The Guide for SDG Business Management

May 2019
Ministry of Economy, Trade and Industry (METI), Japan
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Introduction

Since the UN advocated for Principles for Responsible Investment in 2006, ESG (Environment, Social, and Governance) investments prioritizing sustainability have shown rapid growth. Against this background, the UN adopted SDGs (Sustainable Development Goals), a set of international goals for solving global social issues and realizing a sustainable world at the UN Summit in 2015.

Today, companies around the world are focusing their efforts on incorporating SDGs into their management, and many initiatives are also underway in Japan to incorporate SDGs into management.

It goes without saying that the values of Japanese companies and Japanese society are compatible with SDGs. Many members of the SDG Management/ESG Investment Study Group also recognized this fact, as expressed by the following statements.

“The idea that corporations exist for the sake of society and the people has been passed down from one generation to the next as common sense in Japan, as you can see in the principle of ‘sanpo-yoshi’ (‘good in three directions’ meaning that commerce should not only benefit the buyer and the seller but also society as a whole) and the ‘Dotoku Keizai Goitsu Setsu’ (Doctrine of Moral and Economic Harmony) expounded by Eiichi Shibusawa, the ‘father of Japanese capitalism’. Japanese companies have achieved their present growth by addressing social issues for many years.”

Yet, the fact remains that SDG related initiatives of some companies have been evaluated as “Just copying and pasting the icons for various SDGs on to their existing initiatives.”

So how can Japanese companies go beyond “pasting icons on their existing initiatives” to discover business opportunities in the SDGs and incorporate them into their main business?

What should the relationship be like between business and the SDGs or social issue solutions? What kind of strengths can Japanese companies display in the midst of this trend sweeping the world?

This guide compiles the results of discussions held at meetings of the SDG Management/ESG Investment Study Group established by METI in November 2018.

At this Study Group, the CEOs of companies representing Japan, as well as investors and a university president, confronted the difficult topics mentioned above and engaged in deep, multifaceted discussions. These discussions revealed how great of an effort Japanese companies have made to incorporate SDGs into management as their main business, and the specific initiatives that they have promoted ahead of other countries, and the essence of these discussions has been condensed into this guide.

At the start of study group, the chairman Kunio Ito (professor at Hitotsubashi University) had this to say.

“For companies to achieve more sustainable growth in the future, they must tackle SDGs and ESG investment head on. This is the fundamental and universal approach.”

Initiatives relating to SDGs must not be just a passing fad among companies. In modern society, it is an attempt to continuously reexamine and redefine the meaning of the corporation.

We hope that this guide will serves as a compass for future initiatives taken by companies around the world as they make relentless efforts to solve social issues with the power of business and further improve their corporate value, as well as the investors, related institutions, and national governments that support their initiatives.
SDGs (Sustainable Development Goals) are international goals for the years 2016 to 2030, described in the 2030 Agenda for Sustainable Development, which was itself formulated at the UN Summit of September 2015 as a continuation of the Millennium Development Goals (MDGs) formulated in 2001.

The SDGs consist of 17 goals (broken down into 169 targets) for realizing a sustainable world, and pledge “No One is Left Behind” through the implementation process.

**Five Traits of the SDGs**

<table>
<thead>
<tr>
<th>Trait</th>
<th>Description</th>
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<tbody>
<tr>
<td>Universality</td>
<td>All nations take action, including developed nations</td>
</tr>
<tr>
<td>Inclusiveness</td>
<td>Reflecting the principle of guaranteeing human security, “Leave no one behind”</td>
</tr>
<tr>
<td>Participation</td>
<td>All stakeholders take a role</td>
</tr>
<tr>
<td>Integration</td>
<td>Comprehensively work on the society, the economy, and the environment</td>
</tr>
<tr>
<td>Transparency</td>
<td>Follow up on a regular basis</td>
</tr>
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Source: Ministry of Foreign Affairs of Japan website

**Government initiatives for SDG business management**

The Japanese government is advancing the SDG Business Management Promotion Initiative to promote the incorporation of SDGs into the management strategies of corporations as part of the Expanded SDGs Action Plan 2018 compiled by SDGs Promotion Headquarters in June 2018. This effort will continue to be steadily advanced in the SDGs Action Plan 2019, as decided on by the SDGs Promotion Headquarters in December 2018.

In November 2018, METI also established the SDG Management/ESG Investment Study Group, which held 6 meetings attended by members including CEOs of companies representing Japan, investors, a university president, and heads from international institutions. At these meetings, members focused on the successful cases of SDG business management in Japan and abroad while discussing how companies can incorporate SDGs into their management and from what perspective investors should evaluate those initiatives. This guide compiles the results of discussions held at these meetings.
Members of the SDG Management/ESG Investment Study Group

<table>
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<th>Company/Association</th>
<th>Position/Title</th>
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<tr>
<td>OMRON Corporation</td>
<td>President and CEO</td>
</tr>
<tr>
<td>Kao Corporation</td>
<td>President and CEO</td>
</tr>
<tr>
<td>Global Mobility Service Inc.</td>
<td>President/CEO</td>
</tr>
<tr>
<td>JFE Holdings, Inc.</td>
<td>Representative Director, President and CEO</td>
</tr>
<tr>
<td>Sumitomo Chemical Company, Limited</td>
<td>Representative Director &amp; President</td>
</tr>
<tr>
<td>Seven &amp; i Holdings Co., Ltd</td>
<td>President &amp; Representative Director</td>
</tr>
<tr>
<td>Sony Corporation</td>
<td>Director, President and CEO, Representative Corporate Executive Officer</td>
</tr>
<tr>
<td>Tokio Marine Holdings, Inc.</td>
<td>President and Group CEO</td>
</tr>
</tbody>
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Chairman
Graduate School of Business Administration, Hitotsubashi University, Professor
Kunio Ito

Observers

- Ministry of Foreign Affairs
- Financial Services Agency
- Japan Association of Corporate Executives
- Keidanren(Japan Business Federation)
- Japan Exchange Group, Inc
- Japan Investment Advisers Association
- Japan External Trade Organization
- Japan Innovation Network
The University of Tokyo
President
Makoto Gonokami

NIPPON EXPRESS Co., Ltd.
President/CEO
Mitsuru Saito

Nomura Asset Management Co., Ltd.
Senior Managing Director and CIO,
Global Equity
Wataru Ogihara

BlackRock Japan Co., Ltd.
CIO
Takeshi Fukushima

MITSUBISHI ESTATE Co., Ltd.
President & Chief Executive Officer
Junichi Yoshida

Mitsubishi Corporation
President & Representative Director
Takehiko Kakiuchi

euglena Co., Ltd.
CEO
Mitsuru Izumo

Guest Speakers

United Nations Development Programme Administrator
Achim Steiner

Government Pension Investment Fund Executive Managing Director Chief Investment Officer
Hiromichi Mizuno

World Business Council for Sustainable Development President and CEO
Peter Bakker

Secretariat

Ministry of Economy, Trade and Industry Economic and Industrial Policy Bureau Industrial Finance Division

Listed in Japanese syllabary order, titles given are current as of when the first study group meeting was held (November 2018).
What SDGs mean for corporations

As a “common global language”, SDGs will light the way to future markets

It is said that achieving the SDGs will require investment in the range of $5-7 trillion per year worldwide. This shows the immensity of the needs around the world that remain unfulfilled.

