Employees with 5+ Years Initial Tenure, Japan and United States



Source: Kambayashi and Kato (2012), Figure 1.

Figure 4. Change in 10-Year Retention Rate for Employees with Less than 5 Years' Initial Tenure, Japan and United States



Source: Kambayashi and Kato (2012), Figure 4 and Figure 7.

the US government's Current Population Survey, we calculated the percentage of workers in various groups who remained with the same company for 10 years or more in both countries and called into question the assumption that long-term employment is declining in Japan.

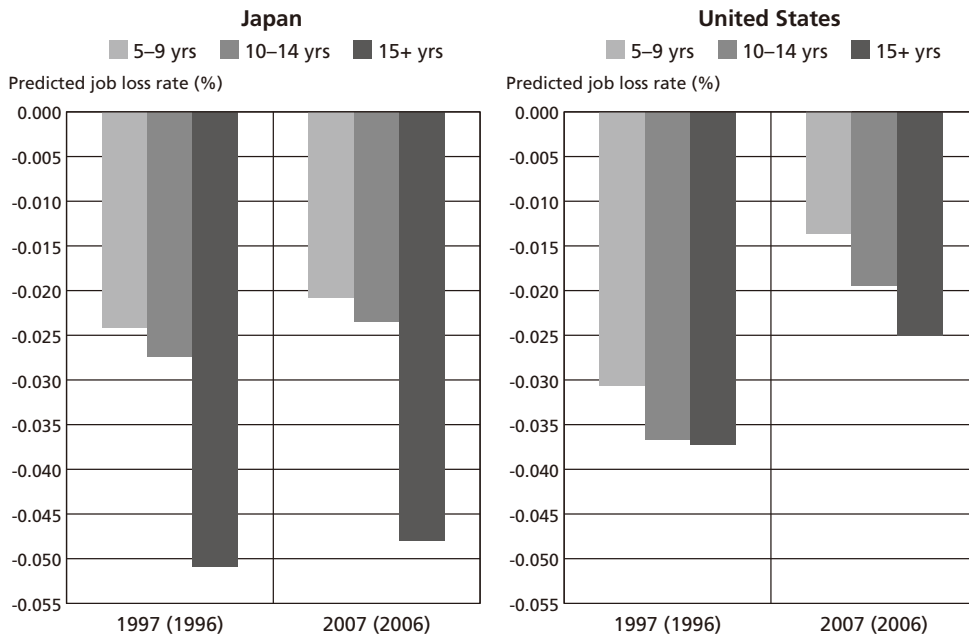
Figure 3 charts the change in the 10-year job retention rate for core company employees, defined as employees aged 30-44 with at least five years' tenure at the start of the observation period. We see that in Japan, more than 70% of employees

aged 30–34 with five years' tenure as of 1982 were working at the same company 10 years later, in 1992. In the United States, the corresponding figure was just over 50%. At a glance we can see that the 10-year retention rate is much higher in Japan than the United States across the board, an indication of the value the Japanese place on long-term employment.

More surprisingly, the graph reveals that the trend away from long-term employment is considerably more pronounced in the United States than in Japan. In fact, during this time, Japan has seen little change in the 10-year retention rate for those employees traditionally regarded as the core of a company's workforce.

Of course, there is more to long-term employment than core employees. Figure 4 tracks the changes in the 10-year retention rate among employees with less than five years' initial tenure, that is, mid-career hires and younger employees. The 10-year job retention rate for mid-career hires has fallen continuously in Japan, whereas the United States has registered little change overall. Likewise, the rate for young workers has fallen steadily in Japan. (One should note, however, that the extremely low 10-year retention rate for US workers in their twenties—in the vicinity of 10%—raises questions of statistical reliability.)

Figure 5. Predicted Job Loss Rate and Tenure in Japan and United States, 1997 and 2007



Source: Kambayashi and Kato (2012), Table 7.

The 10-year retention rate does not distinguish between demand-side and supply-side factors—that is, it lumps those who are dismissed or laid off with those who leave of their own volition. Consequently, it is possible that increases in voluntary attrition in the United States could create the appearance of a decline in long-term employment as a managerial practice. In Kambayashi and Kato (2012), we approached the issue from an alternative angle, tracking and comparing the correlation between years of service and the risk of job loss. Our findings are summed up in Figure 5.

In 1997, the probability of losing one's job in Japan was 5 percentage points lower among company veterans with 15 years or more of service than among recent hires; in the United States, the difference was 3.5 percentage points. In other words, veterans enjoyed substantially greater job stability in both Japan and the United States. In Japan, the picture remains essentially the same a decade later, while in the United States the risk of losing one's job has increased across the board, although years of service provided somewhat greater protection. Taken together with Figure 3, this analysis confirms that it is not Japan but the United States that has experienced a significant decline in long-term employment security.

In short, our comparison revealed that, since the 1980s, job security among core employees has declined in the United States but not in Japan. The only groups that could be experiencing greater job instability in Japan are mid-career hires and younger employees.

4. Understanding the Rise in Nonregular Employment

The assertion that long-term employment has not, in fact, fallen out of favor among Japanese companies may seem to fly in the face of conventional wisdom, given the well-documented rise in “nonstandard” employment (*hiseiki koyo*). It is perhaps natural to assume that the rise in nonstandard employment signifies a decline in the practice of long-term employment. But if the conclusions presented in the previous section are correct, then that assumption must be wrong.

We took up this issue in another paper, published as a working paper in 2013. We began by attempting to determine the forms of employment that are recognized as nonstandard employment in the Japanese labor market. Nonstandard employment is defined in a number of ways, but the criterion one encounters most often is whether or not the employee is hired under a fixed-term contract.

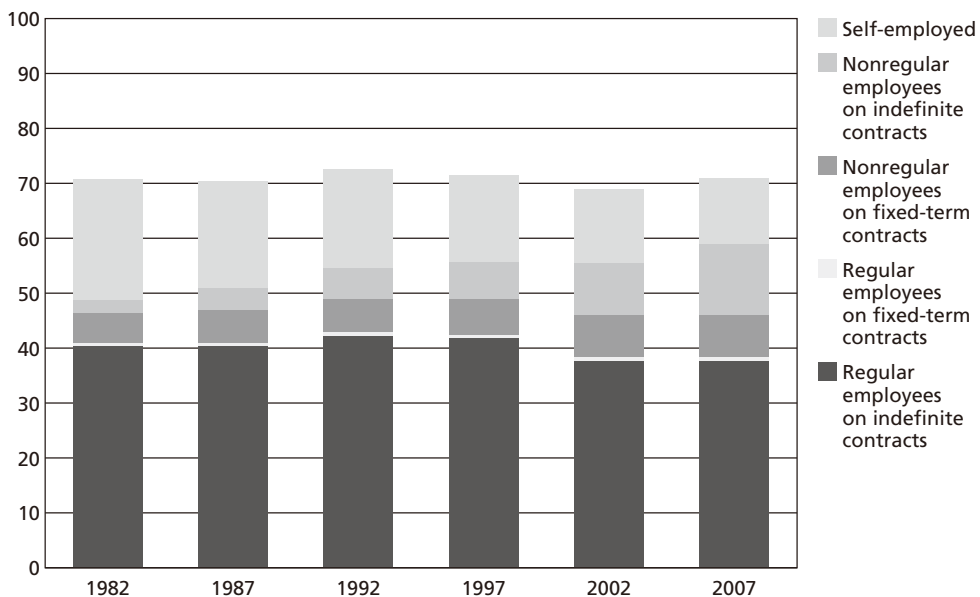
Under Japanese labor law, the distinction between fixed-term and indefinite (that is, permanent) employment is all-important. Likewise, the OECD, in calling

for an end to the disparity in regulations governing the dismissal of regular and nonregular employees, defines nonregular employees as those with fixed-term contracts and regular employees as those with indefinite contracts; in Europe there is really no other definition of nonregular employment. In Japan, however, studies of human resource management and labor relations have traditionally placed more emphasis on workers' job titles than on the distinction between fixed-term and indefinite contracts.

