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The World We Want

A pause in “normal” gives us a chance to achieve a sustainable future

Like many people, when I hear the word “sustainability,” my first thought is the environment. But having written about the United Nations (UN) Sustainable Development Goals (SDGs) since their inception in 2015, I know that it encompasses much more. Particularly when it comes to business, there are many things beyond simple environmental issues that must be considered if we are to have a sustainable future.

This special edition of *The ACCJ Journal* grew out of conversations with the American Chamber of Commerce in Japan (ACCJ) Sustainability Committee about the definition of the term. What does sustainability mean to you? That’s the first question we asked, and one to which the answer varies from person to person. You’ll find thoughts from 10 ACCJ leaders and members starting on page 28—a starting point for a plethora of content related to sustainability in this issue.

Blueprint

Returning to the SDGs, the UN defines them as “a shared blueprint for peace and prosperity for people and the planet, now and into the future.” This is a great summary for framing the wide range of issues that we are facing and the precarious nature of our world. The 17 goals are:

1. No poverty
2. Zero hunger
3. Good health and well-being
4. Quality education
5. Gender equality
6. Clean water and sanitation
7. Affordable and clean energy
8. Decent work and economic growth
9. Industry, innovation, and infrastructure
10. Reducing inequality
11. Sustainable cities and communities
12. Responsible consumption and production
13. Climate action
14. Life below water
15. Life on land
16. Peace, justice, and strong institutions
17. Partnerships for the goals

Development of the SDGs began with a document entitled “The Future We Want,” adopted in June 2012 by UN member states at the United Nations Conference on Sustainable Development in Rio de Janeiro, Brazil. The resulting *2030 Agenda for Sustainable Development*, with its 17 SDGs, was adopted at the UN Sustainable Development Summit in September 2015.

Needed Disruption?

Less than five years into the journey to 2030, the world was hit by the coronavirus pandemic, which I believe has really shed light on the importance of these goals.

Good health and well-being (SDG 3)—and access to care that makes that possible—has, of course, been a challenge during this period of lockdowns and social distancing. And decent work and economic growth (SDG 8) has been disrupted in ways that probably would not have happened if not for Covid-19. The manner in which workers view their jobs and work-life balance, as well as how companies function, has changed in ways that are likely to continue reshaping the business world beyond the pandemic.

The pandemic allowed us to hit the emergency brake and look around. Now we have a chance to really implement changes.

But the environmental issues that many think of first are of particular note. With full or partial lockdowns around the world putting the brakes on transportation, commuting, tourism, manufacturing, and other activities that pour greenhouse gases into the atmosphere, measurable changes—of the sort needed to achieve environmental targets to curb global warming—were quick to come. Examples include:

- New York City air pollution in March 2020 was half that of March 2019
- Air quality in Indian megacities improved by 50 percent
- Particulate matter concentration in Japan dropped by 17 percent

As Inger Andersen, executive director of the United Nations Environment Programme wrote in a piece for *The Telegraph* in December: “‘normal’ was destroying our health and prosperity. We cannot afford to return to it after Covid-19.” As I see it, what we call normal is the acceptance of things as they are, as they have long been. We often accept this not because we don’t care but because life in today’s world is sometimes like a runaway train, and we’re just along for the ride. The pandemic allowed us to hit the emergency brake and look around. Now we have a chance to really implement changes that we’ve long talked about. ■



C Bryan Jones
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Dale Carnegie

Finding Success through Diversity

Outside directors can play a key role in your business and personal lives

It's annual general meeting (AGM) season in Japan. I will participate in a few for the boards on which I serve as an independent director and anticipate that this year will be quite exciting, because the calls for greater independence of corporate boards are more insistent than ever. Indeed, some activist investors are setting the table stakes at 30-percent independent outside directors—in line with proposed changes to Japan's Corporate Governance Code regarding Prime Market companies—before they will even consider voting in favor of a company-sponsored resolution.

Independent outside directors help to broaden the perspective of the board and hedge against the risk of insiders simply following the company position out of self-interest, loyalty, or groupthink. Studies have shown that companies with boards that include independent members tend to outperform those with boards comprising only insiders. As we seek reform in important areas—such as environmental, social, and corporate governance, as well as diversity and inclusion—it is believed that boards with greater independence will push for more rapid change.

The American Chamber of Commerce in Japan (ACCJ) has been advocating for Japan to improve corporate governance, so we are pleased to see, in the proposed changes to the Corporate Governance Code, a greater focus on sustainability, a recommended increase in the number of independent directors, and a call for companies to present a policy and targets for diversity in senior management.

Many Voices

At the ACCJ, we're fortunate to have a diverse board that could be viewed as being made up entirely of independent directors. While all ACCJ board members are members of the chamber, our positions are voluntary and not paid, and—except in rare cases—we have no other business relationships with the chamber. As such, we could fall within the meaning of outside—or independent—directors.

As an organization, the ACCJ benefits from this tremendous diversity of backgrounds, experiences, and expertise, and the quality and range of the ACCJ's white papers, statements, and events are a direct result of the diversity and depth of our membership. Having been involved in many ACCJ committees, and in the development of our papers and positions, I can tell you

that divergent voices are the engine that drives our ability to effectively advocate on behalf of all members.

These experiences and imperatives got me thinking about the role that diversity, inclusion, and independent voices can play in our own lives and careers. When we look at our personal networks of peers, colleagues, mentors, family, and friends, how often do we see a mirror of our own experience and how often are we benefiting from a truly outside perspective?

The quality and range of the ACCJ's white papers, statements, and events are a direct result of the diversity and depth of our membership.

Broaden Your Network

In the corporate world, consultants and coaches are paid to deliver their independent viewpoints and advice. But beyond these formal arrangements, there's much we can do as individuals to broaden our perspectives. It's comforting to be in the company of like-minded individuals, but staying inside your established circle can sometimes lead to an echo-chamber effect—and that's not fertile ground for the type of innovation and constructive change we need to feed our energy as business leaders.

This month we've launched a revamped ACCJ Membership Directory and we're piloting Wai Gaya—a new platform designed to facilitate informal conversations among members. Both initiatives offer opportunities for discovery and connection to broaden your network within the chamber.

I hope you'll take this opportunity to get in the spirit of AGM season by not only expanding your ACCJ network, but by actively seeking out those with different views. Instead of simply connecting with people across your professional or industry sector, make a point of reaching out to people whose resumes and experiences look nothing like your own. Bring a few outside directors into your life. If the model holds true, you might just realize the same kind of performance benefits in your own career that we hope to achieve by pushing for more independence in corporate Japan. ■



Jenifer Rogers
ACCJ president

ESG Disclosures

Tackling legal and business challenges, avoiding the pitfalls of greenwashing



Reiko Hayasahi
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Japan Co., Ltd.



Tim Power
Partner
White & Case LLP's
Global Environmental
Interest Group



Katie Schmitz Eulitt
Director, investor outreach
Sustainability Accounting
Standards Board (SASB)



Natsuho Torii
Deputy secretary general
Japan Exchange Group (JPX)
Sustainability Committee

Environmental, social, and corporate governance (ESG) is an area of growing importance to businesses, and many countries require disclosure of risk factors, earning potential, and more. But the requirements differ by location and are evolving. Around the globe, governments, investors, and stakeholders are demanding greater accountability and transparency about corporate environmental and social performance.

On April 8, the American Chamber of Commerce in Japan (ACCJ), the British Chamber of Commerce in Japan, and the Australia and New Zealand Chamber of Commerce in Japan jointly held a virtual event entitled ESG Disclosures: Tackling Legal and Business Challenges and Avoiding the Pitfalls of Greenwashing to discuss the changing landscape. The session, co-hosted by the ACCJ Legal Services & IP and Sustainability Committees, brought together a panel of four experts:

- Reiko Hayasahi, director and deputy president of BofA Securities Japan Co., Ltd.
- Tim Power, partner at White & Case LLP's Global Environmental Interest Group
- Katie Schmitz Eulitt, director of investor outreach at the Sustainability Accounting Standards Board (SASB)
- Natsuho Torii, deputy secretary general of the Japan Exchange Group (JPX) Sustainability Committee

ACCJ Sustainability Committee Co-chair and EY Japan Co., Ltd. Director Heather McLeish moderated the discussion.

Framing the issues, McLeish explained that, when companies look at ESG, they are talking about risk factors, and disclosing these risks is important for investor confidence. While disclosure in Japan is entirely voluntary at present, many countries are making it mandatory.

"We see the European Union, the UK, and, very recently, the United States moving forward on promotion of key factors that they think are financially relevant for companies and may even have national interests—certainly from a security perspective," McLeish said.

Still, more than 90 percent of companies in Japan produce some sort of sustainability report despite not being required to do so by the government.

Key Drivers

While there are various forces that drive ESG disclosures, Hayasahi believes the three biggest are:

- Senior management's commitment to enhance ESG initiatives
- Organizational infrastructure that enables disclosure to stakeholders
- Regulations and external calls for transparency

"If all stakeholders work together in a proper manner, the disclosure should go forward," she said. "It's not only by regulatory requirement, but also by company initiatives from top down, and organizational structure."

Torii, who sits between companies and investors in her position at JPX, agrees that these are the key drivers. Also playing a particularly big role, she said, are investors. They include institutional and retail investors, as well as asset owners and managers.

"Now more and more investors are signing up for the stewardship code," she said, referring to the government document finalized in 2014 and revised in 2017 and 2020. Japan's Stewardship Code outlines principles to enable responsible institutional investors to promote the sustainable growth of companies through investment and dialogue.

"They start looking at the G in ESG, of course, but also the E and S elements. The companies themselves want to communicate their ESG efforts to various stakeholders, including investors—and not only investors, but other stakeholders, such as local communities, NGOs, and the global community. And nowadays, they don't see ESG disclosure as a burden, but as a value-creation driver. So, I think they are positively working on ESG disclosure as well as ESG activities."

Another driving force, Torii said, is Japan's Corporate Governance Code—compiled by the Financial Services Agency and the Tokyo Stock Exchange (TSE)—which was published in 2015 and revised in 2018. The code establishes fundamental principles for effective corporate governance at listed companies in Japan. It is currently undergoing revision in light of changes to the business environment brought on by Covid-19 and preparations for the TSE's shift to a new market segmentation in April 2022.

