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SUSTAINABILITY MEANS BUSINESS

Japan's place in the push for sustainability and ESG in Asia

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Preface

Sustainability means business: Japan’s place in the push for sustainability and ESG in Asia is an Economist Corporate Network (ECN) report. It is based on desk research as well as a working lunch meeting with experts in Tokyo. The report was sponsored by Nikko Asset Management. The findings and views expressed in this report are those of the ECN alone and do not necessarily reflect the views of the sponsor.

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Key findings

- Firms are increasingly becoming aware of the importance of the incorporation of sustainable business practices in long-term value creation.
    - Between 2011 and 2017, the proportion of S&P companies reporting their activities related to sustainability have increased from 20% to 85%.
- The base of ethical consumers is growing rapidly. Spending on ethical goods in the UK, for example, has doubled since 2010 to more than £83bn in 2017.
    - Younger investors are growing more interested in making socially responsible investments.
- Around US$22trn worth of assets fall under socially responsible investing (SRI) strategies and sustainable investing represents over 25% of professionally managed assets globally.
- Sustainable investment is still overwhelmingly concentrated in the West. SRI assets in Europe made up 52.6% of global sustainably managed assets as of 2016, compared with just 2.3% in Asia.
- ESG (environment, social and governance) broke into the mainstream in 2005 and investors have since considered it as an indicator of a firm's long-term value creation.
- Average corporate ESG scores also tend to be much higher in Western Europe and North America.
- SRI is gradually increasing in Asia, and CEOs appear to be more willing to adopt ESG and increasingly are viewing sustainable practices as necessary.
- ESG is entering into government initiatives and firms' decision-making in Japan.
- From 2014 to 2016 Japan was identified as the fastest-growing hotspot of ESG investing, and it currently accounts for the largest proportion of global SRI assets in Asia, at 2.1%.
- The environment is considered to be one of the stronger areas for Japanese firms. The Japanese government is also making efforts to promote corporate adoption of sustainable development goals (SDGs) and ESG principles.
- Social conditions are drawing attention and criticism in Japan. Women are still underrepresented and diversity is a rarity in Japan, but companies are making progress.
- Recent scandals in Japan are forcing firms to consider the importance of corporate governance reform.

Introduction

A look at corporate sustainability, ESG integration and global trends

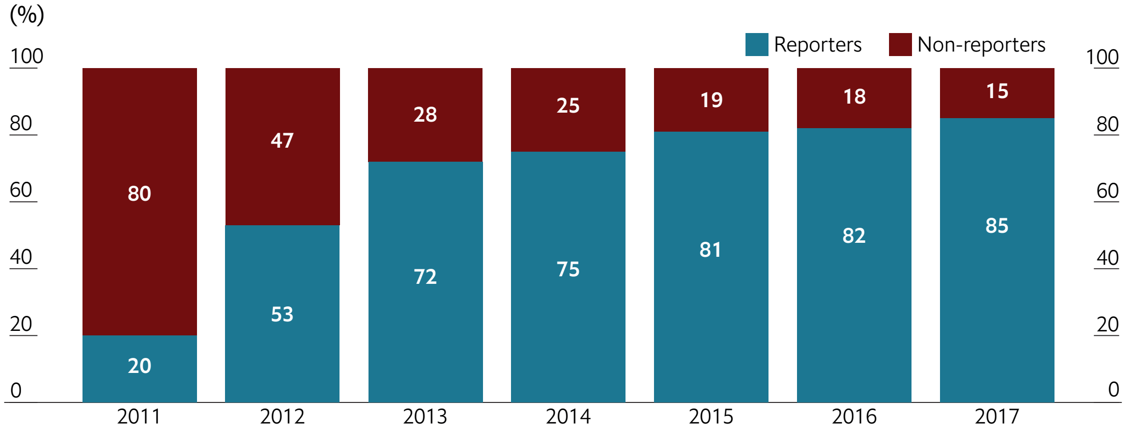
Soaring sustainability

In 2015 the UN General Assembly released its sustainable development goals (SDG), which feature objectives relating to the mitigation of environmental and social issues, with the broader aim of establishing a sustainable global society. The efforts of the UN reflect growing global interest in sustainable development and facilitating the building blocks of sustainability. Policies directed at addressing environmental issues and social inequalities are often considered to be the responsibility of government. However, academics, policymakers and even consumers are increasingly developing an awareness of the vital role played by corporations in establishing a sustainable global society.