For corporations, SDGs underscore business risks which cannot be ignored, but also present opportunities to create and capture markets of the future.

The Points in this guide are important quotes from the aforementioned leaders who participated in the SDG Management/ESG Investment Study Group.
SDGs as a “common language” connecting corporations with the world

SDGs are global common goals to be achieved by 2030 which were agreed upon by the United Nations General Assembly, and many players around the world act with the SDGs as one of their prerequisites. SDGs represent unfulfilled needs of the world, which is to say massive untapped markets, and participation by a diverse range of players is essential in order to achieve these goals.

In these circumstances, the time has come for corporations to use SDGs as a “common language” for communicating with stakeholders around the world, while also being evaluated within the SDGs framework.

**Points**

- By using the global framework of ESG and SDGs to communicate abroad, Japanese corporations can expect to create a virtuous cycle that promotes a greater flow of funding to Japanese corporations.

- The participation of corporations is essential in order to achieve SDGs. Corporations play a role in employing people and leading innovation. They are also extremely important as a source of funding. In the coming years, corporations will be benchmarked and compared to others by their commitment to SDGs.

SDGs as a future oriented tool

SDGs represent a vision for the world to achieve by 2030. They do not predict the future as an extension of what can be done now, but rather require a backcasting tool to work backwards from this vision for the future and think of what should be done now.

What should the future world represented by SDGs be like? What path is drawn by backcasting to reach that future? What investments and innovations are necessary to do this? It is necessary to not reaffirm the status quo by pasting the SDGs icon on existing businesses, but use the SDGs as a future oriented tool to further refine the strategies of corporations.

**Points**

- SDGs are future oriented no matter how far forward you go. The essence of SDG business management is how corporate executives will work on social issues which have been left untapped, looking forward a full century.
SDGs: Risks and opportunities in corporate management

As the whole world works to achieve SDGs, doing business as usual while ignoring this trend can present a risk to the sustainability of a corporation. Working to achieve SDGs through business strengthens a corporation’s foundation for sustainability and offers opportunities to win massive untapped markets.

**Points**

- Risks posed to companies that do not work on SDGs include harm to their reputation, violating regulations if regulations are strengthened, and customers not buying their products anymore.

- In the past our company thought that by advancing initiatives related to ESG or sustainability, we could raise our medium term corporate value and become more competitive, but recently every corporation is engaged in such initiatives, so we have come to recognize not engaging in these activities as a risk itself.

- SDGs can be seen as an opportunity for business growth that must be taken.

- It is important that the private sector see the SDGs as an attractive tool to foresee future markets.

- The first companies to ride the wave of reform created by new technologies and new business models will lead the growth of these markets.

- ESG related initiatives thus far have been seen as a cost, a way to do what can be done using profits earned, but now they will be seen as investments.

- With EVA management as a base, an investment plan has been made to reach positive EVA in about 5 years. However, we now recognize that looking at a longer span of time is necessary in some situations, and we should adjust the interpretation of the whole EVA without changing the basis of EVA management.

**Column 1. Markets created by SDGs**

Total annual investment required to achieve the ambitious SDGs by 2030 is estimated to be $5-7 trillion globally, and the investment opportunities have been calculated as $1-2 trillion in developing countries and a minimum of $1.2 trillion even in developed countries.

If the SDGs are achieved, when accounting for external economic benefits such as improvements to labor productivity and reduction of environmental burdens, annual market opportunity of $12 trillion is said to be created by the year of 2030.

Source: Materials provided by UNDP
Japanese corporate philosophy and SDGs

Many Japanese corporations believe that corporations exist for the sake of society, as exemplified by the famous merchants of Omi Province in the Edo period (AD 1603 to 1868). These merchants operated on the principle of “sanpo-yoshi” (win-win-win), meaning that commerce should not only benefit the buyer and the seller but also society as a whole.

SDGs are not an unknown foreign concept to Japanese companies, but simply another embodiment of initiatives they have long practiced consciously based on their corporate philosophy or company credo.

**Points**

- As exemplified by “sanpo-yoshi”, SDGs are highly compatible with many Japanese corporations and business practices.

- The idea that corporations exist for the sake of society and the people has been passed down from one generation to the next as common sense in Japan, as can be seen in the principle of “sanpo-yoshi” and the “Dotoku Keizai Goitsu Setsu” (Philosophy of the Union of Morality and Economy) expounded by Eiichi Shibusawa, the father of Japanese capitalism. Even before being told about SDGs and ESG, Japanese companies achieved their present growth by addressing social issues. The fact that nearly half of all corporations in business for 200 years or longer are in Japan is evidence of this.

- Even without catering to investors, it is possible for companies to earn high evaluation from investors through basing work on corporate philosophy and undertaking challenges within the spirit of the Japanese corporation. Indeed, Japanese corporations have been working on SDGs since long before the modern idea of SDGs even existed. However, they were not good at promoting this explicitly, so even if they undertook better initiatives than foreign companies, those efforts did not reach the rest of the world.

Startup companies and SDGs

For many startup companies, the purpose of establishing the company in the first place was to solve a social issue. Companies started with missions such as “Eliminate poverty” or “Put an end to global warming” are aligned with the philosophy of the SDGs.

**Points**

- For large companies, the theme may be how to align their goals with the SDGs and how to follow up on them, but in the case of startup companies, the very establishment and mission of the company is often already consistent with SDGs.
What SDGs mean for investors
– SDG business management and ESG investment –

SDGs posed the question “Is this company still necessary?”

When deciding whether or not to invest funds, investors focus not on the past but on the future value of a company. As the values of a society change, is there a risk that a company will become uncompetitive, or can it be expected to enjoy long term, sustainable growth? The philosophy of SDGs and ESG provides clues to determine whether or not a company has long term corporate value.
As people become more aware of sustainability, changes in the regulations of various countries and people’s preferences are having an impact on the investment decisions of institutional investors in the form of ESG investment.

**Points**

- Backed by rising awareness among customers, recently institutional investors are becoming more sensitive to SDGs and ESG. Especially at the insistence of European institutional investors, asset managers are integrating ESG into their fundamental management. Investors are also moving toward responding to climate and human rights issues, and this will likely continue to progress.