Proposed revisions include asking companies listed on the TSE Prime Market to:

- Disclose climate change-related risks and earning opportunities, based on the recommendations of the Task Force on Climate-related Financial Disclosures
- Disclose their initiatives on sustainability when disclosing their management strategies
- Provide information on investments in human capital and intellectual properties in an understandable and specific manner
- Provide necessary information in English

“The revised code mentions a lot of sustainability and ESG elements, including climate change, so I’m very excited to see this, and expect that more companies will start disclosing ESG information,” Torii added.

The Right Data

What are the differences between what investors are looking for and what companies are disclosing? How can you bring the two sides into sync? According to Eulitt, it is important to think about who your audience is and what information they are seeking.

While 96 percent of G250 companies—the world’s 250 largest companies by revenue as ranked by the annual Fortune 500 list—are issuing sustainability reports, only 29 percent of investors say these reports provide the information they need. She said that three constant requests are:

- Comparability
- Consistency
- Reliability

Many investors are dissatisfied with the quality of the information they are receiving in these areas. That’s in part due to the fact that a lot of it is binary. “It’s a yes or no answer to the question of do you have a policy in place about a particular topic,” Eulitt said.

“That’s useful for some stakeholders, but not in an investor context about how to price the risk inherent in whether or not a company is managing risk properly, depending on whether they do or don’t have a policy in place. It’s impossible to know. What you really want as an investor is to see how a company is managing an issue over time. You need data,” she explained.

To better deliver that data through disclosure, you need a framework. But with more than 400 types of reporting instruments in 64 countries, how can a company choose?

Eulitt said JPX’s ESG guidance is “one of the most comprehensive tools I’ve seen that can help companies think through how they would go about choosing a tool.” She also cited a paper in which her organization, SASB, participated.

“This was a joint statement that was really meant to do a number of things,” she explained. “One was to start disabusing people of the notion that [ESG disclosure] was alphabet soup, which we often hear, and to think of it more as a system of puzzle pieces, if you will, and that the puzzle does fit together. But you can’t just cram in one piece where another one ought to go.”

SASB joined the four other major disclosure players:

- CDP, a non-profit charity that runs the global disclosure system for managing environmental impact
- The Climate Disclosure Standards Board (CDSB), a non-profit international consortium of business and environmental NGOs
- The Global Reporting Initiative (GRI), an independent international group that enables organizations to be transparent and take responsibility for their impacts
- The International Integrated Reporting Council (IIRC), a global coalition of regulators, investors, companies, standard-setters, the accounting profession, academia, and NGOs

These framework- and standards-setting institutions, which Eulitt affectionately calls the Group of Five, worked together to produce the Statement of Intent to Work Together Towards Comprehensive Corporate Reporting, to align on a definitive shared vision and resolve confusion surrounding sustainability disclosure.

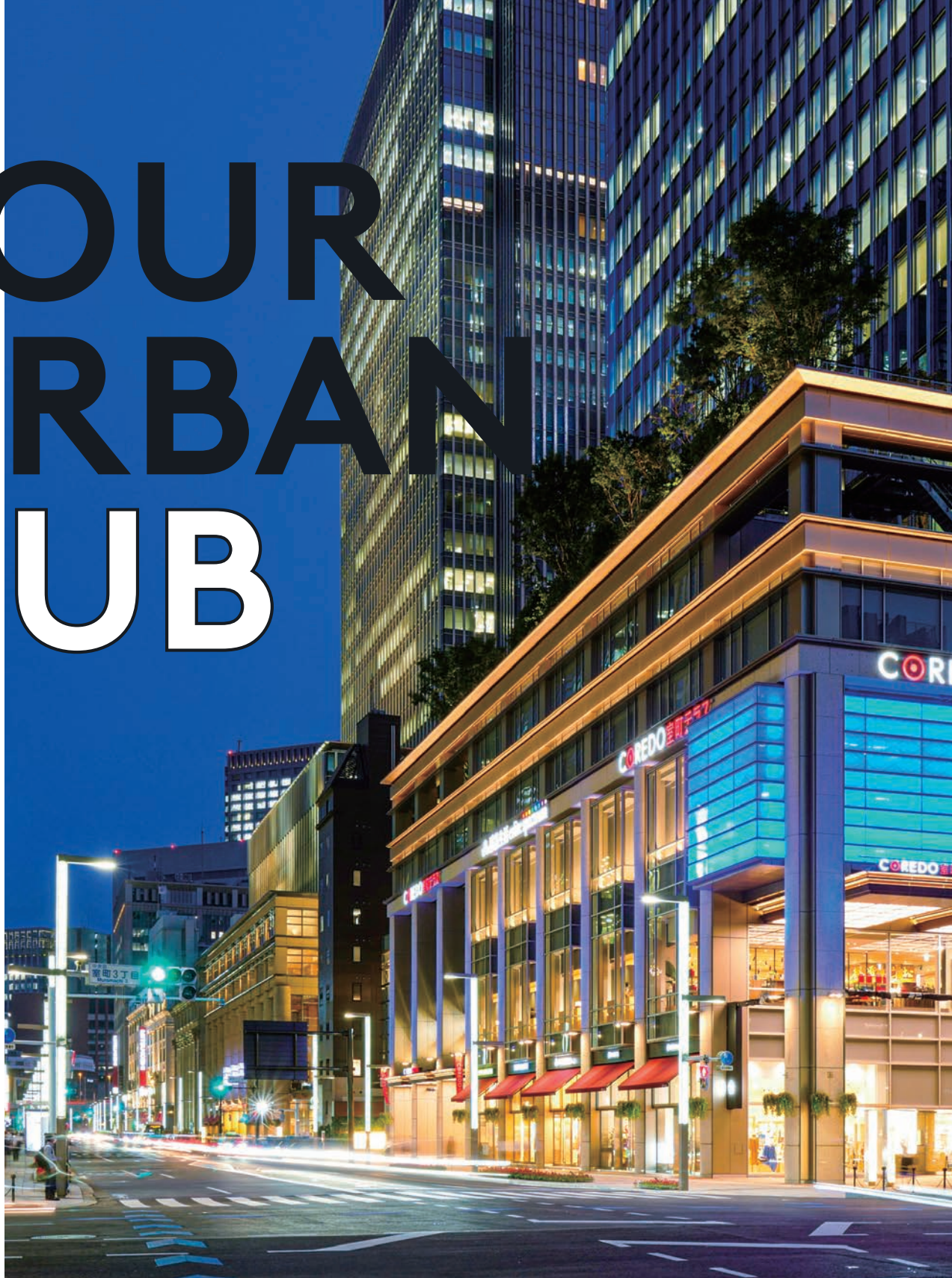
“It’s unlikely that there’s ever going to be a single standard that wins them all,” Eulitt said. “It’s much more likely that we’ll have a system. And what we’re talking about quite extensively through the Group of Five, as we work with the [International Financial Reporting Standards] trustees on building out a comprehensive global system for reporting, [suggests] it’s much more likely that it will be a sort of building block system that will have a foundational level for investors, supplemental building blocks looking at impact for other stakeholders, and then, on top of that, regional nuances that a particular jurisdiction may choose because of the nuances in their particular environment.”

96%
of Fortune G250
companies are issuing
sustainability reports



29%
of investors say these
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Legal Perspective

The call for, and process of, sustainability disclosure is evolving in complex ways from a legal standpoint—particularly as there is no uniform set of requirements, while expectations differ from country to country.

Power, a lawyer with more than 30 years of experience in environmental and climate-change issues, said that governments are reacting by adopting one of two models:

- Promulgating guidelines
- Legislating enforceable obligations

One concern with corporate regulators setting guidelines is that they could be too narrow. Power gave the example of Australia, where he is based. He shared how guidelines there focus on areas such as climate-change risk and future financial performance, but fail to address other sustainability and ESG issues.

As an example of evolving legislative approaches, he talked about the European Union's Taxonomy Regulation, which went into force on July 12, 2020, and will apply from January 1, 2023.

"The Taxonomy Regulation will require large European companies to quantify, in terms of their

However, with regulations differing by country and region, complexity mounts.

"The challenge of all this, of course, is that the compliance task of meeting the Australian requirements, the European requirements, and the Japanese requirements can be not insignificant for organizations with global footprints," Power said.

Future

Whether through guidelines, regulations, or sustainability goals, Hayashi—who has been heavily involved in Japanese government discussions surrounding sustainable finance with the Financial Services Agency and the Ministry of Economy, Trade and Industry—sees more unity and hope in recent events.

She noted that there has been no clear consensus among corporate willingness and government attitude. However, things have changed, she stated, since Prime Minister Yoshihide Suga announced in January that Japan aims to achieve net-zero carbon emissions by 2050.

"Suddenly, everybody is going in the same direction, because the government is committed to carbon neutrality and is working together with corporations, JPX, and financial institutions to have a

Investors are really becoming much more articulate about these topics and, therefore, I think the conversation around connectivity is resonating with more people.

turnover or capital expenditure, the extent to which they are undertaking activities that meet a defined economic sustainable activity," he explained.

To qualify as economically sustainable per the regulation, an economic activity must meet four conditions. It must provide:

- Provisioning services (i.e., food and water)
- Regulating services (i.e., control climate and disease)
- Supporting services (i.e., nutrient cycles and oxygen production)
- Cultural services (i.e., offer spiritual and recreational benefits)

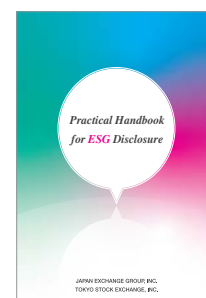
"So, the EU looks to be adopting a very transparent financial model where it will be very readily apparent to regulators—and to shareholders and investors—to what extent Company A is spending money and generating revenue from sustainable economic activities as opposed to Company B," he said. "And, in a sense, I think—from a market perspective—that's what investors want to see."

more efficient way to achieve the goal and share the burden," she said. "I'm trying to deliver the message, not only to the government but also to the client, that this should be done. Of course, there are different attitudes, depending on the region and industry, but the goal is the same. We have to share the same goal and then discuss openly, with transparency, how to achieve the goal. I think that will go well. We know that we need to deliver a beautiful planet to the next generation. It's clear to everybody that we should do something now before it is too late."

