

The Regional Action Group for Japan Driving Growth Using ‘Practical Wisdom’: Japan’s Perspectives

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Introduction

Japan can transform the COVID-19 crisis into an opportunity to create a well-structured, forward-thinking society based on sustainability, inclusivity and resiliency.

The COVID-19 crisis has created an unprecedented series of challenges, whether it be in our daily lives, society at large, the global economy or the future of the planet as a whole. To address this, the World Economic Forum has initiated the “Great Reset” initiative to shape a more sustainable, inclusive and resilient world based on stakeholder principles.

As part of this effort, the Japanese constituents of the World Economic Forum held regular dialogues on how best to manage the crisis, direct recovery strategies and shape a positive post-COVID world. In collaboration with Deloitte, this report was created with these goals in mind.

Collectively, the Regional Action Group for Japan believes that the country could play a significant, constructive and positive role in shaping a better post-COVID future. With its history of stakeholder-based capitalism, Japan has long practised

sustainable business models, disaster resilience and social cohesion while maintaining environmental values. Both the public and private sectors can draw on these traditions of “practical wisdom” to mould a fairer and more dynamic societal model in the post-COVID era.

At the same time, the current crisis has revealed that urgent reforms are needed in a national context, including new strategies for digitalization, economic revitalization, decarbonization, and diversity and inclusion. The vision for tackling these pressing issues should come from industry leaders and the public alike if the opportunity to capitalize on the Great Reset is to be fully realized.

This report aims to create that vision. It surveys opinions from Japanese business leaders and suggests that the country implement four “great resets” – resetting attitudes, resetting business culture, resetting the economy and resetting the global collaboration framework – for the post-COVID era. The Regional Action Group for Japan hopes that this report serves as a framework to which business leaders can refer when discussing how to build a better future.

Drawing on ‘practical wisdom’ to achieve the Great Reset

With its history of stakeholder-based capitalism, Japan has long practised sustainable business models, disaster resilience, social cohesion and the championing of environmental values. Faced with the current pandemic, the country will draw on these traditions of “practical wisdom” to mould a fairer and more dynamic societal model in the post-COVID era. Specifically, the country seeks to implement four “great resets”: (1) resetting attitudes; (2) resetting business culture; (3) resetting the economy; and (4) resetting the global collaboration framework.

1. Resetting attitudes

In order to bring about a positive response to the crisis, leaders in Japan must face up to the immense task of solving systemic challenges such as sustainability and climate change rather than wishfully thinking that they can be resolved as time passes. Otherwise, we will return to the “old normal” of the pre-COVID era. However, we believe we can bring about this reset through the following three approaches.

Sharing a greater sense of urgency among officials, businesses and the public

To implement nationwide efforts to address the current crisis, policy-makers, business leaders and the general public need to fully understand the magnitude and severity of the challenges that lie ahead. In fact, this current crisis is one of the few remaining chances for the nation as a whole to overcome Japan's three "lost decades" of economic stagnation. No change will occur without recognition of this fact.

Accelerating necessary reforms to create a long-lasting impact on public trust

As well as raising new challenges, the pandemic has highlighted unaddressed problems facing Japan, including lack of growth and the increased need for digitalization, resiliency and sustainability. Unfortunately, Japan's past efforts to tackle these problems have fallen short of what was required. This is why many leaders advocate taking advantage of this opportunity to accelerate necessary reforms and make an enduring impact. Enhancing positive aspects such as social cohesion, communal resilience and altruistic value systems can create a society in which the general population will welcome private- and public-sector efforts to produce an improved blueprint for living.

Addressing unresolved issues to usher in a new era for Japan

Japan's unresolved legacy issues (for instance, its hesitancy to transform industry, to integrate new technology and to tackle the lack of diversity and inclusiveness) need to be addressed if the country is to embark on a new path. Pursuing the actions cited above will help resolve these historic issues, resulting in economic revitalization, digital leapfrogging, greater socioeconomic equality and sustainable development. It is the responsibility of current leaders to make this happen for future generations.

2. Resetting business culture

Industry leaders could also look to transform the behaviour of their own businesses – moving the focus away from their own successes in favour of contributing to the common good, drawing on the tradition of "practical wisdom". Traditionally, Japanese firms saw themselves as "good citizens of society" serving multiple stakeholders and emphasizing business sustainability. This stems from the business philosophy of *sanpō yoshi* – which translates as "three-way satisfaction" between the seller, buyer and society as a whole – that dates back to the Edo Period (1603–1868) and Meiji Era (1868–1912). The tradition is reflected in the fact that 40% of the world's centennial companies (those more than 100 years old) are based in Japan. Against this backdrop, industry leaders could promote socially oriented business practices using the following three steps.

Growing truly purpose-driven businesses for long-term value generation

Companies must first revisit and redefine their purpose in society. The current pandemic has caused enormous economic disruptions and highlighted environmental challenges, forcing companies to clarify the long-term purpose of their businesses and recalibrate their management accordingly. Therefore, Japanese business leaders could attempt to embrace purpose-driven management, establishing clear messages about their firms' contributions to society and the environment, communicating these messages both internally and externally. Adjusting their business portfolios

based on sustainability risk and impact assessments would increase employee engagement while appealing to customers and investors. This in turn could increase corporate value in a post-COVID world.