In our 2013 paper, we conducted a statistical analysis to determine whether the employees' titles or the term of the labor contract correlated more strongly with such key indicators of the Japanese Employment System as separation risk, wages, and participation in company-sponsored training programs. We found that the designation was the decisive factor. In other words, employees with the same titles were treated virtually the same with respect to the aforementioned indicators, regardless of whether they were working under indefinite or fixed-term contracts.

This finding highlights the limited power of statutory laws and regulations in Japan's labor market. In Japan, textbook discussions as well as case law concerning abusive dismissals and the legality of employee layoffs all focus first and foremost on whether the labor contract is fixed or indefinite. The employee's designation within the workplace is never mentioned. From a legal standpoint, therefore, the

Figure 6. Composition of Labor Force by Type of Employment



Source: Kambayashi and Kato (2013), Figure 2.

term of the contract is all-important, and the workplace designation of the employee's post or job classification is beside the point. Yet that designation—not the term of the contract—is crucial in determining whether an employee is considered part of the company's core workforce and is therefore subject to the basic benefits and requirements associated with the Japanese Employment System. This suggests that many Japanese employment practices have a life of their own, independent of statutory laws and regulations.

With these findings in mind, our study charted the change in the number of nonstandard employees in Japan since the 1980s, dividing these employees into four groups based on employee designation and whether they were on fixed-term contracts or working under indefinite contracts.

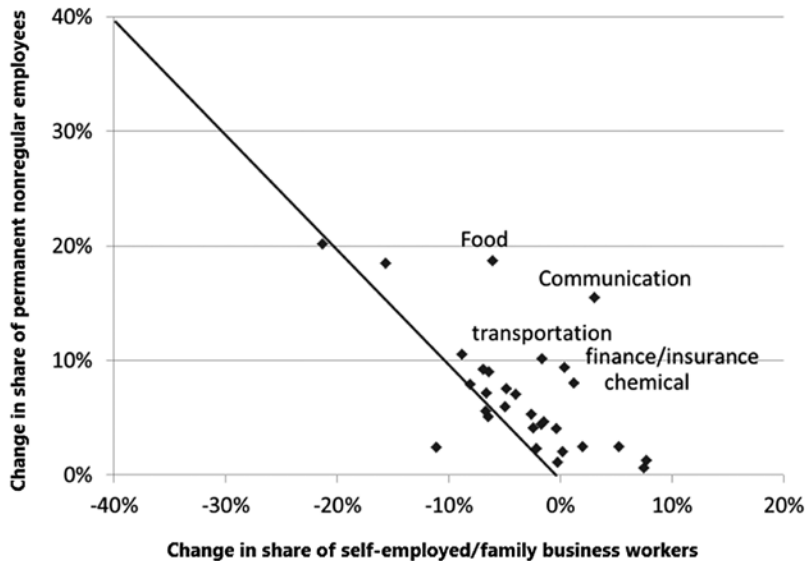
Of particular note here is the steady growth in the segment representing *de facto* nonstandard employees, even though they are working under indefinite contracts. This group has grown by 10.2 percentage points in the past 25 years, an increase consistent with the widespread perception regarding the increase in nonstandard employment. Yet the share occupied by standard employees (both on indefinite and fixed-term contracts) has declined by a mere 2.5 percentage points during the same time. Most of the increase in *de facto* nonstandard employment is balanced by a decrease in the share of the self-employed and others, which has declined by 9.7 points.

While the share of nonstandard employees on fixed-term contracts has also increased slightly (2.3 points), the overwhelming majority of nonstandard employees are now workers on indefinite employment contracts—that is, workers who are not titled as standard by their employers but do not qualify as such under Japanese labor law. Furthermore, the share of permanent nonstandard employees has increased fairly steadily since the early 1980s, suggesting that the overall increase in nonstandard employment in Japan has little connection with the relaxation of labor regulations in the mid- and late 1990s.

In our study, we anticipated the objection that individual industries are unlikely to mirror this neat inverse relationship between permanent nonstandard employees and the self-employed. Figure 7 plots the increase in the share of permanent nonstandard employees against the decrease in the share of the self-employed in each sector. The 45-degree blue line represents a linear correlation between the two variables. Most of the industries fall fairly close to the 45-degree line, indicating that the rise in permanent nonstandard employment has been accompanied by a comparable decline in self-employment.

The industries that diverge significantly from the line—those in which standard employment has declined significantly—are food manufacturing, communication,

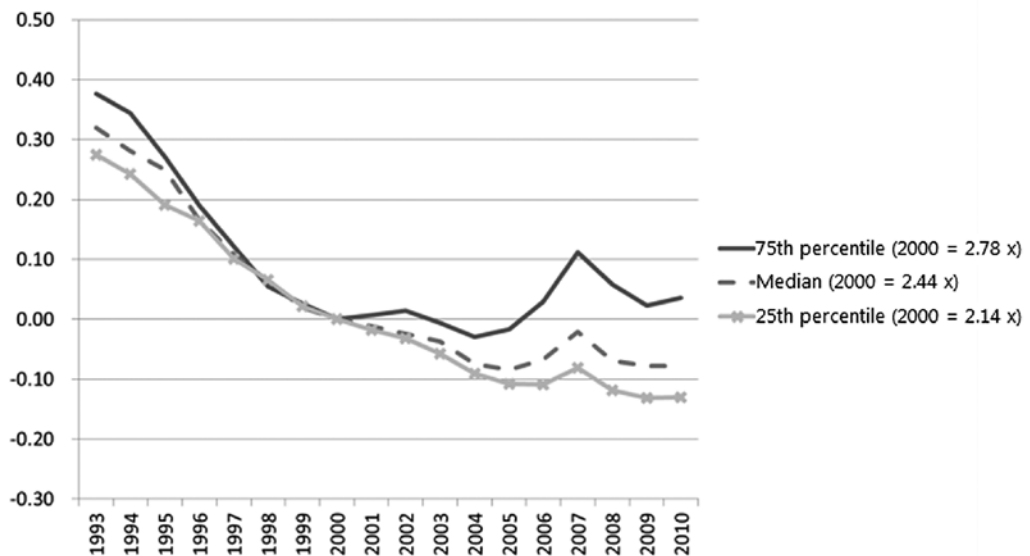
Figure 7. Change in Share of Nonstandard Permanent Employees and Self-Employed/Family Business Workers, 1982–2002.



Source: Kambayashi and Kato (2013), Figure 5.

finance, and transportation, all sectors that have been the focus of major deregulation or privatization initiatives since the 1980s. For example, the 1980s saw the privatization of government monopolies in the food industry (Japan Tobacco and Salt), communications (Nippon Telegraph and Telephone), and transportation (Japanese National Railways). While most regular employees were retained, it is not surprising that their numbers should decline somewhat as a result of the privatization process. More noteworthy, perhaps, is the fact that such declines have not occurred in the retail sector and service industries that were subject to cost competition from the outset. This raises the interesting possibility that the basic reason for the glut of regular employees lies not with the labor market per se but with government regulation of the product market.

If, indeed, the decline in the number of workers in the self-employed sector accounts for the increase in nonstandard employees, then that increase may have hitherto unrecognized socioeconomic repercussions, as we point out in our 2013 paper. Labor conditions in the self-employed sector are known to be poor overall, and workers tend to miss out on such benefits as paid vacations and employer-sponsored health insurance. A shift from the self-employed category into the nonstandard employee category could signal an improvement in working conditions and such benefits as health-insurance coverage.

Figure 8. Change in Seniority Gap by Percentile, 1993–2010

Source: Ministry of Health, Labor, and Welfare, Basic Survey on Wage Structure.

5. Trends in Seniority-Based Pay

The findings of our 2012 and 2013 papers suggest that, at least where long-term employment is concerned, the Japanese Employment System is alive and well, contrary to the popular perception. Can the same be said for the practice of linking pay to seniority? I tracked the gap between the average compensation of employees in their twenties and those in their fifties at the same workplaces using statistics published by the Ministry of Health, Labor, and Welfare. The results were surprising.