With great power comes great responsibility

Corporations around the world are increasingly disclosing reports on their sustainability-related activities to satisfy the needs of their key stakeholders, most importantly their customers and investors. According to data collected by the Governance & Accountability Institute, between 2011 and 2017 the proportion of S&P 500 companies engaging in sustainability reporting in the US increased from 20% to 85%.[1]

Sustainability reporting by S&P 500 companies



Source: Governance & Accountability Institute (2018).

Many companies have recently begun working to align their corporate goals and activities with the UN's SDGs.[2] According to a recent study, around half of the companies examined align their sustainability activities with the SDGs, and over 80% refer to SDGs in their publications.[3] This does not always translate into taking steps to achieve the goals, however. Hiro Nishiguchi, Executive Managing Director of the Japan Innovation Network, says: "It's great to see corporations

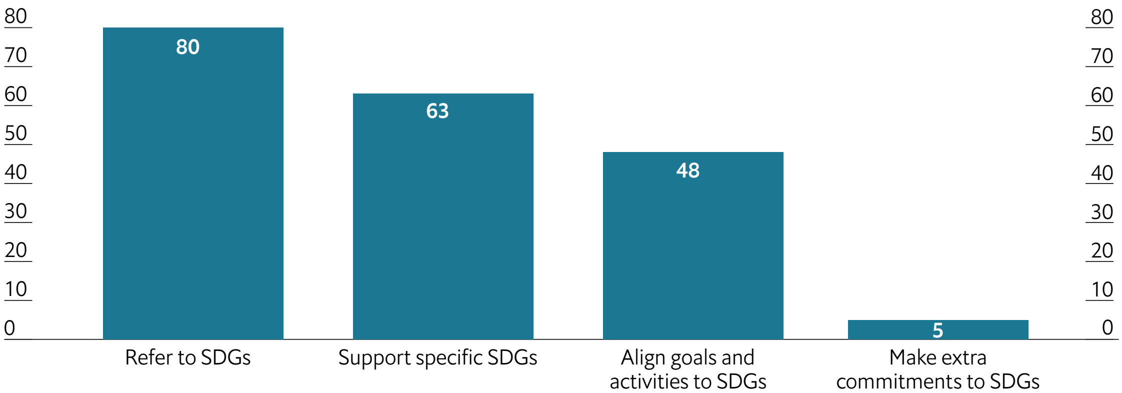
[1] Governance & Accountability Institute (2018): "85% of S&P 500 index companies publish sustainability reports in 2017".

[2] The Economist Intelligence Unit (2017): *Meeting the SDGs: A global movement gains momentum.*

[3] Kaur, Milan and Nguyen, Mai (2018): *Leveraging the business sector for a sustainable future.*

increasingly recognise the SDGs. But many times they are simply using them as a promotion and a communication tool for their products. SDGs are GOALS—it's in the name—and corporations should take concrete steps to achieve them."

SDG recognition by US companies, 2017
Level of SDG recognition by sample companies (%)



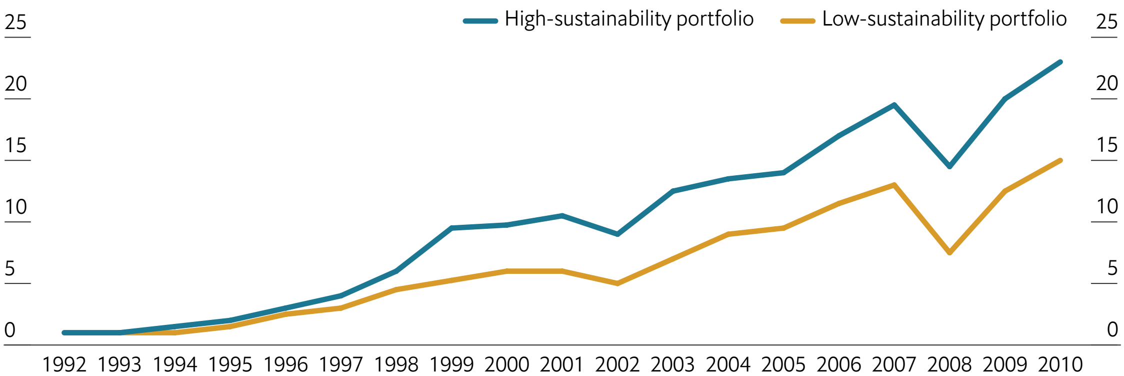
Source: Kaur, Milan and Nguyen, Mai (2018).