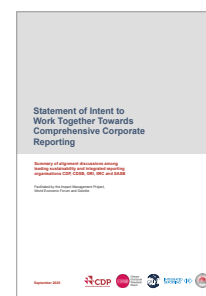
Eulitt also sees changing attitudes that bode well for the future. "Investors are really becoming much more articulate about these topics and, therefore, I think the conversation around connectivity is resonating with more people.

"So I would agree that, in the beginning, it may have been, for some people, a compliance exercise—or, 'I don't know why I'm doing this but everyone else is doing it, so I ought to.' But if you're thoughtful about [disclosure]," she explained, "then it can really be tied into enterprise value creation and, hopefully, the avoidance of erosion." ■

Further Reading



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Practical Handbook for
ESG Disclosure
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IQVIA Insights

Covid-19 impact on Japan pharmaceutical spend and outlook to 2025



Alan Thomas
Director of
thought leadership
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Japan K.K.

The impact of Covid-19 is wide reaching, affecting day-to-day life, business operations, and planning for the future. For the pharmaceutical industry, disruption comes from not only the need to switch gears to combat the coronavirus, but also patient behavior. The reduction in face-to-face doctor visits has compounded ongoing challenges of research and development (R&D), pricing, and coordination with Japan's National Health Insurance (NHI) system.

On April 7, the American Chamber of Commerce in Japan (ACCJ) Healthcare Committee welcomed Alan Thomas, director of thought leadership at ACCJ Corporate Sustaining Member company IQVIA Solutions Japan K.K., to deliver an update on the state of pharmaceutical spending in Japan and the effects of Covid-19. He shared data points from 2020 that have impacted patient and prescriber behavior, explained how the market has shifted over the past five years, and offered an outlook for the industry covering the next five.

Costs of Corona

"The Covid-19 outbreak, in terms of the pharmaceutical market, has really created a considerable patient backlog, and delayed treatment initiation and switch therapies," Thomas said.

The prescription market can be divided into three broad categories:

- Dynamic market
- Static market
- Lost patients

"The dynamic market covers prescribing that either starts, accelerates, or shifts a patient journey," he explained. It comprises three categories:

- Newly diagnosed patients
- Existing patients switching brands
- Existing patients prescribed an additional brand

The static market comprises—as the name suggests—patients continuing with their current prescription and brand.

Lost patients, meanwhile, refers to those who have switched to either another brand or a generic, or who have delayed an expected follow-up prescription.

The dynamic market in particular has been affected by the pandemic. "During the past 12 months, we've seen an overall decline in new patient starts within the dynamic market, and also lower levels of

switch and add-on activity due to an overall decline in patient visits in 2020," Thomas explained.

"This was evident across nearly all doctor specialty areas," he added, "and was a direct result of patients refraining from visiting their healthcare professional—maybe in part for fear of coming into contact with a Covid-19-positive patient, hospital and clinic restrictions, or community states of emergency restricting unnecessary movement."

He said that a patient's risk/benefit perception in a disease area where symptoms may not be immediately present or detectable by the patient may have also played a role.

New patient starts were lower in 2020, with a number of therapy areas reporting 65–70 percent the level of 2019. "This was most evident during the first national state of emergency, from mid-April through May, which is basically weeks 14 through 26," he said.

New active substances (NASs) that were launched over the past 12–24 months have been most impacted. "A NAS generally requires more frequent monitoring, and with patients refraining from visiting their healthcare professionals, the ability for prescribers to follow guidelines and monitor patients on a new therapy was a challenge, given that there was a decline in, or lack of, willingness by patients to revisit their institutions. So that new switch and add-on for newly or recently launched products was very challenging," Thomas explained.

The number of NAS launches, he added, was slightly higher in 2020 than in 2019, but the contribution from those products was only about ¥27 billion, compared with ¥60–65 billion in a usual year. The NASs launched in 2018 and 2019 were also affected, showing flatter sales trajectories than had been expected in 2020.

This decline in the dynamic market was offset somewhat by an increase in the length of prescriptions and the number of treatment days per prescription. With more patients wishing to avoid clinic visits, doctors were writing more prescriptions extended for four-plus weeks. Prior to the pandemic, 37 percent of prescriptions were for more than four weeks (38 days on average). This jumped to 45 percent and a 44-day average for the March–December 2020 period.

Physician Interaction

The pandemic has also changed how physicians prefer to interact with pharma companies.

"Hospital and physician restrictions on face-to-face visits during the first state of emergency resulted



IQVIA Covid-19 Resources
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The healthcare professional's choice to engage with the rep at their convenience saw more effective use of that detailing time, and there was an increase in the score of effectiveness, usefulness, and intent to prescribe as a result of that digital interaction.

in a noticeable shift in promotion strategy," Thomas said. "That continued throughout 2020 and is evident into 2021. Pre-Covid, 45–47 percent of promotional activity was digital, and we saw a considerable shift within digital platforms."

IQVIA tracks detailing activity globally on a weekly basis, and has seen a decrease during the Covid-19 outbreak. Pre-pandemic levels in Japan were 28–30,000 details per week. But, Thomas explained, the drop has not been as severe in Japan. "In the US and across Europe, the total number of details decreased about 70 percent, whereas in Japan they decreased 30–35 percent, with a shift from face-to-face to established digital platforms and the expansion of digital platforms."

Digital share peaked at 91.1 percent in the week ending May 15, 2020. The pre-pandemic average (January and February) was 47.6 percent, and the March–December average was 74.4 percent. "We have seen considerable investment and shifting focus to digital channels and the emergence of remote detailing as opposed to the traditional e-detailing approach that many companies took prior to Covid."

In remote detailing, there is still an interaction between the pharma representative and the doctor, a group of doctors, or key opinion leaders.

"One of the clear outcomes," Thomas said, "was that a lot of the detailing was done after standard office hours, where a physician or healthcare professional—when time was made available for them to contact a rep at their convenience—was willing to have that interaction. And the length of interactions, the time spent discussing, was actually longer than the historical average for face-to-face [interactions]."

Normally, face-to-face detailing is done during office hours and many healthcare professionals do not have much time to spend with reps.

"So, the healthcare professional's choice to engage with the rep at their convenience saw more effective use of that detailing

time, and there was an increase in the score of effectiveness, usefulness, and intent to prescribe as a result of that digital interaction," he explained.

While face-to-face sessions will be an option after the pandemic, Thomas expects digital to remain dominant, with a probable 60/40 split.

Profit Potential

The total pharma market for Japan has been in decline over the past five years, dropping from ¥10.598 trillion in 2015 to ¥10.372 trillion in 2020, a decline of ¥226 billion. Losses in 2020 attributable to Covid-19 are estimated to be ¥147 billion. In addition to the pandemic, other factors, such as the out-of-cycle NHI price revision at the time of the October 2019 consumption tax hike from eight to 10 percent and the government's quarterly price revision for drugs, played a part.

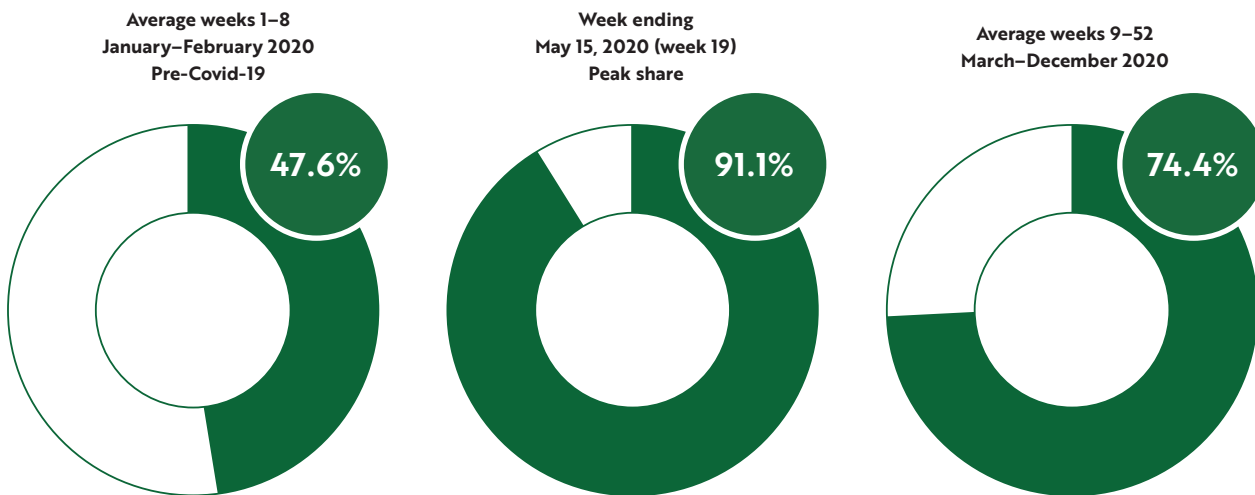
But that doesn't reflect the opportunities for R&D- and innovation-driven pharma companies, Thomas said, as there were a number of brands that shifted from protected to long-listed product (LLP) status between 2016 and 2020, thus impacting top line brand growth. Products facing loss of exclusivity, and therefore risk of generic erosion, accounted for 37.5 percent—or ¥2.2 trillion—of total protected brand spend in 2015 and not protected in 2020.

"Products that remained protected actually grew 5.7 percent [compound] over the past five years," he stated. "This does not include any new product that was launched in the past five years. So, looking at apples to apples, in the existing protected brand space, we actually saw nearly six-percent growth, not the half-percent growth of the top line."