I began by compiling establishment-by-establishment data regarding wages levels for *haenuki* employees (those who entered the company upon graduation from a four-year university and continued working up to the time of the survey). For each workplace, I compared the average compensation for those in their twenties with those in their fifties and calculated the disparity, or the “seniority gap.” A larger seniority gap suggests a pay scale linked more tightly to seniority. I found considerable discrepancy in the seniority gap from workplace to workplace, and the distribution changed over time. In Figure 8, I track changes in the seniority gap in the lower, middle, and upper ranges of that distribution.

In 2000, the baseline year, the median seniority gap was 2.44. In the same year, the 75th percentile (midway between the median and the top of the range) was

2.78, and the 25th percentile (midway between the median and the bottom) was 2.14. This indicates a considerable spread among companies in terms of the magnitude of their seniority gap. Now, however, let us look at the trend. During the 1990s, the seniority gap declined for all three quantiles, indicating a decline in the average gap for all workplaces. After 2000, the gap continued to shrink among workplaces that began with the smallest gaps. But among those with the largest gaps, the trend of the 1990s reversed itself, and the gap began to grow again, suggesting a return to seniority-based pay. From about 2000 on, between one-fourth and one-half of Japanese companies reinforced the seniority curve in their pay scale.

So despite the perception of a gradual collapse of seniority-linked compensation, the shrinking seniority gap may actually be the result of companies temporarily adjusting their pay scales to compensate for the rise in their mandatory retirement ages since the 1990s—while keeping a lid on total personnel costs. If this is the case, then rumors of the death of a corporate culture that honors long-term employment and seniority-based wages may be premature.

6. The Tradition of Autonomous Labor-Management Relations

The foregoing analysis of key Japanese labor practices suggests that their reputed decline has been greatly exaggerated. Long-term employment, reliance on regular employees, and seniority-based pay—all key features of the Japanese Employment System—appear to be alive and well, at least in some parts of the Japanese labor market.

Why are these practices so persistent? The two papers referred to above do not offer a clear answer to this question, but my own studies and observations have led me to a tentative explanation. The first hint was our discovery that the workplace designation of an employee is a more important determinant of the employee's treatment than the term of the employment contract. This highlights the importance of the distinction between “living law” and official or statutory law—a key concept in legal sociology—within the labor market.

In the Japanese labor market, living law in the form of customary practices may play a larger role in the formation of norms than statutory law. In fact, Japanese labor law itself provides for numerous exemptions in the name of labor-management autonomy. Moreover, the wave of deregulation that began in the 1980s actually expanded the role of collective agreements at the company level. Regulations governing work hours and overtime pay as well as those concerning employee dismissals all stress the importance of reaching an understanding between manage-

ment and labor through consultation. In fact, one could argue that Japanese society lacks any effective mechanism of external control over management-labor relations at individual companies.

The economic rationality of Japanese employment practices stems primarily from the existence of an agreement between management and labor, and as long as the two sides are in accord, there may be no compelling reason to abandon traditional practices. So any attempt to make a dent in the “bedrock regulations” governing the labor market must keep in mind the key role labor-management agreements play in shaping and maintaining this purported “bedrock.”

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September 28, 2015

Benefits of Closer Japan-NATO Cooperation

The Tokyo Foundation

Deputy Secretary General Alexander Vershbow of the North Atlantic Treaty Organization visited the Tokyo Foundation on September 14, 2015, to deliver a keynote address at a seminar on Japan-NATO relations, co-organized with the Ministry of Foreign Affairs. Prior to this meeting with Japanese security experts and foreign officials from NATO member states, he granted an interview with the Foundation.

* * *

TOKYO FOUNDATION *Can you briefly describe the purpose of your visit to Japan?*

ALEXANDER VERSHBOW I am here to continue our high-level dialogue with Japan. Japan has been a good partner, very strong partner of NATO for many years. Actually, the first partner from outside of the Euro-Atlantic area and of course the most significant contributions have been in support of our efforts in Afghanistan, but there are many other things going on, and the relationship certainly goes beyond Afghanistan and I thought that this was an especially good time to come to Tokyo to explore possible additional areas where we could deepen our cooperation and see where we can contribute to solving the very difficult security challenges that the world faces today.

TF *Can you elucidate on the areas in which you're looking for stronger cooperation, especially in the light of the Individual Partnership and Cooperation Program that was signed between Japan and NATO last year?*

VERSHBOW That agreement defines a very extensive agenda of potential areas where we could collaborate, including things that I know are of very high importance to Japan, including cyber defense, civil emergency planning, maritime security, seeing whether we can exchange some expertise and strategic communications and public diplomacy, and of course counter-terrorism. These are the immediate subjects that come to mind, but given all the different challenges that we face and

the shared interest that we have, there may be additional areas that could be identified.

Contributions to Peace and Security

TF *How do you assess Japan's security policy, particularly the efforts being made by the [Shinzo] Abe administration to enact new and more flexible security legislation?*

VERSHBOW From the NATO perspective, Japan has been a major contributor to international peace and security for a long time, and that has enabled us to work together in Afghanistan and in dealing with other global crises, not only in the NATO context but also in the UN framework. But NATO has been following with interest the work on the proactive contribution to peace and the new legislation. While we don't stick our noses into the country's internal affairs, we're hopeful that this can give additional impetus to NATO-Japan cooperation. As I said before, with so many global challenges, this can be very beneficial to both sides.

TF *What would you consider to be some of those benefits?*

VERSHBOW NATO offers a whole range of practical programs that can be beneficial to partners, and we can tailor that cooperation to each country's needs. For some of the countries that are grappling with the threat of terrorism in their immediate neighborhoods, particularly in the Middle East and North Africa, we're stepping up our support in the area of defense capacity building in counter-terrorism. But in the case of Japan, I think that there are programs that offer ways for Japan to gain greater expertise in cyber-defense and cyber-security and in dealing with natural disasters and other civil emergencies where NATO has vast experience. There are exercises in which Japan is participat-



NATO Deputy Secretary General Alexander Vershbow delivering the keynote address at a Tokyo Foundation seminar on Japan-NATO relations.

ing, such as the one that starts later this month in Ukraine run by our Euro-Atlantic Disaster Response Center.

Of course there is a wide range of military-to-military activities that is open to partners that can improve interoperability and professionalism among the armed forces and lay the basis for potential operations, either in the NATO or UN framework. We have a very big menu. You don't have to choose everything on the menu, but I think there is a lot that can benefit Japan.

Refugee Crisis

***TF** What are humanitarian and security implications of the vast number of refugees and migrants flowing into Europe from the Middle East?*

VERSHBOW Clearly, this expanding flow of refugees is creating a very serious challenge and causing some strains in Europe. It's first of all a human tragedy. NATO isn't directly involved in the response to the migration crisis, but we're trying to contribute to addressing the root causes of this crisis.

One way we're doing that is by stepping up defense capacity by providing support to some of the countries along the Mediterranean that are dealing with the threat of terrorism and the general instability that is giving momentum to this huge flow of refugees. Members of NATO are contributing in one way or another to defeat the Islamic State in Iraq and Syria, which is the main cause of the refugees and migrants reaching Europe.

I think it's a team effort. NATO has a role to play more in dealing with the causes than dealing with the actual resettlement of the refugees, but we all have to work together because this is the most formidable challenge of its kind since the post-World War II period.

Playing by the Rulebook

***TF** What is the kind of cooperation you would like to see coming from Japan in dealing with the situation in Ukraine?*

VERSHBOW This is not an area of NATO's responsibility, but the international sanctions against Russia have been one of the key forms of leverage that we as the international community have to try to press the Russians to change their behavior and to pull back from their aggression against Ukraine. The fact that Japan has aligned itself fully with the EU and US sanctions has been very important. This may

not be well received in Moscow, but I think it's a clear signal that countries that break the rules have to pay a price, and I think Japan as a major power in North-east Asia lends an extra weight to that message.