Firms are certainly trying to appeal to their customers here. Ethical consumption practices are increasingly taking root in the mindset of consumers. In the UK, for example, spending on ethical goods has almost doubled since 2010 to more than £83bn in 2017.[4] A 2018 global survey found that more than one-third of consumers are trying to consider products made with sustainably sourced inputs and about one-fifth of those surveyed would choose certain brands if their sustainability credentials were made more transparent in their marketing and on product's packaging.[5]

Let's get down to business

The rise of the ethical consumer and increased awareness of the social responsibilities of firms has assuredly driven many companies to incorporate sustainable policies into their business

Evolution of US$1 invested in the stockmarket in value-weighted portfolios
Value of stock (US$)



Source: Eccles et al. (2014).

[4] The Economist Intelligence Unit (2019): *Sustainability: The missing link*.

[5] Unilever (2017): *Connecting consumers and sustainability*.

models. Studies have also shown that firms deemed "highly-sustainable" are more likely to have entrenched processes of stakeholder engagement and are more long-term-oriented. Research has revealed that "high-sustainability" firms tend to outperform their "low-sustainability" counterparts markedly.[6]

In addition to their own performance, firms looking to attract capital will need to consider the younger generation who are increasingly looking to make socially responsible investments (SRI).

Acronym anxiety

One keyword that has received a lot of attention recently is ESG. This stands for environment, social and governance, and is a framework through which a corporation's sustainability can be measured. The concept of ESG broke into the mainstream following the United Nations Global Compact's publication in 2005 of a report on the importance of companies' disclosure of ESG-related activities.[7] Since then, awareness of the significance of ESG reporting has increased among investors and company executives alike.[8] "ESG was considered to be on the cost or expense side of corporate economics. This is no longer the case. You neither perform well nor can be considered a responsible corporate citizen if you do not incorporate ESG," says Masatsugu Nagato, President and Chief Executive Officer, Japan Post Holdings.

Green business: the E

As the importance of mitigating the negative impacts of human activity on the environment takes root increasingly firmly in the global consciousness, there is a rising expectation that firms will engage in more environmentally friendly practices. This integral pillar of ESG evaluation incorporates a look into corporations' efforts to comply with government environmental regulations, reduce their toxic emissions and limit their energy use. As concerns over climate change continue to grow, firms will need to be as transparent as possible when disclosing their environment-related activities.

Social network: the S

The definition of the social dimension of ESG is more difficult to pin down. Important aspects of "social", however, include corporations' efforts to facilitate diversity and inclusion, to improve working conditions for minorities and women and to advocate for human rights in the broader society. "Social" also includes how firms manage their relations with the communities in which they operate.

Clean your boardroom: the G

The final element, governance, is often discussed on its own as corporate governance. This area encapsulates the inner workings and functions of the firm, including board structure and accountability, the compensation plans for company executives and the structure of audit committees. Equally important, "governance" examines the transparency of the firm with regard to these structures.

[6] Eccles et al. (2014): *The impact of corporate sustainability on organizational processes and performance*, Harvard Business School.

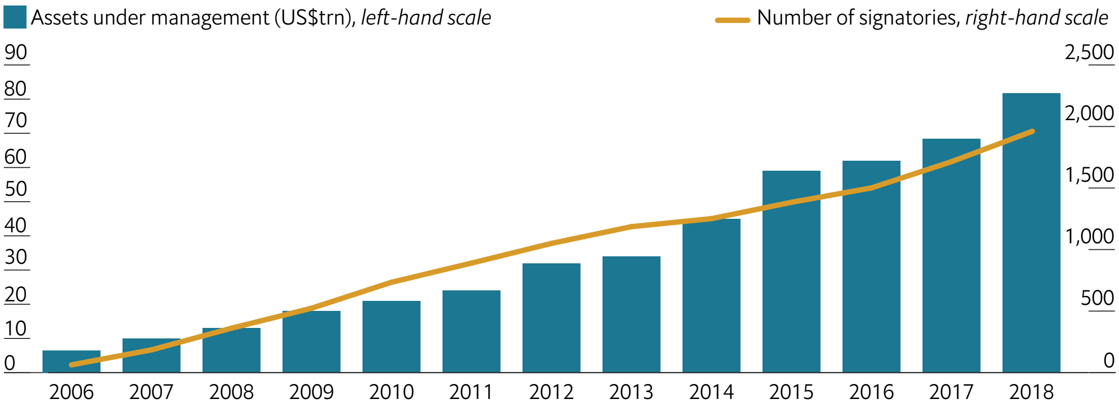
[7] United Nations Global Compact (2005): *Who cares wins*.