If you include the contribution from branded, new active substances launched in the past five years, Thomas added, then about ¥1.2 trillion (20 percent) of total protected brand spend in 2020 came from newly available innovations. "In 2015, the protected

Hospital/physician restrictions on face-to-face visits and the first state of emergency resulted in a shift in promotion strategy that continues

Digital share of total details



Face-to-face = MR detailing and meetings. Digital = e-Detailing (email from company, self-guided/automated internet presentation) and r-Detailing (email from MR, live internet/telephone detailing, e-meeting with MR). Source: Japan Thought Leadership Team analysis. IQVIA ChannelDynamics. All rights reserved.

market was only ¥3.6 trillion, because those brands that shifted to LLP are being excluded. So, realistically, we're looking at around 10.5-percent growth in the innovative branded space today."

The ¥1.2 trillion contribution was indeed lower than the historical five-year average—impacted last year by lower contribution from 2020 launches as well as shallower sales trajectories for many other recent launches, and IQVIA forecasts that the contribution from new products will remain relatively low over the next two years.

Welfare in 2015—essentially was met by the target date of March 31, 2021, the end of FY2020.

"We hit the target in Q1 this year, so we are there. It has slowed, but we will continue to see that increased impact on the generics market," Thomas added.

More generics and higher NHI price cuts have impacted the volume dynamics in the unprotected market. Total long-listed spend dropped 6.1 percent over the five years from 2015 to 2020,

Those companies that are investing in launch and have robust R&D pipelines are showing strong growth and will continue to be well positioned into the next five years.

But Thomas said that, as patient backlogs are slowly covered, continued or expanded contribution from new launches are expected toward the end of IQVIA's forecast, which stretches out to 2025.

Going Generic?

"I'm often asked about the ongoing use of generics in Japan," Thomas said, "and if we have a look at generic utilization, it continues to expand. If a generic was available in Q4 last year, one was dispensed 79.6 percent of the time."

This means that the NHI system's target of 80-percent generic use—a goal set by the Ministry of Health, Labour and

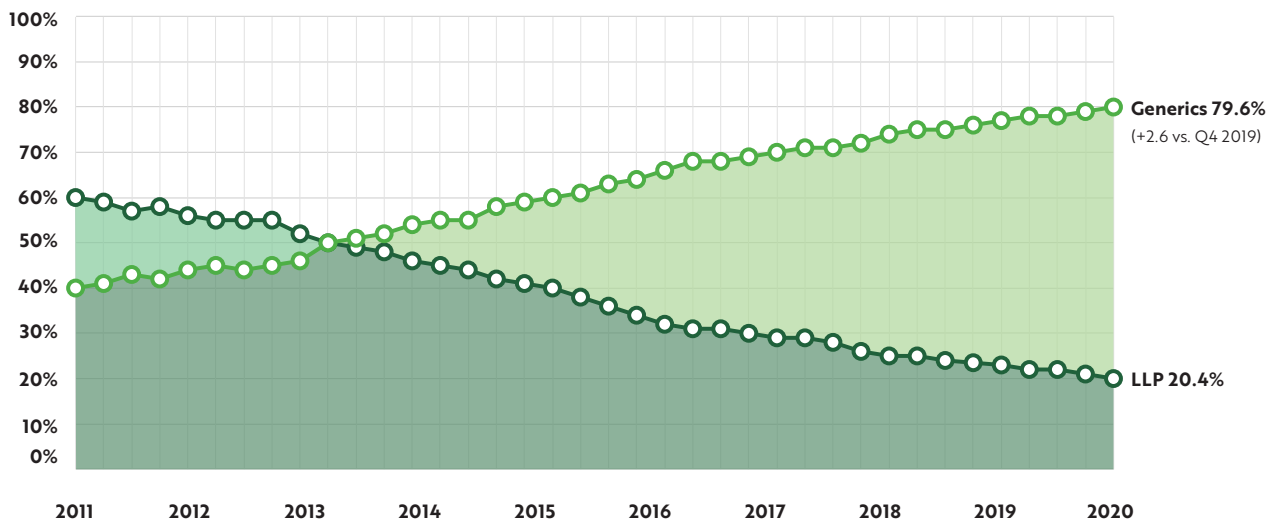
from ¥2.6 trillion to ¥1.9 trillion. New LLPs introduced in 2015–19 accounted for ¥932 billion in 2020 and existing LLPs ¥963 billion.

"That increased generic utilization has impacted the volume dynamics in the unprotected market, so there is that volume decline in long-listed products compounded by higher price cuts as a result of patent expiry, for example," Thomas shared. "So that's putting additional pressure on portfolios for those companies that may still have a predominantly higher share of their business in Japan coming from long-listed products.

"Given the increased use of generics over the past three to five years—and the considerable decline and higher impact on price, as well as decline in volume—the shift to innovation and the need

**Generic utilization continues to expand as of Q4 2020.
If a generic was available, one was dispensed
79.6% of the time.**

October–December year-by-year comparison



Source: IQVIA Solutions Japan.

Japan Thought Leadership analysis. IMSBase JPM (Japan Pharmaceutical Market). All rights reserved.

to reinvest in launch in Japan is at the top of most pharma-company decision pyramids,” he added. “Those companies that are investing in launch and have robust R&D pipelines are showing strong growth and will continue to be well positioned into the next five years.”

Beyond Covid

IQVIA's updated forecast for 2021 predicts a ¥40–45 billion impact (minus 0.4 percent) from Covid-19. This will depend in part on Japan's vaccine rollout, which has so far been extremely slow. Vaccinations will play a key role in patient behavior returning to patterns seen before the pandemic, with more doctor visits.

“We're assuming that long-term prescribing will remain at the levels we're seeing today through our forecast for 2025,” Thomas said. “Because long-term prescribing will remain relatively unchanged over the next five years, we're forecasting there will be no change in the average length of prescriptions.”

Further out-of-cycle revisions to pricing are expected to continue impacting the market. The NHI normally revises pricing every other year, but there were additional revisions in 2019 and there will be again this year. IQVIA expects the annual pattern to continue in 2023 and 2025, which should be off years.

“We're not encouraging these forecasts and additional price cuts by any means,” Thomas said. “But I think it's inevitable that we will see some out-of-cycle impact, and we have decided to keep that in our forecast modeling.”

Whether changes will be total market, and whether they will be higher or lower on average than a standard biennial revision,

remains unclear. Thomas said that he assumes the impact will be lower than a standard revision. He also believes that the level of discounting and price differentiation in the generics and LLP markets will stabilize, which will result in the price survey results being lower than the historical average, potentially resulting in lower price cuts.

Thomas predicts price harmonization in the unprotected market, which is seeing considerably higher price cuts at the moment, and strong growth in the protected market, relatively in line with the historical growth that was reported in 2020.

“We have assumed the continuation of the price maintenance premium, and that eligible and innovative brands will continue to see that deferred NHI price revision,” he said. “I think it's imperative that the current pricing methodology stay in place and continue to focus on rewarding innovation and rewarding those companies that continue to invest in better patient outcomes in Japan.”

“And if we see the elimination of—or reduction in—these positive pricing policies,” Thomas cautioned, “I think we'll see a return to some of the old metrics in Japan that were considerably slower than in the rest of world.”

“Most important is the drug lag, which today is 16–17 months—half as long as it was eight to 10 years ago—and, in my opinion, that is a direct result of the positive rewards that have been given around pricing for those companies that were investing and bringing these products to market in Japan,” he continued.

“Halving the wait time has really improved patient access and outcomes, and it's imperative that we do not see a return to drug lag or a shift away from Japan focus for launch and development.” ■

Finding Balance in Innovation

Status of development promotion policy for medical devices in Japan



Shohei Nakano, PhD
Executive director
Japan Association for
the Advancement of
Medical Equipment
(JAAME)

In my opinion, Japan's medical device industry, which was shining in the 1980s, began to stagnate in the mid-1990s after the collapse of the bubble economy.

Initially, the cause was thought to be Japan's regulatory system, and discussions to revise the system were given priority.

In the mid-2000s, the social issue of the "device gap" emerged, and the regulatory system was reformed with the aim of creating a global standard while listening to the opinions of the US industry. Thanks to these efforts, the regulatory system has reached the point where it is said to be at the same level as that of the United States—and even ahead of the US in some of its initiatives.

Medical Device and Medical Technology Industry Vision in September 2008 and the Medical Device Industry Vision 2013, in June of that year.

The Basic Plan

Replacing the MHLW's industrial vision is the Basic Plan for the Promotion of Research, Development, and Dissemination of Medical Devices to Improve the Quality of Medical Care Received by the Public, also known as the Medical Device Basic Plan. This was approved by the Cabinet in May 2016 and is the Japanese government's first basic plan dedicated to medical device policy based on the Medical Device Promotion Act.

AMED's Medical Device and Healthcare Project will conduct R&D on medical devices and healthcare that contribute to the advancement of diagnosis and treatment, prevention, and improvement of quality of life by integrating AI and the Internet of Things.

Policy Matters

However, reform of the regulatory system alone will not revive the Japanese medical device industry. Even if the system is up to international standards, promising medical technologies need to be developed before they can be approved. In other words, innovation policies that encourage this development are also extremely important.

In March 2001, the Medical Engineering Technology Industrial Strategy Consortium was established through the joint efforts of industry, academia, and government. Various discussions were held until March 2013 with the aim of improving industrial technology and strengthening the international competitiveness of medical devices, since they contribute to the advancement of medicine and people's health.

In March 2003, the Ministry of Health, Labour and Welfare (MHLW) announced the Medical Device Industry Vision, with the aim of providing superior and safer innovative medical devices. The vision set the next five years as a period of focus to promote innovation and formulated an action plan to strengthen the international competitiveness of the industry by supporting specific fields. It was revised as the New

This basic plan outlines the core policies and measures to be comprehensively and systematically implemented for the research, development, and dissemination of medical devices to ensure that Japan will continue to have access to the most advanced medical care. At the same time, it aims to make the medical device industry a driving force of the domestic economy and an industrial field that is expected to grow and develop further.

The various measures based on this basic plan are implemented not only by the MHLW, but also by the Cabinet Secretariat; the Ministry of Education, Culture, Sports, Science and Technology; the Ministry of Economy, Trade and Industry; the Japan Agency for Medical Research and Development (AMED), and other related ministries and agencies.

Growing Ecosystem

Thanks in part to the support of these innovation policies, Japan's medical device development trends are gradually showing signs of improvement.