Obviously, we would like to see a political solution to the crisis, and I think Japan, through the Group of Seven and in other ways, has joined the chorus of those who say that the Minsk Agreements are the best way out. But there has to be full compliance with Minsk, not just selective compliance. We have seen some progress in the last few weeks. The violence has declined. Apparently, there have been some positive discussions among the leaders in the so-called Normandy format, but it remains to be seen—I remain to be convinced that Russia is looking for a way out that would restore respect for Ukraine's sovereignty and territorial integrity.

TF *What is your view of China's assertive behavior, not just in the South China Sea and East China Sea but also in waters closer to Europe?*

VERSHBOW We're not directly affected by the problems with which Japan and other East Asian states are faced with respect to China and its military activities in disputed waters. But our member states, of course, share some of the concerns and want to see a China that plays by the rules, that respects international law, and seeks to resolve disputes peacefully, rather than through the use of force or through unilateral action. In that sense, we hope that China doesn't follow the path of Russia in tearing up the rulebook that has governed European security for many decades.

But, we value our consultations with Japan and other East Asian partners to get a better understanding of how they see the Chinese challenge. This will help us better appreciate the nature of the problem, and perhaps we can draw some lessons that may apply closer to our main area responsibility.

Weaponization of Information

TF *Do you have any thoughts on the different narratives coming from Beijing and Tokyo?*

VERSHBOW I'm not totally familiar with the situation, but I do think propaganda and manipulative narratives are a concern, as demonstrated by the problems we've seen with respect to Russia, where the disinformation is quite pernicious. Some experts have described this as the weaponization of information.

I hope that the consultations that I am having here in Tokyo and those we hope to continue having with Japan will be a useful way to compare our assessments of the nature of the problem and the techniques that some of our competitors use when it comes to strategic communications and disinformation so that we can perhaps better equip ourselves to counter them.

TF *How seriously do you regard the threat of hybrid warfare?*

VERSHBOW The events of last year surrounding Ukraine obviously have put into sharp relief the problem of hybrid warfare. This is not entirely a new phenomenon; we've seen this as far back as the Trojan horse. But the combination of covert means, disinformation, and subversion backed by conventional military power proved to be a very challenging mix when it came to the illegal annexation of Crimea. NATO is in the process of developing a comprehensive strategy to deal with hybrid threats in the future.

At the same time, we're confident that our deterrence against hybrid or any other kinds of attacks against NATO members is quite effective, and the decisions that we took a year ago at the Wales Summit to increase the readiness of our forces and our ability to respond quickly to any emerging scenario make it unlikely that something similar to Crimea could be carried out against any member state. But nevertheless we need to be prepared. We need to fully understand the nature of this threat. We need to strengthen our intelligence, assessments, and speed with which we share intelligence within the alliance. We have to speed up our decision-making, so if even when there is some ambiguity we can begin to take steps to address potential crises before it becomes too late.

We've learned some lessons in assessing what happened in Crimea, and we're making sure we're prepared if anybody tries to do the same against us.

June 11, 2015

Japan's Difficult Choices in Navigating Its Ties with Russia

Masahiro Akiyama

Despite the souring of Japan-Russia relations following the Ukrainian crisis, there are growing signs that Russian President Putin could visit Japan later this year, notes Tokyo Foundation President Masahiro Akiyama in an article originally published by the Valdai Discussion Club. Japan has an interest in economic cooperation with Russia, including in the energy sector, which could make a contribution to the development of Russia's Far East, Eastern Siberia, and the Arctic Ocean.

* * *

Sergey Naryshkin, chairman of the Russian State Duma, visited Japan last month—this was his second visit to this country in a year.

The surprising aspect of this year's visit was the high profile of the people he met. He paid a courtesy call on Prime Minister Shinzo Abe and met with many other political leaders during his stay, although the stated purpose of his visit was to attend a Russian Cultural Festival in Tokyo.

The talks are believed to have produced an agreement to push forward the Japan-Russia relationship despite the current severe situation. So I think we are going to see President Vladimir Putin visiting Japan later this year.

Since Prime Minister Abe returned to office three years ago, he has met President Putin seven times. This is quite rare in the history of our two countries' relationship. In fact, he met Putin twice even after the Ukrainian crisis. A sense of mutual trust has grown up between them, and this could help resolve the difficult issues between our two countries. As a related point, we should not forget that former Prime Minister Yoshiro Mori, who is Abe's political patron, is also very close to President Putin, as the two men share an enthusiasm for sports.

The Ukrainian crisis occurred at a bad time for Japan, which was just about to

kick off a new round of what appeared to be constructive negotiations with Russia over the territorial issue with the ultimate goal of concluding a peace treaty. Japan is not taking an anti-Russian stance just because of US pressure; its decision is based on a desire to maintain solidarity with major European and North American countries as a member of the G7. Still, Japan was reluctant to impose severe sanctions on Russia, and so they may not be effective as those imposed by other countries.

Resolving the Northern Territories dispute remains Japan's top priority in restoring normal relations with Russia and in strengthening the bilateral political and economic relationship. Japan may need to be more flexible, as it seems impossible to resolve the dispute as long as Japan insists on the return of all four islands as a package. I believe a solution can be found on which both countries can agree if the two leaders draw on their strong mutual trust to push forward the negotiation process.

Japan has a keen interest in economic cooperation with Russia, including in the energy sector, which could make a positive contribution to the development of Russia's Far East, Eastern Siberia, and the Arctic Ocean. Some economic cooperation projects have been stalled due to the economic sanctions imposed after the Ukraine crisis and the sharp drop in oil prices since last November. Still, we have seen positive developments in the agriculture and medical sectors, even after the crisis. I am confident that investment and business will recover gradually, as neither the West nor Russia want the relationships to deteriorate any further, as long as at least the ceasefire part of the Minsk-2 agreement holds. The United States, I am sure, is not interested in starting a new Cold War.

Japan's official attitude toward Russia has remained largely unchanged since the crisis, although the country was forced to make a politically difficult choice between its desire to promote Japan-Russia relations and to maintain solidarity with the G7 by taking a tough stance against Russia.

The dialogue between the Tokyo Foundation and the Russian International Affairs Council were held as scheduled last autumn, even when our bilateral relations soured following the Ukrainian crisis, and we publicly issued a joint statement to promote friendly ties. Communication and exchange at the unofficial level are therefore continuing as before. This suggests that Track 2 dialogue may become more important under the current political situation.

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September 24, 2015

The Politics behind Russia's Support for Syria

Paul J. Saunders

Russia's heightened military support to Syria has raised questions about Moscow's intentions and whether it will help or thwart efforts to fight the Islamic State. The consequences, notes Paul Saunders, will depend on whether or not Washington and Moscow can find a mutually satisfactory way forward in the war-torn country.

* * *

Russia's dramatic recent increases in military support to Syria have produced considerable uncertainty regarding Moscow's intentions. Will Russian forces engage directly in combat against the so-called Islamic State? Could Russia's help allow the Syrian military to intensify attacks on "moderate" opposition groups? Or could it lead to accidental confrontation between Russian and American military personnel? And what will Moscow do next?

Moscow faces very substantial constraints, though, that are likely to impose important limits on its conduct. Russia's actions will probably be much more consequential politically than militarily.

Mutually Reinforcing Objectives

President Vladimir Putin's decision to send aircraft, armored vehicles, and naval infantry to Syria—and, apparently, to build at least one new base there—is likely the result of several mutually reinforcing objectives. Militarily, Russia seeks to avoid a victory for the Islamic State that would allow the extremist group to consolidate control over Syria's territory and, no less important, that would release over 2,000 experienced and dangerous Chechen fighters from combat for potential return to Russia.

Unlike the United States and many of its allies in the region, Russia does not

Paul J. Saunders Executive Director, Center for the National Interest (Washington, DC).

see the moderate Syrian opposition as a viable force that could counterbalance and eventually defeat Islamic State fighters. Since no one else (including the United States) is willing to provide a major ground force, and air strikes alone cannot defeat the Islamic State, Russian officials see Syrian President Bashar al-Assad's army as an essential partner.

Politically, Russia's leaders have sent several messages simultaneously. To the United States and its allies, Moscow is arguing for a significant role in any international coalition against the Islamic State and in any political process to establish peace. More narrowly, the moves looked calculated to force open military-to-military dialogue with Washington, suspended after Russia's seizure of Crimea, in order to avoid accidents or miscalculations.