[8] The Economist Intelligence Unit (2018): "Mainstreaming: The future of corporate ESG".

Investing in the future

Disclosure of firms' ESG-related policies is particularly salient for investors and asset managers seeking to make SRIs. This has increasingly become the case since the founding of the United Nations Principles for Responsible Investment (UNPRI) in 2006. Signatories of UNPRI agree to the six Principles for Responsible Investment. Since 2006 the number of institutions signing up to UNPRI has risen to around 2,000, revealing an increasing interest in ESG investing.[9]

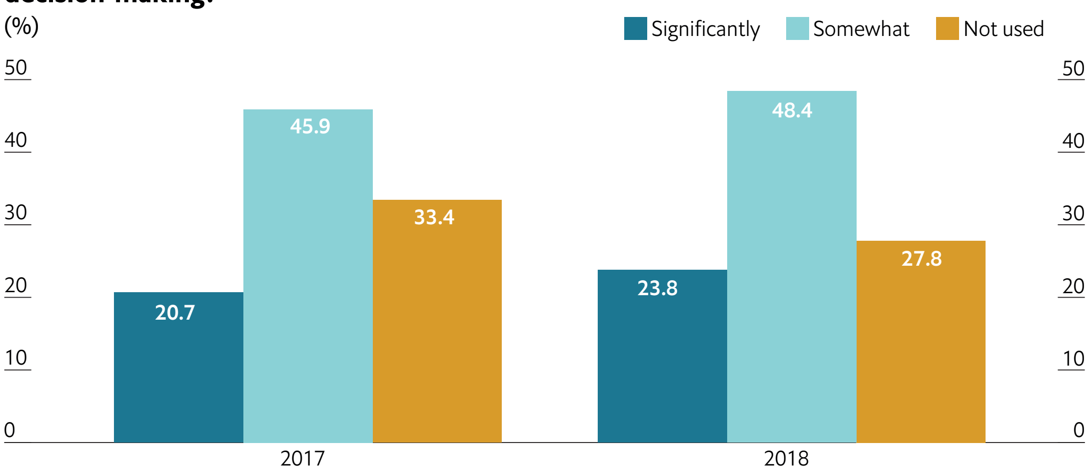
UNPRI signatories and assets under management (AUM) growth



Source: UNPRI (2018).

According to a recent study, over US$22trn-worth of assets fall under SRI strategies and take firms' sustainability efforts into consideration. The report also reveals that sustainable investing represents over 25% of professionally managed assets globally.[10] According to a global survey, 72% of institutional investors and consultants factored ESG principles into their investment approach in 2018, up from around 66% in 2017.[11] Investors view ESG integration as an indicator of a firm's long-term value-creation efforts—a sentiment echoed by Masatoshi Matsuzaki, Chairman of the

To what extent are ESG principles used as a part of your investment approach and decision-making?



Source: Global Asset Management (2018).

[9] UNPRI (2018): *PRI global growth 2006-2018*.

[10] Global Sustainable Investment Alliance (2016): *Global Sustainable Investment Review*.

[11] Global Asset Management (2018): *Charting a sustainable advantage*.

Board of Konica Minolta, which ranked in the Corporate Knights' 2019 Global 100 most sustainable companies in the world. "What sets Konica Minolta apart from other Japanese companies is a purpose of addressing ESG and the involvement of the CEO. These factors separate the proactive firms from the reactive firms," says Mr Matsuzaki.

Rising through the ranks

A company's ESG or sustainability can be difficult to measure, but many investors make use of ESG scores. While not definitive, such indices can be useful in examining which regions are generally performing well. Based on the Morningstar Sustainability Rating in 2018, countries in Western Europe averaged an ESG score of 61 out of 100, indicating high levels of sustainability and ESG reporting in the region.[12] Asia, by comparison, averaged an ESG score of 48.5, while North America had an average score of 52.8.[13] The role of consumer pressure in Europe on the high levels of ESG transparency there is certainly a factor. Also contributing to Europe's rapid adoption of ESG reporting and investing have been a framework for sustainability reporting in the form of the European Union's Directive 2014/95/EU and a 2016 regulation approved by the European Parliament requiring European pension and institutional funds to adopt an ESG framework by 2019.[14]