- European institutional investors are highly aware of ESG. It is typical in Europe, especially in Northern Europe and the Euro Zone for companies to lose manager selection if they do not incorporate ESG into investment process.

- The ratio of passive investment has been increasing and if investors do not make companies grow sustainably, then they cannot earn money. For that reason, investors demand that companies make the purpose of their business clear on a long-term schedule to achieve sustainable growth.

- In Western countries, ESG and SDGs are often the first thing an investor asks about. European investors in particular are sensitive to this.

### Column 2. Growth of ESG investment

1. **UNPRI signatory institutions**

   Every year more institutions sign on to the UNPRI (United Nations Principles for Responsible Investment) to promote ESG, with more than 2,300 institutions totaling over $85 trillion in operating scale as of March 2019. Government Pension Investment Fund (GPIF) signed the PRI in September 2015. Japan is the 10th largest country out of 75 signatory institutions as of May 2019.

2. **Analysis by GSIA**

   The world sustainable investment balance was approximately $22.9 trillion in 2016, and that number grew to $30.7 trillion in 2018. In Japan as well, this number grew from approximately $500 billion to $2.2 trillion in the same period.

   **Source:** Excerpt from Global Sustainable Investment Alliance “Global Sustainable Investment 2018”

   **TABLE 1: SNAPSHOT OF GLOBAL SUSTAINABLE INVESTING ASSETS, 2016–2018**

<table>
<thead>
<tr>
<th>Region</th>
<th>2016</th>
<th>2018</th>
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<tbody>
<tr>
<td>Europe</td>
<td>$12,040</td>
<td>$14,075</td>
</tr>
<tr>
<td>United States</td>
<td>$8,723</td>
<td>$11,095</td>
</tr>
<tr>
<td>Japan</td>
<td>$474</td>
<td>$2,190</td>
</tr>
<tr>
<td>Canada</td>
<td>$1,092</td>
<td>$1,699</td>
</tr>
<tr>
<td>Australia/New Zealand</td>
<td>$616</td>
<td>$734</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$22,809</strong></td>
<td><strong>$30,683</strong></td>
</tr>
</tbody>
</table>

   **Note:** Asset values are expressed in billions of US dollars. All 2016 assets are converted to US dollars at the exchange rates as of year-end 2016. All 2018 assets are converted to US dollars at the exchange rates at the time of reporting.
Evaluating long term corporate value and SDGs

Investors want to know about a company’s future value, rather than its past. Does the vision presented by a company match the future vision for society? ESG and SDGs are the standards for measuring this.

**Points**

- The idea behind the SDGs is not to ask whether a company has been needed so far, but whether a company will be needed in the future. Investors are now focusing on more than ever companies’ future value. ESG as a term is often used in communication between a company and an asset manager, because expressions such as “we are engaged in the long term activities” or “we are investing in the long-term horizon” do not sound specific enough. We believe that evaluating the long-term corporate value can be inevitably managed by companies making risk management and strategies related to ESG, and investors assessing them.

- Investors want to see the long-term vision of a company. Presenting what firms are trying to aim for in the future will earn a positive evaluation.

- We see investors in a role to evaluate not the past, but rather the future value.

- Asset owners have a long term perspective, so asset managers must also interact with companies from a long term perspective.

- We wish to understand ESG not in terms of corporate charity, but in terms of a corporation’s ability to respond to future frameworks. We intend to make investments with recognition of the risk that companies may lose their current competitiveness in some way as the values of society gradually change.

**Column 3. The relationship between SDGs and ESG**

ESG investment by investors and SDGs initiatives by corporates are two sides of the same coin. The GPIF (Government Pension Investment Fund) of Japan, the world’s largest institutional investor, has analyzed the relationship between ESG investment and SDGs. It came to the conclusion that corporates can increase long term investment returns for investors doing ESG investment by creating shared value through work on SDGs, and by sustainably improving corporate value.
Although there is not yet an academic consensus on the subject, research shows that companies that actively engage in SDGs and ESG tend to perform better than other companies.

It is expected that both companies and investors will rightly recognize and evaluate the possibility that SDGs initiatives and performance of companies correlate and so promote sustainable and long-term improvement of corporate value.

**Points**

- In Europe, a group of the top 20% of ESG outperform the market consistently. Companies with high ESG scores tend to have higher valuation, lower volatility, and higher quality.

- ESG and SDGs are positives from a performance perspective. A Harvard study in 2018 came to the conclusion that venture capital firms with women working there have increased financial returns.

- With ESG investment playing a greater role than ever, from a capital cost perspective, companies that meet ESG targets will be able to raise funds at low interest rates. If a company’s agenda does not conform to ESG philosophy, then it cannot use this advantage.

- The fact that the market value of a company that receives ESG investment does not necessarily increase could be due to the fact that market participants do not fully understand the returns from that investment.

- It is too late for investors to take actions when corporate performance by ESG management is secured. On the other hand, we consider it necessary to have them make investments in which ESG is reflected in the price. Companies may feel dissatisfied with investors’ short-termism, but we feel that it could be corrected. We believe that it is necessary to create a virtuous cycle in which ESG management affects the price, so that companies are encouraged to work with ESG management with confidence.
A “bridge” to multi-stakeholders

SDGs brings participation by all

The 17 SDGs are ambitious, universal, and cannot be achieved with the strength of just one company. SDGs serve as a “common language” and node for various players, bridging the gap between companies and stakeholders.
The millennial generation will be the primary stakeholders in the future, as consumers, as employees, as investors, and as entrepreneurs. SDG business management can be made even more significant by understanding the values of millennials.

**Points**

- Young people think from a “SDG native” perspective, and the urge to solve social issues is their motivating force behind their actions. For that reason, it is extremely important for startup companies to show that their corporate philosophy fits the mega trend of SDGs in order to hire millennials.

- Millennials look closely at how a company handles its social commitments and values, so it is too late to turn to ESG management after you have the evidence that you will make a profit.

- It seems that millennials would rather not work at companies if they cannot get a visual sense for how those companies are making social contributions. They are looking for the purpose to work there or purpose to consume their products, and the time has come when companies that cannot visualize this will not be able to attract ESG funds from investors or recruit skilled talent from the millennial generation.

- It is said that inheritance from baby boomers to millennials with reach its peak during 2030 to 2045, a total amount of which could be 3.3 quadrillion to 4 quadrillion yen. Their investment activities will be based on the same ideas they have in their choices of job hunting and their salaries. They would want to invest in companies that have social value and not in companies that damage on environment, and they do not mind if it may harm their performance somewhat.