This has already partially succeeded in producing a telephone conversation between Secretary of Defense Ashton Carter and Defense Minister Sergey Shoigu. What remains unknown is whether President Barack Obama will agree to meet Mr. Putin during his visit to the UN General Assembly on September 28.

At the same time, Russia's actions demonstrate to Bashar al-Assad and Syria's generals that Moscow is committed, at least to some degree, to preventing their defeat. This gives Syria's leaders a greater stake in their relations with Moscow. It could also help to reassure Mr. Assad and others of Russia's intent in any international negotiations—something required to win the Syrian government's support for any deal.

Political Constraints

Still, despite its military deployments, Russia lacks the capability to deploy, or to sustain, a large enough number of its own troops to make a difference in Syria's bloody civil war. Russia's "naval base" in Tartus, Syria, cannot accommodate large ships and is primarily a repair and resupply facility.

Though Moscow recently negotiated naval access to Cyprus, this is not sufficient either—soldiers and supplies would still have to travel by ship or by air to Syria. Supporting a meaningful force in Syria by air would be extremely expensive and logistically quite demanding. Taking into account the number of portable surface-to-air missiles in Syria, it could also be quite risky for Russian cargo pilots.

Russia faces similar political constraints. Most important, Russian public opinion remains deeply scarred by the Soviet war in Afghanistan and Russia's two wars in Chechnya. Not unlike the American experiences in Vietnam and Iraq, these bloody conflicts—a defeat in Afghanistan and at best inconclusive in Chechnya—have produced a profound reluctance to fight in far-off lands. If Islamic State forces

were to capture and publicly execute one or more Russian soldiers, as they have already done to others, President Putin could face an angry public with few credible policy responses.

The most important question following Russia's sudden escalation in Syria is whether it may advance—or set back—wider efforts to thwart the Islamic State and reestablish stability. The answer to this will depend heavily on whether or not Washington and Moscow can find a mutually satisfactory way forward in Syria that facilitates not only their cooperation but also a new international coalition.

So far, the biggest obstacle to such an understanding is the long-standing US-Russian disagreement about President Assad. Washington views Assad's behavior as a recruiting poster for the Islamic State, while Moscow considers his leadership necessary to preserving a unified Syrian state that can continue to fight the ground war. And, of course, President Obama has insisted that Assad must agree to step down as a pre-condition for talks. Moscow rejects this approach.

Some in Washington sound increasingly prepared to contain their distaste for Mr. Assad—and, for that matter, for Mr. Putin—at least for a time. Neither decision would be an easy one for the Obama administration, however, particularly as the 2016 electoral campaign heats up. Look to the White House for the next move.

July 22, 2015

The AIIB and Japan's Development Assistance

Hiroyuki Kato

Tokyo's decision not to join the AIIB may have been made in deference to Washington's wishes, but given its distinguished record of assistance to developing countries, notes Hiroyuki Kato of Kobe University, Japan should pursue its own strategies for how it works with the bank to promote infrastructure investment in developing countries.

* * *

After considerable debate, the Japanese government chose not to become a founding member of the Asian Infrastructure Investment Bank. Opinions differ, though, over the stance Japan should take in the future: Should Japan continue to keep its distance from the AIIB, or should it join the China-led bank as a regular member and exert influence from inside? Arguments pro and con are likely to be advanced for some time.

The AIIB is a new multilateral development bank that China is establishing with the aim of satisfying the huge demand for infrastructure investment in Asia—demand that, as estimated by the Asian Development Bank, will reach \$730 billion through 2020. Fifty-seven countries signed up as founding members by the March 31, 2015, deadline, with China expected to provide a considerable share of the bank's \$100 billion initial subscribed capital. In addition to developing countries, a number of developed countries, such as Britain and Germany, scrambled to join at the last minute. What were they hoping to gain? What is China seeking to achieve from this initiative? And how should Japan respond? Below, I will approach these questions from the perspective of how Japan should provide assistance to developing countries.

A Variety of Agendas

The response of other states to the AIIB varies according to their aid recipient/

Hiroyuki Kato Professor of Economics, Kobe University.

donor status and how close they feel to China and to the United States. For developing Asian countries with immense appetites for infrastructure investment, nothing could be more welcome than the arrival of the AIIB as a new lender alongside the World Bank and the ADB. Competition between the new bank and the older ones can mean more relaxed conditions for loans.

For such Group of Seven countries as Britain and Germany, the decision to join the AIIB despite pressure from Washington to stay out can be attributed to a number of factors: For one thing, the amount of capital required from non-Asian members is modest. Membership is seen as offering improved access to the fast-growing Asian economies for the participating countries' businesses. And their governments may be feeling strongly distrustful of the existing US-centered international financial order. For the United States, meanwhile, the establishment of the AIIB under Chinese leadership looks like a major challenge. Washington did its best to keep other countries from joining, but its efforts fell short. The decisions by other G7 countries and South Korea—which depends heavily on the United States—to seek membership in the new institution highlighted the decline of America's influence in the international community. Some have even argued that it is a harbinger of change from a US-dominated world order to a multipolar structure.

The country that finds itself in the most awkward position vis-à-vis the AIIB is Japan. Our country achieved economic growth in the postwar era thanks to the US-centered international financial order. This order has survived a number of crises over the decades—notably, the Nixon shock of 1971, the Asian currency crisis of 1997, and the global financial crisis following the bankruptcy of Lehman Brothers in 2008. Each time, Tokyo stood by Washington's side. In geopolitical terms and also in terms of its track record as a provider of development assistance, Japan could naturally have taken a leading role in the AIIB. The biggest reason for its decision not to become a founding member was its unchanging adherence to a policy of staying in step with the United States. And even if Beijing had promised Tokyo the number-two spot in the new bank, there would probably have been some resistance to the idea of playing second fiddle to China.

China's Emergence as an Aid Donor

The move to establish the AIIB sheds some light on China itself, a country that has been sustaining rapid economic growth and is emerging as a superpower. The leaders in Beijing are aiming for more moderate economic expansion given the deceleration in the growth rate, expected to be around 7% this year. There has not yet been a fundamental change in China's structure of excess capital accumulation—a

chronic consumption shortage offset by excess investment (Marukawa and Kajitani 2015). Meanwhile, as a result of the export-promotion policies China has been implementing for many years, it has been running large current account surpluses with the United States, and these have caused global imbalances that adversely affect the stability of the world economy. China's foreign reserves have grown to \$3.8 trillion, and if it hopes to keep the yuan-dollar exchange rate steady, it needs to "recycle" more of this foreign currency. This means using it outside of China in such forms as official development assistance and direct investment. Recycling the funds in this way will also stimulate other countries' economies, generating additional demand that can help absorb China's excess production capacity.

Since around 2004, Beijing has been encouraging Chinese enterprises to invest abroad. The volume of China's outward direct investment is now on the same order as that of industrially advanced countries like the United States and Japan, and within the next few years it is expected to exceed the volume of inward direct investment. In July 2014, the five BRICS countries (Brazil, Russia, India, China, and South Africa) agreed to establish their own development bank and foreign currency reserve pool. The establishment of the AIIB may be seen as an extension of these earlier moves.

China's decision to create the new bank is evidence of its emergence as an aid donor and its desire to put a stamp of its own on its development assistance. When viewed by Western value standards, China's ODA program is problematic in a number of respects, as typified by its resource diplomacy in Africa. At the same time, however, China's ODA has been offering opportunities for meeting needs that have not been effectively addressed by the international aid community centered on the OECD Development Assistance Committee and the World Bank (Shimomura and Ohashi 2013). Dambisa Moyo, an economist from Zambia, notes: "The West sent aid to Africa and ultimately did not care about the outcome. . . . China, on the other hand, sends cash to Africa and demands returns. With returns, Africans get jobs, get roads, get food, making more Africans better off" (Moyo 2009, 152).