Morningstar sustainability index ESG scores

	ESG score		ESG score		ESG score		ESG score
North America		**Europe**				**Asia**	
Average	**52.77**	**Average**	**58.41**	Norway	60.72	**Average**	**48.49**
Canada	53.46	Netherland	65.7	Italy	59.21	Taiwan	53.41
US	52.46	Denmark	64.18	UK	57.62	Hong Kong	52.36
Mexico	52.25	Switzerland	63.2	Austria	56.87	Thailand	52.26
		France	62.96	Belgium	56.27	Japan	50.48
		Portugal	62.92	Hungary	55.92	South Korea	49.78
		Finland	62.87	Greece	53.15	Singapore	46.52
		Germany	62.45	Ireland	52.27	Philippines	45.78
		Spain	61.99	Poland	45.37	Malaysia	45.73
		Sweden	61.14	Czech Republic	45.01	Indonesia	45.52
						China	43.01

Source: Morningstar (2018).

[12] Morningstar is a data-tracking firm that assigns ESG ratings based on a firm's ESG and sustainability reports.

[13] Morningstar (2018): *Morningstar Sustainability Atlas*.

[14] West, Anna (2018): "ESG hitting its stride in US".

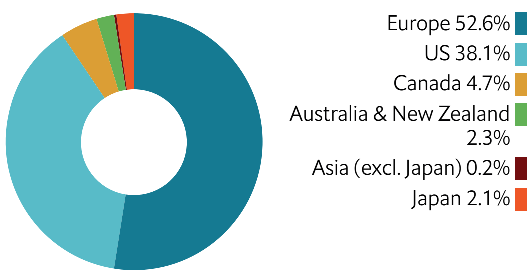
Sustainability in Asia

What are the sustainability and ESG trends for Asia-based businesses and investors?

Slow and steady...but not (yet) winning the race

As in Europe and North America, discussions over ESG-related strategies are gradually finding their way into boardrooms in Asia. Trends indicate that investors in Asia are increasingly looking to engage in ESG investment, but the process is slow and lags behind that in Europe and North America. SRI assets in Asia (excluding Japan) make up less than 1% of global sustainably managed assets.[15] Compared with Europe and the United States, which account for 52.6% and 38.1% respectively, Asia still has far to go with regard to sustainable investment. The market for SRI in Asia has grown, however, rising from around US$34bn in 2012 to US$52bn in 2016. Within these figures, ESG integration has been cited as the most common strategy in Asia, constituting US$24.5bn in 2016.[16] The gradual adoption of ESG investing strategies is promising for the future of sustainable practices in the region. A 2018 report reveals that 33% of respondents in Asia say that their organisation has witnessed an increase in sustainable investment over the last five years, and 68% of respondents suggest that sustainable investment will become more important in the next five years.[17] Some countries in Asia are making significant strides towards sustainability. Thailand, for example, boasts above-average ESG scores for Asia and features the only Asian stock exchange to rank in the global top ten for sustainability reporting.[18] In Hong Kong, another ESG leader in Asia, the Stock Exchange of Hong Kong has instituted a "comply or explain" policy for ESG reporting for listed firms. Compliance with the policy among Hong Kong-based firms has been encouraging.[19] As with other regions, data reveal an increasing interest in ESG issues in Asia, but closing the gap with the US and Western Europe will require further innovation and initiatives on the firm and investment side and also by governments in order to maintain and increase the momentum. Additionally, appropriate responses to the current digital transformation—especially in Emerging Asia—will determine the course of sustainability in many areas of Asia.[20]

Proportion of global SRI assets by region
(%)



Source: Global Sustainable Investment Alliance (2016).

[15] Global Sustainable Investment Alliance (2016): *Global Sustainable Investment Review.*

[16] Ibid.

[17] Schroders (2018): *Institutional perspectives on sustainable investing.*

[18] Corporate Knights (2017): *Ranking the world's stock exchanges.*

[19] HKEX (2018): *Analysis of environmental, social and governance practice disclosure in 2016/2017.*

[20] The United Nations Development Programme (2018): *Development 4.0: Opportunities and challenges for accelerating progress towards the sustainable development goals in Asia and the Pacific.*

China: Strong economy, sluggish sustainability

Awareness of the importance of the disclosure of ESG activity is gradually increasing in China. This is particularly the case with regard to the environmental activities of Chinese firms. Over the past few years, the Chinese government has made efforts to position itself as a global leader in the realm of green policies by promoting renewable energy, tightening regulations and remaining a stalwart defender of the Paris climate change agreement in the wake of the US's withdrawal from that deal. China is also working to become a leader in green technology and already accounts for a larger share of environmental patents than Western countries.[21] Looking to the future, the China Securities Regulatory Commission (CSRC) has announced that it will require all listed Chinese companies to disclose information relating to their environmental activities by 2020.[22] Although these effects have certainly served to improve the "E" in China's ESG score, data from Sustain Analytics shows that ESG scores for Chinese firms have actually fallen since 2012 and remain significantly lower than the scores of China's neighbours in Asia. This low ranking is attributable primarily to Chinese firms' poor performance in governance relative to their performance in the environment and social elements of ESG.[23]