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**Column 4. Values of the Millennial Generation**

According to a survey of millennials (the generation that reached adulthood in the early 2000s), 83% of them think that “Success in business should not be measured only by financial performance”. While millennials consider “Goals a company should achieve” to include “Improve society” and “Improve/protect the environment”, they see that employers consider priority issues to be “Generate profit” and “Drive efficiency,” so there seems to be a major gap between the ideas of employers and millennials.

Source: Excerpted from Deloitte Touche Tohmatsu Limited 2018 Deloitte Millennial Survey
SDGs and employees/consumers

When considering SDG business management, employees and consumers cannot be ignored. Using the SDGs as a “common language”, companies can promote employee engagement and attract more customers.

**Points**

- We consider one of the most important things is that employees recognize how the jobs they do connect to the 17 goals of the SDGs. For that reason, we link our company’s management issues to SDGs and include them on integrated reports, and distribute these to employees. If employees become aware of how useful the job they do is to the world, then these ideas will permeate large companies at an increasing pace.

- The labor shortage caused by the shrinking population and aging society is growing more serious, and it is becoming more important for companies, especially SMEs, that employees be able to work with both a healthy body and mind. Our Company has been recognized 4 years in a row as a Health and Productivity stock selected by both METI and the Tokyo Stock Exchange, and we recommend health management to our customers as one of their core management strategies that should be put to practice. We have made a Health and Productivity Task force and have done much to support certification of our customers aiming to become a White 500 Health and Productivity Management Organization.

- In order to practice corporate principles, ever since I assumed the position of President, I have pondered on a daily basis how to share this philosophy with employees and make it resonate with them, as well as how to align the vectors of top management and employees, and have attempted many different initiatives to achieve this. For example, I have established the “President’s Circle” as a place for the President to communicate with employees, and have global employees throughout the Company announce and present specific initiatives for practicing corporate principles to other employees, so that they can recognize each other and act in resonance.

- Until now, making returns has been the most important thing to investors, but recently, they are starting to become aware of how those returns are earned. In the future, consumers will start to become more aware of this as well.

**Practice 1. Health and Productivity management support for sustainable growth**

Tokio Marine Holdings has taken initiatives to support Health and Productivity management and aid health and improve lifestyle habits of customers not only at their own company, but at other companies as well. It does this following the philosophy that “It is important for employees to be able to work with a healthy body and mind,” in order to achieve sustainable growth even as the working population shrinks.
To achieve the SDGs through innovation and to solve challenging social issues through the power of business and new ideas, it is essential to fully utilize the knowledge accumulated in universities. From this perspective, universities and other educational and research institutions aspiring to utilize knowledge to contribute to creating a better future society should play an important role.

**Points**

- The resources currently stocked at universities are great assets that can drive the societal transformation to a knowledge-intensive society. Society 5.0 and SDGs both aim for creating an inclusive society, and universities can generate new value that can contribute to realizing it. All sectors including industry, government, academia and private should recognize this new role of universities and make full use of universities as a platform of collaboration.

- Students and young people who have ideas and the will to start business to solve social issues do not always have access to all the necessary resources to do so. Universities that have comprehensive set of knowledge and professionals can encourage these activities by providing these young people with necessary resources.

- Until several years ago, even for the collaboration with large companies, the scale of each project’s budget had mostly been limited to around 2 million yen or less. The University of Tokyo developed a new management system which encourages companies to offer large scale collaborative projects in the range of several hundred million yen. This management reform enabled the University to carry out organizational level collaboration with large companies. This is also a new mechanism that can attract companies that are willing to contribute to the SDGs and ESG.

- The digital revolution is driven by technology and thus science, technology and innovation are very important. At the same time, social systems including laws and economic systems that drives the economic activities are also important. Therefore, these three must be linked together. Innovative activities in fields such as law and economics are also necessary; for instance, discussions of the principle of law closely intertwined with technology would be necessary. Universities as places to create new knowledge in all kinds of fields are essential to this sort of collaboration. Collaboration requires a shared concept that many people can empathize with. The SDGs can be such a concept because they are very comprehensive, can be used in many ways, and are valued by the international community.

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**Practice 2. Industry/Academia collaboration on an organizational level (the University of Tokyo)**

UTokyo promotes organizational level industry-academia “co-creation” in order to organically tie together resources held by the University and the company and make full use of the vast range of academic knowledge accumulated at UTokyo. Under this new collaboration scheme, both parties start by creating a shared vision of the future and defining problems that needs to be solved to realize it. They will then collaborate comprehensively from R&D to commercialization.

UTokyo has also created a startup ecosystem centered on campus, including incubator facilities and entrepreneur training programs for students.
Collaboration is a key to SDG business management

In order to achieve the various goals of the SDGs, the perspectives and resources held by various stakeholders are necessary in addition to the strength of the company itself. When the strength of multi-stakeholders and the company are in harmony, they form a powerful driving force to solve problems.

**Points**

- It is of utmost importance that we do not work alone, but collaborate with the government and other industries to create new value.

- It is of tremendous importance to collaborate on innovation. This means that everyone needs to get on the same wavelength with regards to the values with which you will make innovations. This is of course the case for internal collaboration, but also for external collaboration, and without this, collaboration will not succeed. The SDGs are incredibly useful for getting on the same wavelength. Since you are starting from the same baseline, it is easier to proceed to collaboration and make actual innovations.

- Our society is changing so that major corporations can borrow knowledge and resources from startup companies to realize a world that major corporations could not realize on their own, including J-Startup companies supported by METI.

- Given that our business model of breaking down the traditional barriers of our former Business Groups and facilitating cross-Group collaboration matches with the essence of the SDGs, we reorganized all of our Business Groups. In Midterm Corporate Strategy 2021, we reorganized all of our Business Groups, and gave each Group a mission aligned with the SDGs, as stated in the “Missions of the New Business Groups”, which we will revise in a timely manner going forward.

- It is essential that we explore mechanisms used by various countries in cooperating on the international stage. In that sense, the 2020 Tokyo Olympics and Paralympics and 2025 Osaka World Expo are valuable opportunities to bring the world together.
Practice 3. Supplying sustainable products by collaboration with other companies (Mitsubishi Corporation)

As consumers now seek more socially and environmentally friendly sustainable products, retailers are demanding products that meet consumer needs from manufacturers, and manufacturers are demanding socially and environmentally friendly sustainable raw materials from producers. Mitsubishi Corporation collaborates with the agricultural company Olam to solve child labor and reduce environmental burden with improved productivity through farm guidance support and utilization of IT platforms. Thus, it provides coffee beans and cocoa beans with an emphasis on sustainability, serving solutions for social issues as a source for competitive strength.

Practice 4. Manufacturing from an ESG perspective (Kao Corporation)

Kao principles serve as a reference for how to conduct management starting with ESG through an awareness of relationships with people and communities.