The number of Japanese physicians launching their own startups has been increasing since around 2012, and there have been successful cases of these startups obtaining approval and insurance reimbursement.



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Progress in the field of digital health is particularly noteworthy, and the development of medical devices and software using artificial intelligence (AI) is becoming increasingly popular. The 2015 introduction in Japan of Stanford University's Biodesign, a project-based course for graduate and post-doctoral students keen to become entrepreneurs, has also been a driving force and this trend is likely to continue.

The number of companies providing commercialization support is also growing. In the past, only pharmaceutical affairs consulting was available, but now there is an increasing number of companies that offer a wide range of commercialization assistance, including research support, design, manufacturing, regulatory affairs, sales channel development, and incubation, as well as venture capital companies specializing in medical devices and healthcare. An ecosystem is being established in Japan.

In the past, the development of therapeutic devices was not a strong point, but over the past few years there have been some success stories creating such devices as well as treatments. These include:

- Drug-eluting stents
- Stent grafts
- Catheters to remove emboli from central circulation
- Non-absorbable local hemostatic agents for the central circulation
- Photodynamic therapy
- Thermoregulatory systems for cooling the brain
- Boron neutron capture therapy
- Nicotine addiction treatment applications
- Ventilators

Phase 2

As further enhancement of innovation policy is expected, the second phase of the Health and Medical Care Strategy, which defines a higher-level research and development (R&D) strategy for the medical field, began in FY2020. What was previously referred to as the Medical Device Project has been modified into a broader initiative called the Medical Device and Healthcare Project.

AMED's Medical Device and Healthcare Project will conduct R&D on medical devices and healthcare that contribute to the advancement of diagnosis and treatment, prevention, and improvement of quality of life by integrating AI and the Internet of Things, measurement technology, robotics technology, and more. The budget for FY2021 is ¥10.9 billion.

At the same time, the government will provide the necessary support to enable researchers and companies outside the medical field to conduct R&D in an appropriate manner, and plans to build an infrastructure for data utilization with an awareness of the global trend of digital transformation.

In recent years, Japan's medical device industry, which had been stagnant since the mid-1990s, has finally begun to show signs of recovery.

In the medical field, the balance between innovation policy and regulation policy is extremely important, and it seems that equilibrium has finally been achieved. I hope that Japan's medical device industry will regain its brilliance, and I look forward to investment from the United States. ■



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IBC Legal Webinar Series

Practical advice on Japanese law related to business, Covid-19, and more



Jeffrey Jackson
Gyoseishoshi lawyer
Jackson Sogo
Gyoseishoshi Law Office

Co-chair, ACCJ-Chubu
Independent Business
Committee

The Chubu chapter of the American Chamber of Commerce in Japan (ACCJ) has long had a reputation for promoting and supporting entrepreneurs as well as small and medium-sized enterprises. The ACCJ-Chubu Independent Business Committee (IBC), in particular, has served as the vehicle for this support, providing a platform for business-minded individuals and companies to network and grow their operations in the Chubu region and elsewhere.

As part of its mission to support the business community, the Chubu IBC has begun a series of legal webinars specifically tailored for business owners and managers in Japan. The aim is twofold:

- To fill a growing demand for seminars offering practical advice on Japanese law
- To respond to the growing uncertainty surrounding legal issues and questions related to the pandemic

Early Sessions

I presented the first webinar in the Chubu IBC Legal Webinar Series on December 9 in my capacity as a Japanese *gyoseishoshi* and co-chair of the Chubu IBC, and my committee co-chair, George Van Horn, moderated. The session, which attracted a lively group of attendees and included more than 20 minutes of free-form Q&A, addressed revisions to the Japanese Civil Code from early last year that impact business owners and managers—specifically changes to the rules governing:

- Unlimited guarantees
- General contract terms and conditions
- Interest rates for late payments

Changes to statutes of limitations on claims for unpaid debts and receivables were also discussed.

The second webinar was held on April 5 and delivered by Masanori Tanabe, a Japanese *bengoshi* and vice-chair of the Chubu IBC, and I served as moderator. This latest event addressed the topic of labor law in relation to Covid-19 and covered remote-work options, salaries and salary adjustments, and layoffs resulting from the coronavirus pandemic. Once again, an engaged group of attendees were able to ask questions during the three Q&A sessions built into the program.



The event addressed the topic of labor law in relation to Covid-19.

Reception

So far, feedback has been very positive, with the vast majority of attendees praising the quality of the programming and the speakers, as well as the value for the money. Building on that momentum, the Chubu IBC is planning to present additional webinars as part of the series and hopes to attract an even larger number of attendees for its future events. Topics under consideration include:

- Small-business mergers and acquisitions with a focus on how to sell a private, unlisted company (including finding buyers, valuation, tax matters, and doing the deal)
- Future Covid-related changes to Japanese immigration law and enforcement

The precise timing of these events has not been determined, but we hope to host additional webinars quarterly over the course of this year and possibly into early 2022.

The Chubu IBC is continuously looking for ways to engage more members, respond to their needs, and support our membership and the business community at large. The committee invites you all to join us for one or more of the events and looks forward to developing and expanding the series. ■



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Blast off to New Heights

Developing aerospace and manufacturing in the Chubu region

In March, the American Chamber of Commerce in Japan (ACCJ) Board of Governors approved the newly rebranded ACCJ-Chubu Aerospace and Manufacturing Committee. I am serving as chair and Britt Creamer, project management and planning operations representative, senior staff at Lockheed Martin Corporation, is vice-chair. Britt's three decades of experience in the aerospace industry are complemented by my own quarter-century background working at Tier 1 and Tier 2 suppliers to the automotive sector.

Previously, this committee was focused exclusively on aerospace, but we are now greatly delighted to expand our focus and accept new members from aerospace and non-aerospace industries, including from the Tokyo and Kansai chapters. Through our collaboration, our key mission is to increase new business opportunities for ACCJ members who work in the aerospace, automotive, general industrial, electronics, and related industries.

Location, Location, Location

Nagoya, the largest city in the Chubu region, has often been informally referred to as the automotive capital of Japan. In fact, according to a January 2021 study published by the Ministry of Economy, Trade and Industry, 44 percent of transportation equipment manufacturing in Japan takes place in Chubu, which comprises Aichi, Mie, Gifu, Toyama, and Ishikawa Prefectures. If greater Nagoya were a country, it would rank among the world's top 20 in terms of gross domestic product. And the export-friendly Port of Nagoya makes this area the main international hub for Japan's humming factories, since it operates around the clock.

Appropriately, the chamber counts many of the largest manufacturers and innovators as stakeholders in our organization, including:

- Boeing Japan K.K.
- GE Japan
- General Motors Japan Limited
- Honeywell Japan Ltd.
- Lockheed Martin
- Mitsubishi Heavy Industries, Ltd.
- Northrop Grumman Japan
- Pratt & Whitney Japan K.K.
- Raytheon Technologies Corporation
- Toyota Motor Corporation
- Yazaki Corporation

Many other member companies in the region also contribute to this Japanese manufacturing ecosystem.

Revving Up Awareness

The Aerospace and Manufacturing Committee, in collaboration with the ACCJ-Chubu Programs Committee, held our inaugural event on March 19. Our guest speaker was Walter Lindsley, who spoke about the leadership skills he developed in the US Air Force and at Lockheed Martin Aeronautics Company. Speaking remotely from his office in Texas, he offered candid advice that was also applicable to ACCJ members in non-manufacturing sectors. And on May 28, we hosted a webinar entitled Embassy Experts Discuss Japan's Revised Guidelines for Defense Exports.

While the slate for upcoming months is still very much in the planning stages, the rest of 2021 may include webinars and/or in-person seminars on subjects such as how to sell to the heavies and navigate the nebulous supply chain in Japan, advance your career in manufacturing, and use trading houses and distributors to grow your business in Japan.

Taking Flight

As Britt and I extend our wings, we're thrilled that our committee is now actively recruiting prospective members, and you can join from anywhere in Japan by registering online through the Member Data Center.

We are also searching for guest speakers—in any time zone—who feel that they have a compelling story to share. Subject matter experts may also choose to participate in future panel discussions.

We endeavor to build strong, lasting relationships, as well as to facilitate sustained, powerful growth for member companies in the aerospace and manufacturing-related industries in Japan. ■



Julian Bashore
General manager and representative director
MacDermid Performance Solutions Japan K.K.

Chair, ACCJ-Chubu Aerospace and Manufacturing Committee



Britt Creamer
Project management and planning operations representative
Lockheed Martin Corporation

Vice-chair, ACCJ-Chubu Aerospace and Manufacturing Committee

Illustration: Cruz Hernandez Oscar



Study Groups

Advocating for transparency in Japanese government decision-making



Eric Sedlak
Partner
K&L Gates Gaikokuho
Joint Enterprise
ACCJ vice president

One element of the decision-making process in Japan is the formation, by ministries and other bodies, of study groups (many called *shingikai* or *kentokai*) to address policy issues. Unfortunately, for many years, non-Japanese stakeholders, and even major industry participants, were not invited to join these groups, and policy was made behind closed doors—at least perceived to be closed to non-Japanese interests.

About 10 years ago, the American Chamber of Commerce in Japan (ACCJ) began to advocate for more openness in the operation of study groups and for more non-Japanese participation. By that time, some ministries, to their credit, had become more open to non-Japanese participation. Others lagged, but we persisted.

While not all of those forming study groups have accepted our members, over the past decade many more have and I would like to relate my experience.

Advocate for Change

Through more than a decade of Legal Services Committee work on reforming the process for registering foreign lawyers in Japan, the Ministry of Justice (MOJ) has come to know me as an untiring advocate for eliminating unnecessary requirements for registration and reducing the administrative burden.

In 2019, the MOJ asked me to participate, as a representative of the ACCJ, in a *kaigi* (council) on its ongoing project to translate Japanese laws and regulations. The first session took place in person in late 2019, and a second was held online early this year.

The group included representatives of the Government of Japan, academics, *bengoshi* (Japanese-admitted lawyers), and company representatives, and was about one-quarter non-Japanese. The then-minister of justice Masako Mori, a fellow NYU law alum, opened the first session.