South Korea: A long road ahead

South Korean firms' ESG scores remain reflective of the general status of ESG figures in Asia, and the country is only the fourth-largest market for sustainable investment in the region.[24] In 2018, the Government Employees Pension Service (GEPS) announced that it planned to allocate US$88.4m to a global equity fund incorporating ESG in its investment strategy.[25] In addition, in 2016 the South Korean government implemented the Korean Corporate Governance Service Stewardship Code to encourage more responsible investment practices in the country.[26] While operating under the code is not mandatory, the government hopes that it will encourage South Korean firms and investors in South Korea to get more serious about supporting ESG disclosure and sustainable investment.

[21] The Economist Intelligence Unit (2018): "Sustainability: Moving the conversation forward".

[22] Latham & Watkins LLP (2018): "China mandates ESG disclosures for listed companies and bond issuers".

[23] Pan, Frank (2018): "Revisiting ESG in China: Has company performance improved?".

[24] BNP Paribas (2017): *Great expectations for ESG*.

[25] Korean Investors (2018): "Korea's GEPS to commit $88mn to global ESG equity fund".

[26] Financial Times (2018): *South Korea pension fund adopts stewardship code*.

Spotlight on Japan

What is Japan's place in the push for sustainability and ESG in Asia?

Ecstatic about ESG

ESG burst into the mainstream in Japan around 2014, and the concept has since appeared in numerous major Japanese publications. This trend has picked up over the past five years as ESG-related government initiatives continue to be implemented. CEOs, too, are becoming more cognisant of the importance of producing reports on sustainability in order to appeal to ethical consumers and investors looking to make SRIs. Several Japanese companies have started releasing annual ESG reports, in line with the increased demand for corporate sustainability. Compared with other countries in Asia-Pacific, Japan fares well with regard to ESG investment. In 2016 ESG investing in Japan as a percentage of total managed assets stood at 3.4%, compared with 0.8% in the rest of Asia. Additionally, Japan was identified as the fastest-growing hotspot of ESG investing 2014-2016.[27] Compared with its Western counterparts, however, Japan still has a long way to go: ESG investing as a percentage of total assets stands at 37.8% in Canada and 52.6% in Europe.[28] Incorporating sustainability into a firm's business model takes time—particularly in Japan, with its rigid corporate structures. "It is important, as investors looking at sustainability, to apply an appropriate timeframe. It may take years to clearly see the impact of a corporation's sustainability efforts," says Zuhair Khan, Head of Japan Research at Jefferies Japan. On the corporate side, Japan's ESG ratings are average for Asia: Japan ranks higher than China and South Korea, but below Hong Kong and Taiwan.[29] While certain pillars of ESG in Japan—the "E" in particular—fare quite well in the rankings, corporate governance still required reform in Japan.

Let's take it from the top

A pivotal moment for ESG in Japan came in 2014 in the form of the *Ito Report*, a research paper sponsored by the Ministry of Economy, Trade and Industry.[30] The report identifies the importance of ESG and sustainable value creation for the Japanese economy and points out the lack of a culture of long-term asset management in Japan.[31] Following the report's publication, in the same year Japan's Financial Services Agency established the Stewardship Code, which aims to hold companies in Japan to the standards laid out in the Corporate Governance Code.[32] Then in 2015, the Japanese Government Pension Investment Fund (GPIF) became a signatory to UNPRI.[33]

Green-coloured glasses

Environmental sustainability is one of the stronger areas for Japanese firms. Ever since the triple disaster (including the Fukushima nuclear meltdown) in March 2011, public awareness of the importance of environmental protection policies and efforts has increased and the Japanese government has been working to encourage environmental sustainability. Japan's Ministry of the Environment has released comprehensive guidelines for corporate reporting on environment-

[27] Global Sustainable Investment Alliance (2016): *Global Sustainable Investment Review*.

[28] Ibid.

[29] Morningstar (2018): *Morningstar Sustainability Atlas*.

[30] The report was named after Professor Kunio Ito of Hitotsubashi University, who chaired the project.

[31] Ministry of Economy, Trade and Industry (2014): *Ito Report*.