“If we can strengthen the bonds between people and other people, the earth, and our society, that will result in higher sales and profits. If we can achieve this, we will fulfill our social role as taxpayers and employers, while returning benefits to employees and stakeholders, and reflect them back to manufacturing.” (President & CEO, Sawada)
Part 2.

Practicing SDG business management

Economic rationality and solutions to social issues

Work to solve social issues in the long-term perspective and create economic rationality

The fact that many social issues remain unsolved tells us that there are still many fields in which our predecessors could not find economic rationality.

SDG business management finds opportunities in SDGs to change one’s perspective and use the power of innovation to boldly approach untapped markets.
Pioneer new markets with finding economic rationality

The viewpoint of focusing on SDGs as a solution for problems can be an opportunity for turning one’s eyes to markets that have been ignored by companies from the perspective of economic rationality. The true embodiment of SDG business management is to boldly pioneer new markets and balance problem solving with business by collaborating with other companies and academia, and mobilizing new technology and knowledge. It is essential that top executives maintain that long-term perspective as they make their commitments and deliver their messages.

Points

- We are tackling social issues that have been left untapped because they have no economic rationality, and we are creating economic rationality with technology.

- There are markets left untapped because they have been deemed to have no economic rationality, and there are many social issues left among them. It is extremely important to look at markets with no economic rationality from not only a short-term perspective but a long-term perspective as well. The world wants an approach to SDG business management in which executives make their decisions from a long-term perspective and lead innovation that creates economic rationality while getting other companies involved to solve major social issues that cannot be overcome by their own company’s technology.

- SDG business management and innovation require extremely long-term research. We have to get the point across to Japanese companies that they must not see ESG as a way to get rich quick or SDGs as simply a source of opportunities, but incorporate ESG and SDGs from a long-term perspective and strengthen engagement by employees and/or contribute to local communities.

- Even for initiatives that appear to lack economic rationality, it may be possible to attract ESG investment where top executives expound their intent to create economic rationality.

- Since assuming the office of President and CEO, I have continued to express to our employees that we must realize triple-value growth by simultaneously generating economic value, societal value, and environmental value.

- When considering roles for companies in SDGs and ESG, it is a prerequisite that the company itself be sustainable. Our company’s sustainability is supported by the diversity of our business and our customers’ community. I think diversity and community are keywords even when speaking about the global environment, in the sense of diversity of renewable energy and in terms of collaboration between communities comprising companies, local communities and society.
Global Mobility Service has built a mechanism that uses IoT technology to enable remote automobile engine activation control, so the driver can use their vehicle as long as they make loan payments. This provides an opportunity to low income people who would not otherwise pass an auto loan credit screening to have own a vehicle to work.

This allows a sustainable initiative by creating economic rationality, as it helps low income people who cannot receive financial services and solves social issues by reducing exhaust emissions and noise created by using older vehicles.
Practice 6. Solving increased costs caused by new regulations with a joint logistics platform (NIPPON EXPRESS Co., Ltd.)

Nippon Express has clearly stated its intent to “focus on reducing CO₂ emissions as a logistics company,” by such means as switching to environmentally friendly vehicles and promoting modal shifts and joint shipping, as well as making proposals only possible for a company that acts as the hub for total supply chains.

The introduction of Good Distribution Practice (GDP) for pharmaceutical products, a new regulation on pharmaceutical product logistics, was expected to make for stricter management of the manufacturing and logistics processes, and increased costs throughout the pharmaceutical product chain, so Nippon Express proposed the construction of a pharmaceutical products logistics network in accordance with GDP. It supports joint logistics with other pharmaceutical manufacturers, ensure lower costs and higher quality, and also reduce CO₂ emissions while expanding its own business.

Contribution through business: Case of pharmaceutical logistics proposal

Our solution: An eco-friendly and economical system

Main Logistics Solutions
- Joint shipping and storage
- Round trip shipping
- Coordinate at logistics centers
- Coordinate imports/exports

Advantages for pharma manufacturers
- Cut costs significantly by collaborating
- Reduce CO₂ by collaborating
- Secure quality with GDP

Use the Nippon Express pharmaceutical product logistics platform, we...

- Support collaboration between pharmaceutical manufacturers,
  and by expanding collaboration, we further strengthen our platform
- Realize better quality (GDP compliance) X higher efficiency (cost savings) X less CO₂ X expand our business
Specify important issues ("materiality")

What resources does a company have and how can they be connected to SDGs?

The SDGs include a range of universal goals. Rather than pursuing all of these goals blindly, companies must continually question what social issues they should solve by investing their own resources and which market they can secure a competitive advantage in.
Identify priority issues and invest resources

SDGs do not require every player to focus their efforts on each of the 17 goals and 169 targets. By identifying priority issues (materialities) for a company and setting parallel goals, it is possible to make prioritized investments of company’s resources, and as a result be able to contribute efficiently to SDGs in keeping with company’s main business.

Points

- I always keep the SDGs by my side and think about how we can contribute to each goal. That will help us improve our long-term corporate value and become a company with a global presence.

- It might be difficult for us to contribute to all 17 goals of the SDGs individually, but if we look at each materiality, it is possible to work on 4 or 5 of the goals with each of them, so we will actually be working on many goals in the end.

- We place great importance on sharing our materialities with employees and the top management of the company as well as how we incorporate that into our budget and action plan.

- In order to align the sense of direction among employees, it really matters how we set materialities that are highly compatible with our business from among the 17 goals of the SDGs.

Practice 7. Organizing priority issues focused on “Urban Development” (MITSUBISHI ESTATE Co., Ltd.)

Real estate business, which is directly involved in urban development, has a major impact on the spaces where people live. Mitsubishi Estate has set “Urban development together with society,” “Environment,” and “Cutting-edge community development” as key CSR themes, and is aiming to realize sustainable society through business. Aiming to achieve these themes, it is advancing initiatives to establish open innovation fields that will create communication in various industries and sectors. Moreover, it is creating a district cooling and heating system that reduces environmental impact and makes a sound material-cycle society.
Creating innovation that supports SDG business management

In order to face social issues that could not be solved until now, we need to create radical innovation and scale up new businesses. Innovation will accelerate through the commitment of top management, a long term R&D perspective, open innovation, and a process of trial and error using “dejima” (→p.29 Column.5) to encourage innovation.
The creation of new technology and business models through innovation is the key to solving social issues. If a company’s technology is inadequate when engaging in new business, it is necessary to engage in collaborative creation of innovation, promoting open innovation, conducting trial and error in collaboration with startup companies at the “dejima” of major companies, and flexibly collaborating with other companies and academia. Also, R&D from a long term perspective is necessary to produce radical innovation.

Points

■ To ensure we have sufficient core technology when developing new businesses for addressing social issues, we have advanced initiatives to accelerate development by collaborating with academia and startup businesses on open innovation.