The proceedings were conducted in Japanese, with interpretation provided on request. As my spoken Japanese belies my ability to employ the more complex structures and vocabulary required to understand such proceedings, I took up the interpretation offer—aside from my self-introduction.

A digression here: interpretation and translation are distinct and require overlapping but specific skills. Interpretation is, for example, converting Japanese speech to English speech. Translation is converting Japanese writing to English writing.

Returning to the council session, the proceedings were, to my surprise, somewhat brief—about two-and-a-half hours for each session—and fairly formal.

While in some cases there is concern that the minds of the decision-makers have been made up by the time a *shingikai* is convened, in this case, I felt that the MOJ was soliciting views with genuine interest in hearing a diverse set of opinions.



Chamber View

The ACCJ has not adopted a formal policy position on legal translations. So, as then-chair (and now vice-chair) of the External Affairs Advisory Council (EAAC), I had to be sure that I was playing by the same rules as I myself enforce. The EAAC must ensure that every policy position adopted—and certainly every position that we present—is consistent with the ACCJ's Core Advocacy Principles and approved by the council and the Board of Governors.

At my request, the chamber polled the most likely ACCJ stakeholders (I often refer to them as “advocacy-active committees”) to identify laws and substantive areas that are of sufficient interest to merit translation into English, as well as the stakeholders’ thoughts on whether we should make specific recommendations

Government Resources

The MOJ has a reasonable, but not unlimited, budget for this work. To translate every Japanese law and regulation would cost an enormous amount of money (not to mention the capacity issues that would arise, since there are relatively few well-qualified Japanese-to-English legal translators in the world). So, it is useful for the MOJ to use its limited resources to translate laws that would be of the greatest utility to users.

There are a number of academics who handle Japanese-to-English legal translation, but I was perhaps a bit overly vocal in insisting that the principle of translating or interpreting into one’s native language should be adopted earlier in the translation process—not just as a touch-up at the end. The internal logic should be smooth; sometimes a literal translation is

The ACCJ members and committee leaders who responded in 2020 expressed interest in laws relating to healthcare and digital. Before the 2019 session, requested areas of focus had included healthcare, pensions, and tax.

about the translation process. Because discussions were underway about approaches to translation and the listing of substantive areas where our members wanted the translations to focus, the ACCJ external affairs staff confirmed that my presentation would not represent policy positions.

The ACCJ members and committee leaders who responded in 2020 expressed interest in laws relating to healthcare and digital. Before the 2019 session, requested areas of focus had included healthcare, pensions, and tax.

A key consideration in relation to the English legal translation program is who will use the translations of the laws and regulations.

In some cases, the companies that are most affected have substantial staffs of Japanese regulatory specialists, who can work entirely in Japanese and have little need to report specifics to their overseas regulatory affairs or legal departments.

Other laws are of greater interest to Japanese and non-Japanese law firms, as well as legal departments, non-Japanese academics, Japanese academics writing for foreign audiences, international organizations, and foreign governments.

not clear enough, particularly for a legal rule. Those using the translation need to be able to rely on it to make go/no-go or compliance decisions.

Takeaways

Following my participation, a few points stand out.

- AI-based translation for legal documents is improving rapidly, but relying on that alone is premature.
- For companies operating in Japan, promptly receiving English summaries of the key points will be more useful than receiving line-by-line English translations after a year or more.
- Our suggested focus on laws related to foreign direct investment and digital were in the special request.
- Notwithstanding the high praise AI translation was accorded by some of the presenters, the draft minutes arrived for my review in Japanese and my section was not entirely clear when run through common translation software.

I very much appreciate the ACCJ having been included in the proceedings. We want our voices to be heard—and they were. ■



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Hiring Women Leaders in Healthcare

Titan Consulting brings D&I Spotlight Package to the Japanese market



Sophia Plessier
Business development
manager



Daniel McGrath
Partner



Sean Lindley
Business operations
manager



Learn more about the
D&I Spotlight Package:
titanconsulting.jp



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It has been two decades since the Japanese government set its target of having women in 30 percent of management positions by 2020—and the country has fallen far short of that goal. More recently, the government has acknowledged that it has had to push off its target to 2030. According to the *Global Gender Gap Report 2021*, published by the World Economic Forum in March, just 14.7 percent of senior and managerial roles in Japan are filled by women. This puts Japan dead last among the 29 members of the Organisation for Economic Co-operation and Development and continues to leave so much of the country's talent and potential untapped.

Titan Consulting K.K. Business Development Manager Sophia Plessier certainly noticed the imbalance on her arrival in Japan. Coming from San Francisco, where discussion of diversity and inclusion (D&I) and support for women in business are a part of everyday life, she found it striking how few Japanese companies were promoting these important issues. To foster discussion and raise awareness, she founded the podcast

Titan offers the opportunity to turn D&I hiring ambitions into reality for companies that are serious about evolving their business.

Women in Healthcare—Japan along with a networking group of the same name where women can come together to empower other women in the industry.

That ties into her work at Titan, where she helps clients increase the diversity of their leadership. It's a natural progression of her career in executive recruitment for the pharmaceutical, biotechnology, medical devices, and technology industries. She began that journey in 2015 in the United States, where she partnered with leaders of top healthcare companies to fill key spots in their management.

Focus on Diversity

Filling those positions is about more than just reaching a percentage. It's about benefiting society through the innovation and solutions that emerge from teams built on diverse views, experiences, and backgrounds. And Titan's area of focus—healthcare and life science—requires a little extra attention.

As Business Operations Manager Sean Lindley noted: "The benefits of having a more diverse leader-

ship team are well established, but building that team can be more of a challenge in healthcare—especially in Japan—due to the somewhat conservative nature of the industry." The way in which these companies approach screening adds an extra layer that must be overcome, he explained, "but with this challenge come opportunities, and if you've got something which can potentially remedy that, then the most conservative industry is probably where you want to try and apply the solution."

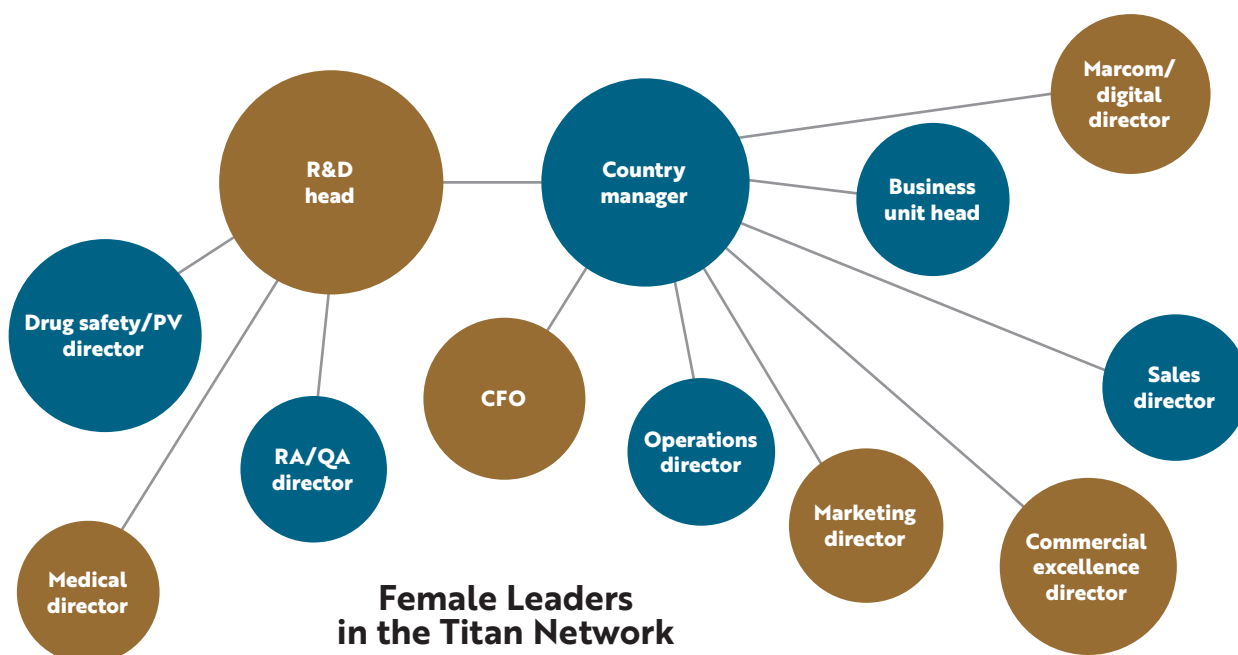
The solution he speaks of is the D&I Spotlight Package, which Titan has created, inspired by another product they offer to clients which focuses on medical-doctor hiring. The package helps clients who wish to start putting their D&I policies into action through talent acquisition do so in the most effective way possible.

The D&I Spotlight Package is a 12-month commitment from Titan Consulting which starts with an in-depth discussion to understand the client's current situation and business needs. Titan takes the time to understand the areas on which the client is aiming to focus their D&I hiring and the foreseeable challenges.

This offers a close partnership in which Titan provides detailed market analysis, access to an extensive network of professionals, a market map that identifies candidates, and ongoing, proactive support. Whether the client just wants a market map, needs to hire for a couple of key positions, or has extensive hiring needs, Titan is ready to support all projects with a tailored service.

"We work with the client to pinpoint what type of professionals they want to engage with," explained Partner Daniel McGrath. "Some clients have urgent and immediate needs while others are more focused on casual exploratory meetings for pipelining. Whatever their situation, Titan offers the opportunity to turn D&I hiring ambitions into reality for companies that are serious about evolving their business."

Doing that is one way in which the cost structure of the Spotlight Package really boosts a company's D&I efforts. There is a commencement fee for the program, but the fee for the first placed candidate is waived. Any additional placements are treated as contingent.



Diamond in the Rough

One thing Plessier, McGrath, and Lindley all noted is that sometimes the perfect candidate or opportunity may not jump off the page. This is especially true in Japan, where modesty may lead a candidate to discount a chance if their resume doesn't check every box, while a company's inflexible or overly strict hiring criteria might cause them to overlook someone who hasn't had a particular job title. And in a country where women hold so few management positions, there's a good chance of this happening.