Upgrading community and environmental solutions via digital leapfrogging

As part of a social value creation plan, businesses could harness the power of technology to build resilient communities and solve environmental issues. The pandemic has revealed Japan's weaknesses in terms of digitalization and remote working, pushing the government to establish a new Digital Agency Preparatory Office. Japan can ride this momentum to inspire a quantum leap in terms of digitalization: for instance, using telemedicine to care for elderly people; strengthening disaster detection to build a more resilient society; and promoting online education to reduce regional education inequalities. As a country already well-versed in tackling societal challenges such as ageing populations and natural disasters, Japan has an opportunity to further develop world-leading digital solutions to address these issues. To implement such a broad digitalization and cross-industry optimization strategy without creating a backlash from the public (for instance, in the face of job insecurity), it is critical to gain broad support from stakeholders, including companies and local governments, and encourage public trust in these digital systems. Leaders could take steps to appeal to stakeholders on an emotional level by using personally relatable narratives such as "local community building" rather than abstract phrases such as "value creation through digitalization".

Promoting diversity and inclusion to revitalize leadership

To increase the competitiveness of Japanese firms, leaders could adopt a philosophy of diversity and inclusion in their hiring practices. The presence of female and foreign voices at leadership level is critical for rejuvenating and reinvigorating the standing of Japanese firms. Similarly, the involvement of younger voices, such as Generation Z and millennial candidates, will enhance corporate efforts with regard to social value creation, which is very much a part of the career aspirations of these groups. However, Japan's past efforts in this area have been significantly limited, with little progress having been made in increasing the presence of diverse talents in boardrooms and managerial positions. The existing seniority structure has also made it difficult for young talent to shine. Thus, a renewed effort to diversify management positions will be crucial to building a more vibrant economy and a more inclusive society.

3. Resetting the economy

In line with changes at the corporate level, Japanese leaders could seek to transform the economic system, switching the emphasis away from shareholders in favour of stakeholder capitalism. As stated, Japanese firms have traditionally embraced and practised a multistakeholder business philosophy. Given the inadequacies of global capitalism accentuated by the current crisis, business leaders can build on this tradition – here are three measures to further promote stakeholder capitalism.

Redefining economic success

Building a stakeholder economy requires redefining economic success to include social value and quality growth. While countries have long sought economic expansion or quantity-based growth, the current crisis has raised questions about the long-term viability of such a philosophy, generating

calls to focus instead on quality-based growth, prioritizing sustainability and resiliency. In order to achieve this shift, it is critical to establish a new system that rewards businesses for committing to environmental, social and governance (ESG) goals. One potential approach would be to define corporate responsibilities in terms of social value creation and social safety-net provision and reflect this in corporate valuation standards. Such a framework could encourage companies to practise stakeholder capitalism.

Striking a shareholder-stakeholder balance to reframe economic focus

Opinions vary on Japan's approach to striking a balance between shareholders and stakeholders. Some argue that Japanese firms should maintain their management style and multistakeholder approach, and provide stability for their employees and the community at large. Others contend that Japanese companies must transform into a more profit-based model since they have not focused enough on the efficient circulation of financial capital for growth and innovation. They suggest that the recent corporate governance reforms led by the government (such as the inclusion of diverse voices in the boardroom) are insufficient, and that more tangible efforts are needed (for instance, achievement of ESG or net zero targets). The current crisis has highlighted this divergence of opinions. In the coming months, business leaders must grapple with this issue and find an appropriate shareholder-stakeholder balance to realize sustainable value creation.

Shifting investor focus from short-term returns to long-term value creation

A stakeholder approach demands cooperation from business leaders and investors. It is important that investors appreciate the costs associated with social value creation and supporting long-term over short-term returns. It is also important for lenders, including banks, to exercise "debt governance"; that is, to monitor and encourage their client companies' ESG efforts. The rise of ESG investment, including a metrics framework created by the International Business Council and the Big Four accounting firms, is a step in the right direction. Japanese business leaders could seek to build on this trend and rally investors' support for the stakeholder approach.

4. Resetting the global collaboration framework

Implementing these actions at a larger scale calls for global cooperation. However, the current crisis has exacerbated pre-existing geopolitical tensions between nations and within international organizations. Countries therefore need to re-establish the bonds of international cooperation. Japan could lead this effort by going beyond its traditional role as a rule-follower to become a rule-shaper. Specifically, the country could concentrate on the three following areas.

Adjusting or adapting rules to create a new era of cooperation

A reset of international accords must be centred on efforts to rebuild the post-war liberal international order based on liberty, free trade and rule of law. Although countries have greatly benefited from this free and open economic system and achieved growth and prosperity, this dynamic has been undermined by the rise of deglobalization, protectionism, nationalism and authoritarianism. The current crisis has accentuated these challenges. To reverse this trend, Japan would need to work with like-minded countries and adjust its own and their protocols accordingly.

Renewing global trade systems

To rebuild the liberal international order, it will be vital to stop the ongoing trend of economic decoupling driven by ideological differences. Not only does this trend towards exceptionalism create tremendous economic disruption, it raises the threat of a fundamental realignment of business activities. To avert this, Japan could seek to renew and strengthen existing global trade systems. The country has already successfully contributed to the conclusion of regional trade agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP, or TPP-11) and the Regional Comprehensive Economic Partnership (RCEP), and can continue to play this role as a rule-shaper by reforming global trade schemes such as the World Trade Organization (WTO) and maintaining a free and open economic system.

Serving as a mediator for transnational cooperation

Japan can serve as a great mediator for transnational cooperation in the private sector. Given the geopolitical reality that the United States and China are increasingly engaged in an immense power struggle, other countries and regions are stepping up to maintain cross-border financial and technological exchanges. Japan could increase its global presence by becoming an international centre for these exchanges. Using its robust infrastructures, high level of social stability and extensive talent pool, Japanese cities can provide an attractive environment for financial transactions and technological innovations.

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This report is based on discussions by the leaders of the organizations listed below in the Regional Action Group for Japan. The World Economic Forum and Deloitte thank them for their participation in this initiative.

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