■ Solving social issues with innovation is a major business opportunity for companies. We contribute to solving problems through innovation. By doing so, the world and the company itself become more sustainable.

■ We have made a program to support our employees to incubate new projects, but our challenges lie in how much we can scale them up as businesses and turn them into true innovations with significant social values. Big hits used to come from products developed by talented engineers hiding behind their superiors as they worked away diligently, but that time has passed.

■ Our company has been advancing initiatives to provide new services through close collaboration with various companies and the government for the past 30 years, and even now we continue the transition to an open innovation field.

■ It is important for major companies to establish “dejima” where they can work with startup companies founded at universities and startup ones with a native understanding of SDGs to make small businesses succeed and scalable. Collaboration between major companies and startup companies can raise awareness of startup companies with success in recruiting and fundraising, and if major companies engage to work with startup at their “dejima”, then this movement will spread naturally.

■ An extremely long R&D development period is necessary for SDG business management and innovation. For example, carbon fiber started with basic research at the Osaka Materials Research Institute in 1971, taking a full 30 years until it was introduced to the Boeing 787.

■ Our company spends a considerable amount on R&D, but we tended to spend a large portion on improving our existing products, and had not spent enough to develop new technologies in the real sense. In the digital transformation as well, American companies have discarded old systems and boldly changed to new ones, but many Japanese companies tend to invest in improving their existing systems. The issue we face is whether it is possible to devote our limited resources to new challenges from a long-term viewpoint.
Top executives take the lead in new business

Excellent business ideas created within a company to solve social issues will never gain speed or take shape without the commitment of top executives. Therefore, executives must discern new endeavors with potential and assume the role of leading those businesses themselves.

**Points**

- It is essential that new businesses be undertaken with top authority. Until now that sort of initiatives has simply ended as another business activity, but using the framework of the SDGs, businesses may be able to build the next pillar that supports our company.

- It is very important for top executives to balance strengthening their business with making circumstances that allow new attempts at increasing profitability. Our company considers attempting new things and creating new value to be worthy of great respect and admiration. However, it is most difficult to practice this correctly and raise these into businesses that create value in the long term. The most important role an executive can play is to discern worthy new challenges and decide how to allocate resources.

- The president of a company is responsible for building future concepts from longitudinal perspective. Therefore, the president should be able to use their authority to make a mechanism for commercializing SDGs related initiatives, rather than examining them following the normal flow of business. I also want the Board of Directors to support this decision.

**Column 5. Practicing “dejima” and two-tier management**

Building “dejima” with a separate decision making and evaluation system from the company itself and invested human resources and funding is one way to promote innovation.

At the Innovation 100 Committee, where the executives of major companies discuss how to manage innovation, members formulate guidelines for sparking innovation and have identified the necessity of “two-tier management”, which pursues efficiency and creativity simultaneously but from different stances.

**Five guidelines for executives to spark innovation**

1. Identify changes, spread and commit to a vision for reform.
2. Realize two-tier management of efficiency and creativity.
3. Build mechanisms to create businesses based on value.
4. Develop an environment that enables employees to engage in trial and error.
5. Promote collaboration across boundaries both inside and outside the organization.
Practice 8. Sony Startup Acceleration Program (Sony Corporation)

Building an environment that creates innovation is a task that must be undertaken consciously with top executives’ commitment as a management strategy. Sony Startup Acceleration Program (SSAP) is a program to support the creation of startup projects and related business operations, spearheaded by the President & CEO in 2014. Thus far they have reviewed 750 proposals for new business ideas in Japan and abroad within the company, fostered 34 projects and commercialized 14 new businesses through the program. By reflecting experience and knowledge cultivated through ideation, incubation, marketing and expansion processes, the company has continued to build a platform for sustainably launching new businesses, and the program is evolving day by day.

They also provide experience and knowledge cultivated with SSAP as a startup support service outside the company. Furthermore, they are promoting open innovation and working to build an environment in which new and innovative ideas and services can be created by collaborating with partners outside the company, such as by creating a co-creation space inside the head office where startup projects from outside the company can also visit.

Practice 9. Innovation with Olyset® Nets (Sumitomo Chemical Company, Limited)

Sumitomo Chemical has used the technology from screen doors for keeping pests out of factories to develop the Olyset® Net, an insecticide treated mosquito net that helps people threatened by malaria.

This product is supplied to over 80 countries via the United Nations Children’s Fund (UNICEF) and other international organizations. It also creates local employment and contributes to the development of the local economy by making the product locally; for example, this initiative has created employment opportunities for nearly 7,000 people in Tanzania. Part of the profits from this product is used to support education, realizing an integrated solution of social issues with innovation.
“Scientific and logical” verification / evaluation

Get an overview of the full picture from various perspectives in order to evaluate and explain

Even corporate activities that appear to have a negative impact on SDGs at first may have a positive impact from a different perspective.

In order to realize true SDG business management, it is essential to conduct “scientific and logical” verification unswayed by one-sided impressions and emotional arguments. It is extremely important that this value be shared with a broad range of stakeholders.
The various goals of the SDGs are not contradictory to each other. As evidenced by the energy related efforts, including not only reducing environmental burden (Goal 13, etc.) but also realizing stable energy supply, improvement of energy efficiency, and resilience (Goal 7, etc.), corporate initiatives must be subject to multi-faceted evaluation to determine how they are contributing to the achievement of the SDGs.

As part of this, it is necessary to thoroughly implement “scientific and logical” verification/evaluation unaffected by specific values or impressions, so it is very important to think from the perspective of whether this is based on data, how it changes when life cycle is taken into account, and how it is when compared with substitutes.

This “scientific and logical” perspective is necessary as a means for investors and evaluation agencies to accurately assess initiatives relating to SDGs and ESG. Therefore means of evaluation for investors and evaluation agencies are expected to be made more transparent.

Points

- I’d like to engage in “scientific and logical” discussions. The government and public institutions play a major role in promoting this kind of discussion. For example, the issue of ocean plastic is frequently raised, but in Japan we recycle 85% of plastic. Sixty percent of this is not a simple incineration but a thermal recycling, in which plastic is burned to collect heat, part of which is used make steam that turns turbines and produces electricity. There is also a discussion about eliminating single use food wrapping, but doing so will make it difficult to preserve foods, causing greater food loss and resulting in more food waste and GHG emissions. We must evaluate the usefulness of plastic by taking all of this into account.

- Japan has high awareness of recycling, so I hope that we can engage in “scientific and logical” discussion unswayed by trendy issues.

- In our business, some factors may inevitably affect the environment, but it would be meaningful to make significant contribution through other initiatives.