Put Japan's Experience to Work in the AIIB

When we consider the particulars of China's ODA, we find much that is similar to Japan's aid program in the past. Japan joined DAC in 1961 and has a history of over 50 years as a donor. Japan's ODA has focused on developing industry through human resources development, provision of technology, and infrastructure investment based on a long-term perspective.

Japan deserves high marks for the major contributions it has made to industrial

development in places throughout Asia, but given the fiscal constraints that our country now faces, we need to shift from being a big donor to a “smart” donor, making effective use of the limited budget available for aid. Japan need not imitate Western countries’ prioritization of poverty relief and humanitarian assistance but should pursue its own strategy, focusing on developing human resources, providing technologies, investing in infrastructure, developing supporting industries, and extending financial support. It should aim for synergistic coordination between the official aid program and direct investment by the private sector (Kurosawa and Otsuka 2015).

Japan’s experience confirms the crucial importance of infrastructure investment in development assistance. But it is wishful thinking for donors to believe that simply building infrastructure will be enough to create the necessary environment for investment by private companies and successfully achieve industrialization. As suggested by the experience of countries like Thailand and Indonesia, where assistance from Japan promoted successful industrialization, infrastructure investment must be conducted in tandem with assistance in other areas, such as human resources development, the provision of technology, the development of supporting industries, and financial support; only with this sort of multifaceted approach can industrialization be achieved.

It is not yet clear what sort of lender the AIIB will become. If, true to its name, it specializes in infrastructure investment, then Japan should tap its strengths to cooperate with it from the outside. And if Japan becomes a member, it should make good use of the bank as a channel for the implementation of development strategies based on its own experience. Whether it joins or cooperates from outside, Japan should act with firm conviction, confident in the knowledge that drawing on its store of experience can promote the success of the new bank.

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September 1, 2015

Oil and the City

Hope, Expectation, and Development in Ghana

ThienVinh Nguyen

How does “oil money” shape a city? ThienVinh Nguyen, a Sylff fellowship recipient at Columbia University now enrolled in a doctoral program at University College London, used an SRA grant to observe how profits from oil are spent for the “development” of a port city in Ghana. During her eight-month-long research in the city, she saw oil companies spend enormous amounts on infrastructure development. Her report raises the question of who are the real beneficiaries of such spending.

* * *

Even without oil, we are doing so well . . . with oil as a shot in the arm, we’re going to fly. . . . Oil is money, and we need money to do the schools, the roads, and the hospitals. If you find oil, you manage it well, can you complain about that?

—Ghanaian President John Kufuor, June 2007

Introduction

After a century of minor oil discoveries, in 2007 President John Kufuor announced that Ghana had discovered commercial quantities of oil in the Jubilee Fields off the coast of Sekondi-Takoradi. The International Monetary Fund estimates that oil and gas revenues from the Jubilee Fields alone could earn the Ghanaian government a cumulative \$20 billion between 2012 and 2030, a figure that certainly makes an impact in Ghana’s national budget (Gary, Manteaw, and Armstrong 2009).

The question on everyone’s mind was: Will this be a blessing or a curse? Indeed, oil has been regarded by some as a dark, evil, corrupting resource. My research moves beyond this stereotype to explore the nuances of how the emergence of an

ThienVinh Nguyen Sylff Fellow, 2010, Columbia University. Is now a PhD candidate at University College London. Conducted research on urban governance in Sekondi-Takoradi in 2013–15 with partial funding from an SRA grant.

oil industry transforms a city. Sekondi-Takoradi continues to change, as do cities all over the world, but the oil boom and the narratives around it enable new, ambitious, and fantastical development-driven visions for the city.

At the same time, we see an increase in citizens advocating for basic amenities and provisions—water, sanitation, electricity, and education—which the city has been slow to deliver in spite of the scale of oil-driven developments. Three major development projects are being promoted: the construction of a luxury shopping mall, the renovation of urban roads, and the expansion of Takoradi Port.



Many of Ghana's offshore oil fields are located in the Western Region, whose capital is Sekondi-Takoradi. Image courtesy of Hufstader/Oxfam America, 2008

Case Studies

There is a small mention of the need for a mall in the current draft of the city's development plan, and a South African developer has proposed the construction of a mall valued at between \$65 million and \$90 million (Ampratwum-Mensah 2015). Even though the local government and some residents support the project—seeing it as a sign of “modern progress”—others believe that there should also be a focus on ensuring that local citizens have access to basic services and provisions. Even with its supporters, however, the mall project has faced serious challenges. For one thing, the developers had to seek the support of the mayor, local government officials, and the police force to relocate the auto mechanics who had been “illegally” operating on the land. Some argue that these mechanics created a thriving local economy, while the developer and others say the mall will create new jobs and new public spaces.

Another development focus has been on roads. Roads are particularly helpful in getting political parties elected. With money from the oil boom, Sekondi-Takoradi has been improving its roads, especially those frequented by oil and gas companies and foreigners. The Jubilee Partners—the consortium of oil companies operating on the Jubilee Fields—also paid for the renovation of a roundabout they use frequently. A number of civil society organizations that I interviewed mentioned that while the paving of roads is welcome, the city is prioritizing development based on aesthetics that serves particular privileged groups, rather than meeting such community needs as water, sanitation, and electricity.

Sekondi-Takoradi has historically been and continues to be an important port, shaped by the shipments of resource minerals through the city. Currently, Ghana is investing heavily into the Takoradi Port Expansion Project, with the first and second phases of the project budgeted at well over US\$300 million. Financing comes in the form of loans: €197 million from KBC Bank N.V. and about US\$176 million from the China Development Bank (“Takoradi Port Expansion: Breakwater Nears Completion” 2014). A core feature of this expansion project is catering to the needs of oil and gas companies, including the creation of an oil storage area. This impressive expansion project will continue to shape the city, with new mineral wealth flowing in and out of the city.

Amidst heightened economic activity and growing possibilities, President Kufuor and other politicians—including US Presidents George W. Bush and Barack Obama, who have both made visits to Ghana—promote the idea of hope and economic prosperity in the light of the oil discoveries, juxtaposing the promise in Ghana with narratives about weak states and the resource curse in Africa. These expectations are embedded in a context where Ghana is seen as a potential exemplar African state, capable of moving beyond the “tragedy” of resource mismanagement by continuing on its path as an international-investor-friendly, democratic nation. Citizens recognize that oil is a valuable commodity (despite declining oil prices) and that perhaps it has the potential to transform the income trajectory of all Ghanaians.

Over eight months in Ghana, I conducted interviews with civil society organizations, traditional authorities, Ghanaian government officials at various levels, local businesses, and transnational companies, including oil-related companies from Britain, the United States, France, and South Africa, among others. Although China provided the Ghanaian government with a \$3 billion loan to build natural gas infrastructure (see: Mohan 2010), I learned through my interviews that most of the money was spent outside of the city: in building a major ECOWAS (Economic Community of West African States) highway and constructing the infrastructure for a natural gas pipeline farther west on the coast. There were also



PHOTO BY THIENVINH NGUYEN, 2015

Sekondi-Takoradi, like many other cities, is going through change, where the new and old converge and where different visions of development affect everyday life and the urban form of the city.

proposed Chinese-coordinated projects in the city, though, in the form of road works and improving the railway system.

In addition to interviews with these stakeholders, I also analyzed various strategic plans for the city over time, including plans financed by oil companies, 20 years' worth of development plans drafted by the local government, and plans developed by local nongovernmental organizations. Given all these emergent developments, which affect the structure and social landscape of the city, there has been an increased focus on the creation of spatial development plans for the city.

I argue that the process of formulating these plans opens up new opportunities for public engagement and forms of governance. The local government plans have

certainly become more ambitious and in-depth, requiring much bigger budgets, following the discovery of oil. Indeed, the major oil company in the city has a field representative in the district assembly who attends the planning meetings. These plans—more so than in the past—serve as strategic tools for garnering donor support and private investment. Indeed, even those cynical of whether these plans will ever be implemented realize that the plans have mobilized a broad range of voices in shaping the



The central market area of Takoradi, where old, colonial-style buildings (on the left) are juxtaposed with the new Ecobank building on the right.

future of the city. While implementation may be slow, they do affect the direction and structure of the city.