"A lot of our clients say, 'We would like women for these positions, it's very important for us to get more female leaders,'" Plessier said. "We're very transparent with them and explain that there's a lack of female leaders in this country, so identifying these candidates is not easy. We might find eight or nine men for every one woman."

Noting the smaller pool, Lindley added: "Part of the reason the Spotlight Package addresses this issue is precisely because of the close partnership with the client. We are able to match solutions to identified business needs rather than just a candidate to a job description."

And it's not just from the company side. Plessier said Titan also works with candidates to build bridges across perceived deficiencies in experience. "We make sure that they have the confidence to go for these roles that they might not naturally pursue. In Japan, you will send a role over to a candidate and if she's not a 99.9- or 100-percent match—for example, she has five years of experience instead of the seven listed—she won't even apply," Plessier explained. "So, a lot of it is for us to coach them, to tell them that the company is trying to promote diversity and will be impressed with you."

Real World Results

Plessier shared two examples of successful placements. In one, a US biopharmaceutical client was searching for a new head of pharmacovigilance and safety. It was

a position which had never been held by a female leader, and the company had been unable to identify any strong female candidates in their pipeline. To solve this issue, Titan tapped into their international network and supported a candidate from overseas to transition back to Japan and into this role.

In another case, a medical device client, which was focused on Japan and had an entirely male executive team, was given a big incentive from the global executives to push for more diversity. They needed to replace their head of research and development, so decided to invest in diversity hiring and work with Titan. In just six weeks, the final candidate was selected from three finalists.

McGrath feels that now is the right time for more companies to make such moves. "We're seeing the reaction to Sophia's podcast interviews with women leaders in healthcare, and some genuine interest among companies to diversify management," he said.

If you're ready to strengthen your management team with more female leaders and greater diversity of voices and ideas, Titan Consulting is ready to help. ■

■ Presented in partnership with



If you are looking to hire in Japan and have questions, please contact Sophia Plessier at: sophia@titanconsulting.jp
+81-(0)3-4550-2860



Untapping Potential: Second Case Studies

New toolkit shares how companies are expanding diversity activities



Corinne Johnson
2020 WIB Committee
Co-chair



Jiana Leung
2020 WIB Committee
Co-chair



Ryann Thomas
2019 WIB Committee
Chair

The American Chamber of Commerce in Japan (ACCJ) is highly active in advocating for women in business (WIB) through its annual WIB summits, collaboration with Japanese business and government, and white papers such as the Women in Business Toolkit *Untapping Potential: Case Studies*. Published in 2019, the survey provides examples of concrete business initiatives to increase the number of women in management and leadership roles in Japan.

Now, building on the first edition, the ACCJ WIB Committee has published an updated survey entitled *Untapping Potential: Second Case Studies*. The project was led by 2020 WIB Co-chairs Corinne Johnson and Jiana Leung, with 2019 Chair Ryann Thomas, and brought to publication by 2021 Co-chairs Nuala Connolly and Debbie Reilly.

Broader Focus

Whereas the first edition followed a detailed process to identify case studies from companies that have been recognized by the government or other organizations as promoting gender diversity in the workplace, the second edition takes a different approach by reaching

out to ACCJ member companies about experiences that would be useful to share with other members.

In addition, *Untapping Potential: Second Case Studies* highlights some of the more varied diversity-related activities in which many companies are now engaged. What began in most companies as a focus purely on gender diversity has become a much broader discussion, around diversity in general and workplace change that benefits all—including LGBTQ+ employees and employees with disabilities.

Nine Stories

To provide a comprehensive look at the overall workforce and the issues facing human resources departments, the toolkit is divided into four chapters:

- Workstyle Reform
- Increase Male Support for Diversity Programs
- Improve Human Resource Policies
- Appreciation of Different Employee Perspectives

Across these four chapters, stories of reform, innovation, and success are shared by nine companies:

- Gilead Sciences K.K.
- Discovery Japan, Inc.
- Shimizu Corporation
- Cisco Systems G.K.
- Micron Memory Japan
- FIL Investments (Japan) Limited
- Sonoda & Kobayashi IP Law
- EY Japan
- Visa Worldwide (Japan) Co., Ltd.

These companies represent a cross section of industries and organizational sizes. Both multinational and Japanese companies are included, providing a range of examples of what companies in Japan are focusing on now, in terms of inclusion and gender diversity.

The nature of the initiatives differs depending on the company. Some are top-down, while others are grassroots-driven. Some are focused on key performance indicators and metrics, while others are more informal, prioritizing gender diversity or a broader definition of inclusion. And still others are focused on different stages of the employee experience, from recruitment to promotion.



Untapping Potential: Second Case Studies

Building on the 2019 First Edition of the Women in Business "Untapping Potential" Case Studies, this survey provides examples of concrete business initiatives to increase the number of women in management and leadership roles in Japan.



Download the toolkit
[www.accj.or.jp/
women-in-business](http://www.accj.or.jp/women-in-business)

CHAPTER 4

Appreciation of
Different Employee
Perspectives

Some companies are also collaborating with external institutions such as universities and Women20, one of the official G20 engagement groups that proposes policy recommendations related to women. Many more are leveraging new technologies to facilitate communication and flexibility.

Key Themes

The first chapter, “Workstyle Reform,” focuses on flexible work arrangements that help attract, develop, and retain employees from diverse backgrounds (Gilead Sciences), and a new office space that helps create an environment where both male and female employees can be more engaged, involved, productive, and in tune with the company’s global culture (Discovery Japan).

Increasing male support for diversity programs is the focus of Chapter 2, with a story from the construction industry where Shimizu is pioneering reform by putting in place policies, systems, and procedures to address the challenges that the industry faces and to counteract traditional mindsets.

In Chapter 3, Cisco shares how they are promoting a conscious culture and creating a workplace where employees of all backgrounds can be at their best. Micron Memory, meanwhile, shows how they initiated a plan to enhance their male-to-female ratio, hire and promote more females to senior positions, and increase recruitment of female college graduates. In addition, the company was looking to boost hiring of Millennials, non-Japanese, and employees with disabilities. Then FIL Investments, which has more female employees than male, talks about the steps they are taking to recruit female employees to senior positions, where men still outnumber women.

Appreciation for different employee perspectives is the theme of Chapter 4, and stories from Sonoda & Kobayashi IP Law, EY Japan, and Visa Worldwide highlight the importance of diversity and inclusion

Visa Worldwide (Japan) Co., Ltd.

PAYMENT NETWORK BRAND
Number of employees: Can't disclose

43% of employees are female

FOCUS

The company is constantly looking to create an excellent work environment for its employees. Some of its chief areas of focus are achieving a more inclusive and diverse workplace, fostering work-life balance, and making the office a safe and productive place to work.

POLICIES

Employees help drive company culture

• **Inclusion and diversity (I&D):** I&D has been established as a key factor in the company's business strategy and leaders at Visa understand that they are accountable for creating a diverse and inclusive culture. I&D-related questions are included in the company's annual Employee Engagement Survey (EES) in order to gauge employee satisfaction as well as to gather suggestions and thoughts about how the company can improve.

• **Internal I&D activities:** The I&D team in Japan was formed in 2018; it is a volunteer group established to work on I&D-related matters and to serve as an enabler and ambassador of I&D culture. The team has its own business plan, KPIs, and budget.

• **Focusing on diversity in the hiring process:** The company established a policy for diverse interview panels that are made up of interviewers from different functions/backgrounds/genders. The company has also expanded its hiring to include candidates from around the world.

KEY LEARNINGS AND IMPACT TO DATE

- The percentage of female employees at the company increased from 38 percent to 43 percent between 2016 and 2019.
- Locally hired non-Japanese employees increased fourfold during the same time period.
- The 2019 EES showed a 14 percent increase (from 74 percent to 88 percent) since 2018 in the number of employees who believe that Visa is committed to promoting a culture that values diversity, including diversity of thoughts, opinions, and ideas.
- In 2018, the company adopted a flex office hours program—including “working from home”—that was suggested by employees. Many employees make use of the program, including working mothers, working fathers, and employees with aging parents.

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MOVING FORWARD

- Making the office even more inclusive and diverse, such as by increasing the number of young professionals on staff and increasing intra-company hiring from outside of Japan.
- Reaching a 50-50 gender balance in the company's leadership positions.

in today’s business operations. Sonoda & Kobayashi believes that employees who come from a homogenous background are more likely to reach the same conclusions and less likely to be creative and think outside the box. So they embraced a set of policies that would attract talent qualified in technology, law, and languages from a wide range of nationalities, genders, work locations, and work-time arrangements.

EY Japan shares with readers their external efforts to support female entrepreneurs and internal efforts to support female members and the company’s LGBTQ+ members, while Visa Worldwide shows how grassroots activity can bring about a more inclusive and diverse environment, fostering work-life balance, and making the office a safe and productive place in which to work.

Inspiration

In their introduction, Johnson, Leung, and Thomas say, “We hope that this second edition of the toolkit provides further food for thought as [ACCJ] members—and all companies operating in Japan—strive to improve the diversity and inclusion of their workforce.”

Indeed, the 32-page publication is filled with ideas and actionable steps that can help any company—large or small—create inclusive environments that embrace diversity and foster sustainable business practices that not only lead to greater success, but a better world for everyone, at work and at home. ■



Nuala Connolly
2021 WIB Committee
Co-chair



Debbie Reilly
2021 WIB Committee
Co-chair



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Beyond ESG

Why sustainability is just one part of business success

The Covid-19 pandemic has helped turbocharge a change in global investor priorities to investment strategies based on environmental, social, and corporate governance (ESG). Total assets invested in ESG funds more than doubled last year and now account for one-third of the approximate \$150 trillion of global investment assets.

It all makes good sense. Yes, companies are supposed to make a profit. But to ensure the profit is sustainable and contributes to future generations, corporate leaders are now held accountable for raising standards and for the overall impact of their actions on the environment, society, and all stakeholders of their enterprise.