- Japan is solving social issues with various innovations as a developed country facing many serious challenges, not limited to environmental issues. If we transfer Japanese technology to developing countries, this itself helps to save energy, so we should evaluate this from the perspective of how we contribute globally.

- I want people to evaluate social contributions in each industry over the whole life cycle. In manufacturing, our production processes necessarily produce CO₂, so we should not be focused only on that point. Our effects should be evaluated from a life cycle perspective.

- I want to promote ESG and SDGs from a long term perspective. By continuing long term dialogue with companies in the range of a decade, we can engage in scientific, logical, and constructive discussion.

- With regard to evaluation of companies’ SDGs and ESG initiatives, evaluation agencies offer differing views, and some views are not supported by logical reasoning. It is requested that the mechanism or scheme needs to be established to evaluate the methods used by evaluation agencies.
Actively utilize international standards

International standards are internationally authorized criteria for “scientific and logical” verification/evaluation. If there are important international standards for new businesses undertaken as SDG business management, then it is possible to spread potential markets worldwide by actively securing those standards.

There is also an international movement to identify the targets of sustainable investment and SDGs related investment, so it is desirable for companies to respond carefully to anything that could have an impact on their finances.

**Points**

- Among the themes of the environment and energy, I think we need to focus our efforts on what initiatives to take regarding international standardization. For example, our products help to reduce CO₂ emissions and are very environmentally friendly, but there are no precise standards for quantitatively showing reduced CO₂ emissions. I feel it is very important to take the initiative in making standards when doing something in a new category.

- ASC certification (a system for certifying that aquaculture products are produced with consideration for the environment and social responsibility) is an extremely difficult standard to acquire, and I found through extended deliberations with the headquarters of the certifying agency (The Aquaculture Stewardship Council) that not even the certifying agency itself has a protocol for certification. Based on this, we started by making protocols together. If you do not work according to international standards, then no matter how much you insist that your products and services are sustainable, there will be doubts about whether they can be certified. It is hard at first, but you must sync your products and services with global standards.

- It is also important to make efforts to gain the understanding of the international community about circumstances unique to each country. European countries make a strong call to stop using coal, but Japan needs to utilize all available energy resources due to the energy shortages it experienced after the Great East Japan Earthquake. We need to explain well Japan’s energy mix which is based on our unique circumstances and our efforts for decarbonization along emission routes.

**Column 6. The EU establishes a common sustainability taxonomy**

The EU considers sustainable finance (SF) to be important for the establishment of the capital market union and has considered measures to channel capital flows towards assets that contribute to sustainable development. Technical Experts Group (TEG) set by European Commission announced its draft of taxonomy in December 2018. Taxonomy is “A list of economic activities that are considered environmentally sustainable for investment purposes that contribute to the EU sustainability objectives.” It laid out several conditions as standards for “sustainable economic activities,” such as whether it contributes substantially to at least one environmental objective (e.g., climate change mitigation and adaptation) or whether it does no significant harm to any other environmental objective.

They are the financial institutions and investors that are required to use taxonomy directly, but there is concern that the operating companies are indirectly affected.
Practice 10. How steel is made in a new era (JFE Holdings, Inc.)

Even as demand for environmental protection rises, the blast furnace steel industry which uses coal for the reduction of iron ore necessarily causes CO₂ emissions in its production process using current technology. Therefore, an important challenge for the industry is to take initiatives towards reducing its environmental burden, such as reducing energy consumption and CO₂ emissions through the use of advanced technology.

JFE Holdings has made initiatives towards ESG issues the basis of its management. Steel has a far lower environmental impact during production compared to other materials and is highly recyclable. For those reasons, it is an important material that will continue to be the essential foundation of civilized society. It is promoting the superiority and sustainability of the steel industry from the basis of not just the manufacturing stage but the entire life cycle, and it is advancing the further development of revolutionary technologies in order to realize zero-carbon steel.

Practice 11. Improving customer satisfaction and conserving resources (Seven & i Holdings Co., Ltd)

Seven & i Holdings strives to improve consumer convenience and satisfaction while also being considerate to the environment.

For example, Seven & i Holdings has built a circular economy in which it collects used PET bottles at stores and sells products using recycled PET plastic. It has realized a pesticide free, stably harvested crop of vegetables at our vegetable factory, one of the largest in Japan, while which also helps to significantly reduce food waste and the use of water resources through yield improvements.
Realize robust management

SDGs must be approached from a long-term perspective.

So long as the corporate philosophy and raison d’etre indicating the company’s future vision is firmly rooted and there is a mechanism in place to firmly pass down these values, then even if the management changes, the company can continue its long term initiatives and continue creating value.
Sustain SDG business management with “systems”

There are many Japanese companies that state solving social issues as their raison d’etre. Even if the top executive changes, so long as there are systems to carry on their original mission, these can serve as the foundation for stable management, and help to attract investment.

Points

- What matters is keeping the purposes from when a company was started even 100 years later and making sure its identity is carried on long term.

- I think one thing Japanese companies excel at is sustaining themselves not through people alone, but through systems. Even if the top executive changes, the purpose for the company’s continued existence, its significance, and the social issues it aims to solve do not waver, so pension investors can invest in it in relief.

- Without initiatives tied to corporate philosophy, business cannot expand inclusive of overseas employees. Companies obtained through M&A tend to have completely different culture, so it takes tremendous time and effort to permeate its own culture. If a company suddenly explains superficial issues right away, employees will not be able to understand.

- Investors would like skilled management to serve the role longer, and poor management to leave sooner. It is important to have a system for properly selecting top management, such as establishing a nomination committee lead by outside directors. So long as there are open legitimate rules for nomination and compensation, then high compensation can be justified.

- In order to show how serious we are about sustainability management both inside and outside the company, we have adopted a sustainability evaluation by third party institutions as a KPI of medium and long term performance linked stock options, and linked this to compensation.

Practice 12. Permeation of the corporate principles management and systems for passing them on (OMRON Corporation)

OMRON are aware of the importance of corporate principles and conduct management in such a way as to permeate its corporate principles steadily in the workplace and ensure that it is carried on even if the management changes. In order to build a system that ensures CEOs who produce value are appointed long term and CEOs who don’t are only kept short term, CEOs are not given the authority to appoint their own successors. Instead, the presidential nomination advisory committee objectively checks the pros and cons of the next round of nominees. In addition, by incorporating sustainability evaluation into the medium and long term performance linked compensation, it has made a system for top management to sustain a long term perspective.

OMRON actively share its corporate principles with employees in the field through the “President’s Circle” where the president and employees in the field communicate with each other, as well as an activity known as the TOGA (The OMRON Global Awards), where specific initiatives for all global employees to practice its corporate principles are presented in front of other employees.
Promotion as a “value creation story”

Initiatives, shared with stakeholders, that balance social issues solutions and business productivity

Showing the true form of SDG business management based on corporate values, business models, and strategies is no less than presenting each company’s value creation story.