With a population of 560,000 in a country of 24 million, Sekondi-Takoradi consists of the twin cities of Sekondi and Takoradi and is the capital of the Western Region (Wilde, Adams, and English 2013). This region is known for its rich resources—timber, bauxite, gold, and diamonds, and now, offshore oil and gas. Sekondi-Takoradi lies on the transport route to Kumasi and Accra—thriving cities that are the capitals in their respective regions, with Accra serving also as the capital of the country.

In this vein, this city, as is the case for all cities, is a site of territorialized economic development, given its dependency on natural resources and its role as a major port for Ghana. It has been integrated into the global supply chain, where international capital flows in and out of the city. Now, the Ghana central government insists that oil production will bring the city and country unprecedented

PHOTO BY THIEN VINH NGUYEN, 2015

wealth. Narratives about the potential for growth highlight how the city will be “one of the modern cities of the world,” with “skyscrapers, six-lane highways and malls” (Walker 2011).

I asked all of my interviewees how the city has changed. Some commented on how there has not been enough change and that money has not “trickled down”—meaning that they would welcome further social and infrastructural development and that the city is still very much lacking. There remain “slum areas,” with many residents lacking access to water, sanitation, and electricity. With regard to electricity, despite having offshore oil and gas, Ghana is undergoing an energy crisis, where the load shedding schedule is 24-hours off/24-hours on.

The city’s central Market Circle consists of an organized, though seemingly chaotic, indoor and outdoor market areas, where one can find practically anything: from live animals and produce to cheap imported goods. This area, though, lacks proper plumbing and trash collection—despite the fact that vendors here pay fees to the city for being there.

Others contend that the city has indeed changed, for better and for worse. With more foreigners in the city, rents and food prices have gone up, and there is increased road congestion. There are large, newly built villas, hotels, and bank buildings in the city. While a public school teacher or taxi driver makes less than US\$300 a month, monthly rents for a three-bedroom house in the wealthier neighborhoods range from \$2,000 to \$5,000.

Given the myriad development issues facing Sekondi-Takoradi, the question is not if change will take place but how, at what rate, and who will benefit from this oil boom.

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A Remembrance of Books Lost

Bengali Chapbooks at the British Library

Aritra Chakraborti

The Research

This research is focused on the contested history of popular print culture in Bengal, India. Printing technology arrived in Bengal in the late eighteenth century, and the first Bengali books printed with movable type were translation of Christian tracts published under the aegis of the Baptist Missionaries of Serampore.

Although printing was at first controlled by the colonial authorities and the native elite, this “foreign” technology was quickly embraced by local residents, and a thriving publishing industry took shape in the nascent metropolis of Calcutta (now Kolkata), which soon became the second most important city of the British Empire.

The earliest printers were mostly humanists and scholars, but hack writers and pamphleteers soon entered the market with their cheap, entertaining books and crudely written pamphlets. Their target readers were mostly the newly created middle class and the semi-literate lower middle class.

By the mid-nineteenth century, the popular publishing industry became a headache for the colonial authorities and the native elite alike, who were offended by the bawdy contents of the cheap-print. Soon, they adjudged that the local publishing industry had to be controlled in order to inculcate a sound reading habit amongst Bengalis.¹

The cheap publishing industry was first established around Battala in North Calcutta. Although this industry later spread to other parts of the state, the name

Aritra Chakraborti Sylff Fellow, 2012–15, Jadavpur University. Is currently a PhD student at the university’s Department of English. Received an SRA grant for doctoral research in the field of book history in colonial Bengal.

¹ James Long, *Returns Relating to the Publications in the Bengali Language in 1857* (Calcutta, 1859) pp. xxiv-xxv

“Battala” became synonymous with obscene and erotic printed material that soon became the target of the censoring authorities. While the Battala presses were persecuted in the nineteenth century for spreading salacious and corrupting ideas, subsequent historians have pointed out that these books represented the “native cultural elements” that the colonial authorities marginalized as part of their efforts to exercise “bio-political” control over the native mind.²

In the subsequent historiography of popular print culture in Bengal, Battala has been celebrated as the quintessential locale of subversion and resistance. This has also contributed to the rather misleading notion that the cheap publishing industry existed only to defy the elite print culture. While the pioneering work in this field done by such historians as Sukumar Sen, Nikhil Sarkar, Gautam Bhadra, and Sumanta Bandyopadhyay has unearthed a treasure trove of interesting material, it has, in turn, ensured that the books that were not so subversive in nature were buried underneath this “romance of defiance.” And in time, these books mostly vanished from the history of Bengali popular print culture.

My research for the SRA period was focused primarily on unearthing such material—chapbooks and pamphlets on topical events that acted as the conduit of information for the semi-literate readers who were not a part of the information network of the newspapers and periodicals published by the educated elite. During my Sylff Research Abroad in Britain, I endeavored to:

- Find chapbooks and pamphlets written on topical events
- Analyze their language to see how they used traditional modes of cultural



The title of this chapbook is *Bharat-matar Bastraharan (The Disrobing of Mother India)*. Written during the Second World War, it describes how the general populace suffered due to an acute shortage of clothing material and other essential commodities during the years of conflict. The cover shows a picture of “Mother India” as a poor, yet beautiful woman who is wearing rags since she no longer has enough clothes to cover her body. This chapbook was written by prolific author Nagendranath Das, whose works were frequently banned by the British government.

² Bernard S. Cohn, *Colonialism and its Forms of Knowledge* (New Jersey: Princeton University Press, 1996); Deana Heath, *Purifying Empire: Obscenity and the Politics of Moral Regulation in Britain, India and Australia* (Cambridge: Cambridge University Press, 2010).

expressions to entertain as well as inform and educate people about the modern world

- Understand the role they played as the mass media in the nineteenth century

The SRA award allowed me to look for these books in the vast archives of London's British Library, which was the deposit library of the British Empire. It boasts perhaps the largest collection of nineteenth-century books published within the domains of the empire, and Bengali books were no exception. As a visiting researcher at King's College London during this period, I also got the chance to speak with scholars and researchers from other institutions, such as the Institute of English Studies and the School of Oriental and African Studies (SOAS) at the University of London and Oxford University.

The archival work was done at the Asian and African Studies Collection of the British Library, which houses the complete collection of the India Office Library. Conversations with Mr. Graham Shaw, the doyen of nineteenth century Bengali print culture, gave me crucial directions on the use of the vast archive. The books, on the other hand, presented unique stories, and I saw how natural disasters, scandals, incidents of legal or political importance, and other events were represented in the popular print media. And examination of these books is important for various reasons. First, the notion that the sole function of the Battala presses was to resist the cultural elite suggests that the marginalized print cultures did not have an independent existence. This, though, was far from the case.



The British Library in London.

Second, these books show that the colonial public sphere was more complicated than it is generally regarded. Nineteenth century chapbooks and pamphlets serve as important windows on the everyday life of colonial Bengal: a sociological examination along these lines has long been pending.

Third, an examination of these documents reveals that the main purpose of popular print culture was the same as that of elite print culture: dissemination of information.

My research during the SRA period was not limited to the study of these books, however. My other aim was to study the India Political Intelligence Department and the Crown Representative's Records in order to find out how the British Secret

Services tracked down seditious literature after the emergence of nationalist movements. Though most of the leading figures of the nationalist movements, both pacifist and extremist, were educated elites, they adopted the chapbook and pamphlet formats for the dissemination of their ideas. Due to the near invisibility and the ephemeral nature of these slender volumes, chapbooks and pamphlets became major carriers of subversive ideas during the period between 1905 and 1947.

The hack writers, in turn, appropriated nationalistic themes to increase the sales of their books, since books written on such themes were very popular. While doing my research in India, I had amassed a vast digital collection of nationalistic pamphlets and chapbooks printed between the 1930s and 1940s, and I needed to consult the India Office Records at the British Library to access many other similar pamphlets (especially those published between 1905 and 1930) and to examine the records of the Secret Services to understand how the authorities tracked down and persecuted the authors, book sellers, and at times even the readers of these items.