[32] Government Pension Investment Fund (2015): *GPIF has become a signatory to the UN-PRI*.

[33] Ministry of Economy, Trade and Industry (2017): *Ito Report 2.0*.

related activities and has also released a report encouraging sustainably responsible investment strategies that incorporate ESG.[34,35] In addition, the ministry has announced its desire to work with firms to achieve the SDGs through the Public Private Action for Partnership.[36] Although the environment ministry seems positive about future co-operation between the public and private sectors, the two sectors seem to be less than united on one important front, namely climate change, which the ministry has identified as a "particularly urgent challenge" for the country. A recent report reveals that only 48% of Japanese firms in the world's 250 largest companies acknowledge climate change as a financial risk in their reporting—even lower than the proportion in the US.[37] Discussing the importance of addressing climate change, Hideo Suzuki, Assistant Minister and Director-General for Global Issues in Japan's Ministry of Foreign Affairs, said: "Taking tangible steps to address climate change and reduce CO_2 emissions are two important considerations for the Japanese government. Co-operation with the private sector will be vital in achieving these goals." Although leading companies in Japan are divided on the risk of climate change, many Japanese firms are still working to broadcast their support for reductions in CO_2 emissions, and this is an important contributing factor to Japan's high scores in environment-related metrics. "Japan and Australia were the two leading countries in Asia-Pacific with regard to the Task Force on Climate-related Financial Disclosures (TCFD). Many Japanese companies have been disclosing CO_2 emissions, which contributes to Japan's high performance on the TCFD disclosure," says Chikako Matsumoto, an Associate Partner with Climate Change and Sustainability Services at EY Japan.

Social solutions

Conditions in the Japanese workplace are increasingly drawing attention and, often, criticism. This is taking many forms, ranging from calls for increased diversity to the need to cut back on gruelling overtime. The most widely discussed issue under the "social" category in Japan is women in the workplace. While female participation in the workforce is comparable to—and in some cases higher than—rates in Western countries, a qualitative examination of the types of jobs that women do in Japan tells a less encouraging story. LGBTQ issues, too, are finally making their way into mainstream discussions. A majority of Japanese believe that society should be accepting of LGBTQ, but many LGBTQ workers in Japan remain reluctant to be open in the workplace and are increasingly finding employment in countries more accepting of their identity.[38] Increasingly positive attitudes towards LGBTQ people are likely to encourage businesses to facilitate a better work environment for LGBTQ workers in Japan.[39] Many Japanese firms are looking to address these domestic problems relating to underrepresentation, but some companies are looking to make their social mark in developing countries as well. LIXIL, for example, developed the SATO (safe toilet) as an affordable and sustainable solution to combat the sanitation crisis in many developing countries, is one example of a Japanese firm working to align its business model with sustainable goals. "What sets SATO apart is that we also incorporate a social impact KPI [key performance indicator]. In addition to capturing sales for these toilets, we also work to capture 'in use' data. This is not always easy because of the fragmented market at the base of the pyramid,

[34] Ministry of the Environment (2012): *Principles for financial action towards a sustainable society*.

[35] Ministry of the Environment (2012): *Environmental reporting guidelines*.

[36] Ministry of the Environment (2017): *Annual report on the environment in Japan*.

[37] KPMG (2017): *The road ahead: The KPMG survey of corporate responsibility reporting 2017*.

[38] Nikkei Asian Review (2018): "LGBT progress in Asia met with conservative pushback."

[39] The Economist Intelligence Unit (2018): *Pride and prejudice: The future of advocacy*.

but for SATO products we need to ensure not only the financial impact but also the non-financial or social impact—have they been installed and are they in use?", says Jin Montesano, Executive Officer and Senior Managing Director at LIXIL Group.

Boardroom blues

Good corporate governance is a key factor for a firm's sustainable growth, and many investors consider this to be the most important factor of ESG, as the "E" and "S" components are often driven by positive governance activities. The concept of E, S through G (achieving E and S goals though improvements in governance) was even incorporated into the most recent *Ito Report*, released in 2017. While the importance of governance appears to be recognised at government level, implementation of good corporate governance is lacking in Japan. A lack of diversity in the boardroom is a glaring problem for Japanese firms. Women, especially, are often underrepresented in leadership positions: women make up less than 3% of senior executive committees.[40] Recent corporate scandals, too, reveal an immediate need for corporate governance reform. "In Japan, the emphasis has largely been on the 'G', primarily due to pressure from investors (particularly international investors) and, consequently, entities like the GPIF. But this trend is also in response to real and perceived risks (due to recent scandals) with how Japanese businesses tend to be structured," says Trista Bridges, co-founder of Read the Air, a consulting firm that advises corporations in Japan on sustainability integration.