Companies must make ceaseless efforts in order to disclose information in the form of a value creation story, and stakeholders must do the same in order to understand companies’ stories.
Weave and deliver a “value creation story”

Corporate initiatives relating to SDGs must be placed and communicated not as individual initiatives but as part of a company’s value creation story. For this purpose, the Guidance for Collaborative Value Creation (METI, May 2017) can serve as an effective guide.

It is also very important to show not only the short-term vision, but the long-term vision stretching 10 or 20 years into the future.

**Points**

- It is important for companies to weave an easy to follow story about what sort of management they aim to achieve by practicing their philosophy and vision, what sort of social issues they will solve with innovation, and how they will improve their sustainable corporate value. Then actively disclosing that information is also significant.

- In order for a company to incorporate SDGs into its management and investors to actively do ESG investment, it is more important for the company to tell investors “Please invest in our company” by presenting a hypothesis, strategy, and if possible evidence that “Our company outperforms TOPIX and others as we actively work on SDGs and draw our competitiveness from it.”

- When enquiring about a company’s SDG cases, it is common to see companies bring up their past CSR activities and use them as success cases. Simply recanting such stories through IR activities will never be evaluated positively by investors.

- I would like to ask corporate executives to balance your short-term targets with your long-term vision. It does not mean producing the numbers exactly as expected for quarterly. While I think that two, three, or five-year plans are necessary, I would like you to communicate your 10 or 20 year vision.

- In the context that companies are expected to be evaluated by their SDG-related initiatives, the Guidance for Collaborative Value Creation has extremely forward-focused content.
Deliver messages to “the people you want to choose you”

When delivering messages, you must be clearly aware of your target audience and how to efficiently convey your message to the people you want to choose you.

**Points**

- You do not have to send a common SDG message to all investors and stakeholders, but direct the message to stakeholders you are keen to reach.

- You must send a message that tells investors “Value will be created if you work with us sustainably,” perhaps saying “We wish to be chosen by a long term investor, and our sense of purpose is not money drive but mission driven, so our long term strategy and value creation cycle starting with people is always in motion.”

Accurately communicate, engage, and create greater value

Until now, Japanese companies have not excelled at communicating their own initiatives accurately to stakeholders. Yet, there are many companies abroad that actively communicate their own initiatives in an easy to understand manner. By accurately delivering messages with an understanding of international context and the positions of various stakeholders, accepting feedback, and communicating this to subsequent management, it is possible to create even greater value.

**Points**

- Japanese companies act with great restraint and do not spread their message, but this is not acceptable. It is important to spread companies’ message through a variety of occasions.

- The view inside Japan and the view outside are totally different. As Japanese companies are unconsciously affected by the Japanese view, we may have been too indirect to people from overseas, thinking “You should understand because we have provided enough information.” Japanese companies should consider how we appear to people from abroad, and recognize the importance of communicating in a way they can understand.

- Japan is not thought of as having any success cases with SDGs, and there are no Japanese people to be seen at conferences relating to SDGs or investors meetings abroad. There are many Japanese people who regard the ideas of SDGs as quite natural. But in order to increase the presence of Japan abroad, it is very important to make well known the reality that Japanese companies follow the Guidance for Collaborative Value Creation and have top management committed to solving social issues.

- This is also written in the Guidance for Collaborative Value Creation, but to what extent Japanese companies as a whole are able to clearly express how they are incorporating solutions to the societal issues presented in the SDGs into their management strategies and how they are taking action is being questioned in the international community. However, actuality is not easily visible from the outside. Integration into management strategy and disclosure are points we must consider going forward. Japanese companies do not particularly excel in the area of disclosure, but it is useful and beneficial for companies to use the SDGs as an angle for considering these points from each of their own perspectives.
Guidance for Collaborative Value Creation Framework

METI formulated Guidance for Collaborative Value Creation in May 2017 as a “common language” for dialogue between companies and investors. When considering a company’s own Value Creation Story, it refers to the importance of viewpoints for solving social issues, such as SDGs, in its "strategy" chapter.

In addition, it is expected that along with other guidelines formulated according to the point of the Guidance for Collaborative Value Creation, it will be used for constructive dialogue between companies and investors as a Guidance for Collaborative Value Creation Framework.

Reference: Guidance for Collaborative Value Creation Portal Site
In conclusion

The question of how companies should incorporate SDGs into their business management and how such efforts should be evaluated from the perspective of ESG investment has not been answered clearly at this point, and remains as an ongoing theme for exploration in the world.

The SDG management/ESG investment study group approached the theme head on to hold discussions based on the actual practice of its members with various experts assembled for that purpose. Members include CEOs of companies promoting advanced initiatives for SDG business management, investors who strive to incorporate those initiatives into corporate evaluation from the perspective of ESG, and the president of university that place SDGs at the very core of their activities as their own mission. This study group, where various players including the government explored the future direction from their respective viewpoints and positions, served as an unprecedented forum for dialogue between industry, government, and academia.

President and CEO Peter Bakker of WBCSD, who participated as a guest in this study group, had this to say.

“Collaboration through forums such as this study group is incredibly important. No matter where in the world I go, I always introduce Japan as a leading case. It is a rare sight in this world to see the prime minister and business leaders hold a roundtable meeting on SDGs (the SDGs Promotion Roundtable Meeting). Also, this study group that discusses SDGs and ESG as related to each other is an advanced initiative rarely seen in the world.”

This guide is based on the practice and challenges made towards SDG business management, as well as the earnest dialogue between stakeholders. Therefore, this guide will serve as a compass for taking the first step toward practicing SDG business management for companies that want to incorporate social issue solutions into their main business and go beyond “slapping the SDGs label on their existing activities,” and companies that try to see SDGs as a new opportunity to create markets and industries.

We also expect that this guide will be used by a wide range of stakeholders interested in SDG business management and ESG investment, including investors attempting to evaluate corporate initiatives related to SDGs, universities and research institutes searching for a new type of industry/academia collaboration, governments, international institutions, and NGOs that support those efforts.

This study group confirmed that many Japanese companies regard it as natural that their values include “contributing to society through business,” a value in line with the SDGs, and have considered this value to be a core principle for action. This study group also strongly recognized the future challenge of effectively communicating this fact to stakeholders around the world in the future.

We also expect that this guide will serve as a reference for spreading information and conducting dialogue, as well as getting feedback from companies and investors in Japan and abroad, various governments and international institutions, and assist in the journey to search for “SDG business management” being undertaken worldwide.

We hope that through such exploration, corporate management will incorporate SDGs, that the awareness and actions of stakeholders in companies will change, and that this movement will contribute to achieving the SDGs and addressing future social issues yet to come.