While the colonial authorities exercised stringent censorship to ensure that seditious ideas were not circulated, pamphlets and chapbooks written on nationalistic ideas spread rapidly through private vendors and dedicated revolutionaries, who also doubled as publishers. For this section, my research questions were:

- How were the seditious pamphlets and chapbooks produced and circulated?
- How did the censoring machinery of the colonial government function to control the dissemination of such ephemeral items?
- How did the hack writers appropriate nationalistic ideas in their chapbooks and pamphlets?
- Apart from the criticism of the colonial regime, did the writers comment on other aspects of the social condition? If so, how?

The Burden of the Archive

My research was enriched by everything that I studied during this period: chapbooks and pamphlets, legal records, court proceedings, and reports of the Secret Service agents who intercepted letters, followed booksellers, and sent spies to track down the people who distributed seditious materials during one of the most volatile periods in the history of the region.

While studying the pamphlets and chapbooks that described the partition riots and famine,³ I got a chance to read the disturbing memoirs of the English soldiers

³ The British left India in 1947, marking the successful culmination of half-a-century long

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who were stationed in Calcutta at that time. The intense nature of the documents that I studied often left me greatly distressed, though this was also part of the thrill that is often associated with archival research of this nature. These findings have enabled me to develop a greater understanding of how this rustic information network functioned amongst the economically disenfranchised sectors of society, long before the coming of electronic media that made communication more democratic.

For this opportunity I am grateful to the Tokyo Foundation. The Sylff fellowship and the SRA award enabled me to fulfil the academic potential that my project had. I would also like to thank Professor Clare Pettitt of the King's College London, Mr. Graham Shaw of the Institute of English Studies, University of London, and Ms. Leena Mitford of the British Library for their kind guidance.

freedom struggle that swayed between peaceful marches and spells of armed resistance punctuated with gunfire and bomb blasts. Independence came at a price, though, as the partition of Bengal and Punjab resulted in the greatest human migration in history. This period also witnessed communal riots in various parts of India, especially in Bengal and Punjab, claiming the lives of thousands of people. During the final stages of the Second World War, when the British government was apprehensive of a Japanese invasion from Axis-occupied Burma, they implemented a scorched-earth policy in Bengal Province. This resulted in a massive famine, entirely man-made, that claimed the lives of at least 4 million people.

July 3, 2015

The Urban Art of Hip Hop among Young Immigrants in Palermo, Italy

Martina Riina

The Migration Observatory of the Institute of Political Education “Pedro Arrupe” is a website that publishes the results of scientific research on migration to the island of Sicily, where the institute is located. Martina Riina, who received a Sylff fellowship in 2014, chose to focus her research for the Observatory on the culture of second-generation migrants by focusing on the ways in which they express themselves through the medium of hip hop.

* * *

Between April 2014 and February 2015 I conducted social anthropological research in Palermo on a form of musical and narrative expression known as hip hop. My research focused on the ways in which young immigrants living in the city express themselves through hip hop culture and on the importance of this form of social and artistic communication in enabling them to find an identity in their new surroundings.

Urban Anthropological Approach

From a theoretical point of view, I tried to analyze the hip hop narrative as expressed mainly in the rap musical genre through sociological and urban anthropological perspectives, focused on the creative expressions of ethnic minorities in big cities, their message, and elements of cultural resistance.

I followed the analytical approach of French sociologist George Lapassade, one of the first scholars to address hip hop culture in his work on immigrants living in the suburbs of Paris. Lapassade compiled his reflections in what soon became the manifesto of youth hip hop culture—*Le Rap, ou la Fureur de Dire* (Rap, or the

Martina Riina Sylff Fellow, 2014, Institute of Political Education “Pedro Arrupe,” Italy. Is an anthropologist and founder of a social association, Logiche Meticce, where she works with children, youth, and adults from different cultures.

Fury of the Word)—a deep investigation into the symbols, practices, beliefs, and lifestyles revolving around this expressive language.

I learned through Lapassade's analysis about hip hop's origins in the Afro-American ghettos of New York in the late 1970s. The youth in these communities asserted their freedom of speech through real street expressions of song, music, dance, and mural art, weaving messages of civil rights with a desire to be recognized and to participate actively in the social life of the city's most deprived neighborhoods, even among those belonging to different ethnic minorities who populated those neighborhoods.



Starting from the history of hip hop, I studied the ways in which young immigrants in Palermo today proclaim their freedom of speech and the right to express themselves, comparing these with the behavior of their native counterparts. I tried to answer two fundamental questions: How do younger immigrants express themselves through the medium of hip hop and how does this “language” help create opportunities for different groups to meet each other and to influence one another through a process of “cultural contamination”?

Presenting Distinctive Narratives

What emerged from my research was that the language of hip hop and, in particular, rap—its main outlet of expression—are significant channels of expression for undertaking a comparison of groups of young people; the fact that many of them, both immigrants and natives, “speak” the same language allows them to talk about themselves, discuss and express their values, and register dissent in ways that are comprehensible to all parties.

In the fieldwork phase of my research, I closely analyzed how this language comes to life—the way it becomes the preferred channel both of communication with others and of self-expression in relaxed, everyday settings, away from family or school.

One of the most interesting aspects of the hip hop language is its manifestation in the form of “verbal challenge” or “poetic duel,” a dimension of rap's expressive world containing some extremely revealing elements regarding how contemporary youths confront one another and present their distinctive narratives.

The first thing to take note of is that rap is a modern and purely urban form of oral poetry. Given its Afro-American origins, it is characterized by improvisation and interaction with the audience as the “poet” tells their story.

The story may challenge the audience to question their attitudes toward specific issues with which they are involved, encouraging them to listen and respond to statements that affect them as a community.

What young rappers are engaging in are verbal street fights involving blows of rhymes and assonances. The aim of these “duels” is to express their feelings about their rivals and also their frustrations and disappointments in an artistic manner—a process that might help reduce the number of actual, physical brawls. For



young immigrants living in Palermo, the improvised dueling of words, known in the hip hop jargon as “free-style,” is a way of narrating their own stories directly to their peers in a recognizable style, giving them an element of commonality in spite of their uniqueness.

The linguistic specificities, for example, emphasize the different cultural backgrounds and gestures used

in the performances. They also have much in common in the ways topics are addressed, the messages contained in both the improvised and structured lyrics of the songs, the problems faced by today’s youth, the performers’ ambitions and desires, how they spend their leisure time, and tastes in fashion, films, and music.

These topics allow immigrants and natives to know each other better, to learn about their differences, and to reduce stereotypes and prejudices.

Educational Potential

During personal observations of these young people’s modes of self-expression, I realized how important it is to formulate project ideas or social initiatives that allow them to be leaders of their own growth and to affirm their communication and artistic practices. Producing rap lyrics, for example, encourages young immigrants to learn the language of the receiving society and, at the same time, gives them a new channel to communicate their experiences. In an increasingly global and interconnected world this is essential in order to gain a better understanding and awareness of multiculturalism.

VOICES FROM THE SYLFF COMMUNITY

Stimulating communication and transmitting shared messages are the engines of rap, and it is for this reason that it has the potential to promote creativity and innovative discoveries in educational and training settings, where aggregation and interpersonal relationships are the fundamental conditions of growth.

In conclusion I would like to point out the importance of hip hop today for young people, both immigrants and natives, as an extremely interesting world of artistic expression. The techniques used to create and perform their works require great skill, effort, research, and continuous recombinations of sound and verbal elements. The ready access to multimedia tools helps young people to learn the use of various technologies by themselves. A rap text is often composed of sentences, refrains, and musical elements of songs written by other artists that are mixed together to create new messages with personal, poetic elaborations. This also allows them to “collaborate” with artists far away in time and space—evoking memories of earlier artistic works and building on them through the reappropriation and reinterpretation of their lyrics.



Creative practices like hip hop in contemporary society are, in my opinion, much more than simple artistic genres: they represent people’s inner voice. It is their personal way of saying who they are and where they come from, as well as their conscious attempt to spread a message about their view of the world.

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