A passing fad or true sustainable integration?

High-level executives in Japan are becoming aware of the importance of corporate sustainability, but their commitment to its implementation is questionable. Yukiko Araki, a corporate officer at Hitachi, discussed some of the obstacles to introducing sustainable practices. "I found several difficulties in integrating sustainability issues into business strategy. There is a gap between the top executives and the business-managing class. Top-level executives recognise the need to provide solutions to non-market problems, but there are difficulties in implementing the necessary policies in the day-to-day operations. We should work to close this gap." Others seem more sceptical of the commitment to ESG-related activities in Japan. "ESG is the fad of the month here in Japan, but mainly as a public-relations line to use in gathering AUM (assets under management), it seems to me. It's like a tiny toddler trying to grow up, but it will take a lot of time and other changes, including standardised reporting, machine-readable data formats, and a lot more thinking and analysis to become a mature adult," says Nicholas Benes, head of the Board Training Institute of Japan. Yuji Nakahara, President of DSM Japan, also thinks that Japanese CEOs can do more. "Reducing CO_2 output and publishing sustainability reports may be a good start. But it is certainly not enough. A lot of CEOs of Japanese firms think that they have already ticked these boxes and done everything they can about sustainability. But that's a misunderstanding. They are only scratching the tip of the iceberg and fail to fully grasp the business case for sustainability," says Mr Nakahara. Some companies, however, are working to incorporate sustainability directly into their business model. Takenobu Shiina, Senior General Manager in

[40] The Economist Corporate Network (2019): *Demographics, diversity and corporate destiny*.

the Corporate Sustainability Department at Suntory Holdings, says, "We examined the areas of sustainability where we could be most impactful. At Suntory, for instance, water is a key ingredient in our products and our business model. Water sustainability was therefore identified as the area where we could contribute most to the stakeholders in Japan and overseas as well."

Young blood

A key determining factor in the direction of the future of sustainability in Japan is the country's young people. Some, such as Yukiko Araki, believe that the future is bright. "I am very optimistic. The younger generation are very keen about sustainability and understand its importance. In Japan, as well, the younger generation will lead on this issue," she says. While young people might be enthusiastic about the ideas, poor education on sustainability-related issues at Japanese universities is an obstacle to the younger generation's developing a comprehensive understanding of the processes of implementation of such business practices. Kanji Tanimoto, a professor at the School of Commerce at Waseda University and a leading scholar on corporate social responsibility (CSR), argues: "Even now, few Japanese university curricula feature classes on sustainability or CSR. We need to educate the younger generation to ensure improved corporate sustainability in the future." If ESG is currently just a fad among higher-ups, young people will play a key role in changing this, but without proper education on sustainability, putting it into practice will prove difficult regardless of their enthusiasm.

Conclusion

Sustaining sustainability

Incorporating sustainable practices into a company's business strategy is rapidly becoming a strategic imperative. With the increase of ESG investing and the younger generation looking to make responsible investments, firms will need to build sustainable practices into their business models. Western Europe still leads the pack when it comes to ESG integration, but North America and Asia are waking up to its importance. There has been notable growth in ESG investing and sustainable policy integration in Asia, and as CEOs wake up to the importance of corporate sustainability the future is looking ever brighter for the region. Within Asia, Japan is a leader when it comes to ESG investing and is in a middling position in firm-side ESG incorporation. Still, the country still lags behind its Western counterparts and a few locations in Asia, such as Taiwan and Hong Kong. High-level executives in Japanese firms are gravitating towards the idea of sustainable policies and activities to improve their ESG scores, and government interest in encouraging businesses to focus on sustainable business practices is certainly there. The implementation of such ideas into standard business operations, however, is still a challenge for Japan. A real commitment to sustainability at management level will be important going forward. Yuji Nakahara, President of DSM Japan, is one example of an executive who is committed to integrating sustainable practices into his business. "Sustainability is as much about enabling others—including the whole society—to become sustainable as it is about just enabling yourself. And you best do so through your product and services," argues Mr Nakahara. "This mindset is where many Japanese firms still have to catch up," he adds. The existing management will play a role in getting the ball rolling. But the future of sustainability in Japan will be in the hands of the next generation, and education on the importance of CSR, ESG and other non-market firm activity is vital in facilitating effective corporate sustainability.

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