Japan has been a pioneering advocate of ESG investing. Most importantly, the Government Pension Investment Fund went beyond merely advocating and talking about the importance of ESG and actually allocated ¥1 trillion of its portfolio to help seed-fund domestic ESG funds. Make no mistake—ESG investment is Japan-style Capitalism 2.0. Unlike the United States, Japan's management philosophy never thought of profit maximization or capital efficiency as goals sufficient to achieve sustainable prosperity.

So, the good news is that single-minded pursuit of profits and greed is out, and a high-minded and morally aspirational management style is in.

Beyond Simple ESG

This sounds good. Indeed, many of my naturally cynical investor friends suggest that ESG stands for “everything sounds good.” But the real challenge is that both the relentless pursuit of profits and ESG-focused strategies must go hand in hand.

The research is very clear. Study after study confirms that implementing best-in-class ESG measures is totally insufficient to achieve a company's outperformance (against peers). First and foremost, a traditional sales growth and profit strategy must be in place. However, among companies with high capital efficiency, those that also have exemplary ESG strategies in place are outperforming their peers. Clear-speak: an ESG focus alone will not make you a good company; but it does help you become a truly great one when combined with a firm focus on profits.

Here, corporate Japan has much work to do. If the ESG focus does not, at the same time, trigger a greater focus on improving capital efficiency and profitability, Japan Inc. is poised to remain a global underperformer.

The biggest obstacle is the absolutely astounding cash hoardings accumulated. Listed companies cur-

rently hold record cash balances equivalent to about 160 percent of gross domestic product (GDP), up from about 40 percent 10 years ago. In comparison, the global runner-up is the United States, where listed companies hold cash to the tune of about 55 percent of GDP.

Of course, any company will want to hold a cash buffer for tough times, and a war chest to buy a competitor, a new business, or expand. But surely hoarding the equivalent to 160 percent of national income is excessive and has led to almost half of all listed companies holding as much cash as they have shareholder equity.

The link to high-minded ESG priorities is this: how can it be good governance to prioritize hoarding cash over paying your key stakeholders, your employees? Because yes, corporate Japan ranks very low when it comes to distributing profits back to its employees.

Specifically, workers' compensation is barely 33 percent of corporate value-add in Japan, significantly lower than the 48 percent in the United States and 78 percent in Germany. Yes, Japanese companies are extremely *kechi* (stingy) when it comes to paying their workers.

Why does the leadership of a multi-stakeholder, for-profit enterprise choose to hold more of a zero-return asset rather than invest in one of its stakeholders where there must be a positive return?

Productivity Deficit

To add insult to injury, all corporate leaders agree that, yes, Japan must boost productivity. All too often, productivity gets confused with process efficiency. Just trying to save costs and streamline process efficiencies may get you higher efficiency—and even higher profit margins—but if you use these profits to simply hoard cash, your productivity of capital is unlikely to go up.

You're sweating your workers and your factories harder and harder, only to add a dead-weight, zero-return asset to your balance sheet. Return on assets or return on capital will stay flat at best, despite greater efficiency (and, probably, ever unhappier and frustrated employees). To raise productivity of capital and labor, you'll need to invest in future returns by, for example, buying better productive capital (e.g., technology) and—most importantly—mobilizing better use of human capital within your enterprise (e.g., pay for performance).

All said, we should very much welcome the new-found global focus on ESG and multi-stakeholder investment. But we must stay razor-focused on improving the overall efficiency of our business, incentives, and, in particular, rewards of our employees. ESG alone is insufficient to raise Japan's global competitiveness. ■



Jesper Koll
Global ambassador
Monex Group Inc.



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POSSIBILITY FOR CONTINUITY

ACCJ LEADERS SHARE WHAT SUSTAINABILITY MEANS TO THEM



What is sustainability? The term means different things to different people. For many, the first thing that comes to mind is the environment. But sustainability encompasses numerous areas of society, as evidenced by the wide spectrum covered by the United Nations (UN) Sustainable Development Goals (SDGs). Not only does sustainability involve the environment, but also economic and societal matters as well as environmental, social, and corporate governance (ESG).

To capture the range of issues that fall under the sustainability umbrella, *The ACCJ Journal* asked leaders and members of the American Chamber of Commerce in Japan (ACCJ) to share what sustainability means to them.

Eriko Asai

President, GE Japan / ACCJ chair

I am delighted to bring you this special edition on sustainability. The word encompasses many areas but, needless to say, climate change is one of urgent global priority. It cannot be solved without advancements in technology, where the private sector plays a key role, and takes cross-industry collaboration to engage with governments to introduce adequate policy and regulations.

For 2021, the ACCJ has decided to focus on sustainable society as one of our four key advocacy priorities. We have established the Sustainable Society Advocacy Coordination Group, led by ACCJ Governors Andrew J. Conrad and Frank Packard, along with me as ACCJ chair, to ensure that we take a holistic approach in covering topics such as energy transition and ESG.

In April, Japanese Prime Minister Yoshihide Suga and US President Joe Biden agreed on the Japan-U.S. Clean Energy Partnership, which includes cooperation on implementation of the Paris Agreement, cooperation on clean energy technology, and accelerating decarbonization in the Indo-Pacific region.

As an example of pioneering such US-Japan cooperation, GE and Toshiba have recently concluded a strategic partnership agreement on offshore wind power to jointly support the Japanese government's Green Growth Strategy and its effort to install 30–45 gigawatts of offshore wind generation by 2040.

I am excited to be part of a great team of professionals at the ACCJ and look forward to our journey ahead.



I PERSONALLY BELIEVE THAT THE ACCJ AND ITS MEMBERS ARE DEDICATED TO ENSURING A MORE SUSTAINABLE FUTURE AND THAT THE CHAMBER CAN CONTRIBUTE TO THAT DIALOGUE IN JAPAN IN A MEANINGFUL WAY.

Jenifer Rogers

General counsel Asia

Asurion Japan Holdings G.K.

Non-executive director

Mitsui & Co., Ltd.; Kawasaki

Heavy Industries, Ltd.;

Nissan Motor Co., Ltd. / ACCJ president



I am very pleased that we are producing a special edition of *The ACCJ Journal* focused on sustainability. One of the key things I wanted to do when I became ACCJ president was to reconsider the areas on which the ACCJ should focus its advocacy—especially in light of Covid-19.

With the ongoing pandemic, it has become clear to me that sustainability-related issues are finally getting the attention they deserve, that they are growing as a focus area and becoming even more critical, especially with respect to issues around climate change.

Serving as a non-executive director on corporate boards, I have been very aware of the increased focus on sustainability, over the past few years, as an area that stakeholders are concerned about. But it became even more critical to business management, and a greater priority, as the pandemic highlighted the importance of this focus.

In addition, with the change in the Japanese and US administrations—with Japanese Prime Minister Yoshihide Suga and US President Joe Biden taking office—it became clear that both governments were also prioritizing the issues related to sustainability. That is why we formed the Sustainable Society Advocacy Coordination Group.

The topic of sustainability is so broad, but what it means to me is creating a balance between economic growth and harmony with nature, so that we leave the planet in good shape for future generations. I believe a focus on sustainability for advocacy allows the ACCJ to lead the discussion on so many important topics regarding which Japan needs to improve, including social aspects such as diversity and inclusion, as well as corporate governance and climate change aspects such as carbon neutrality.

I personally believe that the ACCJ and its members are dedicated to ensuring a more sustainable future and that the chamber can contribute to that dialogue in Japan in a meaningful way.



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Heather McLeish

Director, EY Japan Co., Ltd.

Co-chair, Sustainability Committee

Sustainability is a great big umbrella of a term that means so many different things to different people. That is part of the reason it can be an overwhelming term! I like to keep things simple when trying to define sustainability.

From a business perspective, I like to think that sustainability is at the crossroads of purpose and strategy. It is the place we stop and consider our direction and choose the best way we can at the time. It is the starting point for averting risks and uncovering new opportunities.

From a personal perspective, I feel sustainability means having “enough,” focusing on quality over quantity for the choices I make and the activities I pursue. Sustainability is, above all, a life choice and a journey—one I choose to take.

My experience is that individuals who try to incorporate sustainability as a pillar of their life journey have an increased sense of integrity and purpose. Above all, they have a joyful foundation for living well and feeling connected to their surroundings.

As co-chair of the ACCJ Sustainability Committee, I want to help bring feasible sustainability actions, best practices, and inspiration to others in our community.



Manabu Yamanaka

Engineering manager,

Building Construction

Products Division, Caterpillar Japan LLC

Co-chair, Sustainability Committee

Sustainability has many meanings and includes various aspects of life. But for me, it means to preserve a beautiful world for my children and grandchildren, so they can enjoy the same—or even more wonderful—experiences than those with which I am blessed.

My company, the construction equipment manufacturer Caterpillar, has been focusing on sustainability for the past 20 years as the top priority for our customers working with the infrastructure, energy, and resource needs of tomorrow. Without the sustainable perspective of customers, our company would not be successful. Without the sustainable development of the world's energy resources and infrastructure, our customers, in turn, would not be successful. So, these are closely connected. There is no winner or loser in this ecosystem. We must work, strive, and enjoy prosperity together with customers and the world.

Many of our customers are private companies that have been in business for multiple generations. The owners are working hard for their company's sustainable future, so that they can pass the business along to their children. I see the similarity between my personal thoughts and corporate policy, and learn a lot from our corporate approach that I can carry over to my personal life. As co-chair of the ACCJ Sustainability Committee, I would like to listen to, and learn from, fellow chamber members to refine, improve, and grow sustainability-related thinking for both my private and corporate perspectives.



Mike Benner

Co-chair, Information, Communications, and Technology Committee

Vice-chair, Energy Committee

Sustainability is core to my business focus of bringing new distributed energy technology solutions to Japan, and assisting Japanese energy players to accelerate wide-scale adoption of renewables and distributed energy.

This includes innovative models for rapid deployment of battery storage and software platforms, to optimize how and when grid-edge resources (e.g., water heaters/chillers, heat pumps, HVAC systems, electric vehicles) are used to match supply and demand.

Technologies at work in these solutions combine hardware, software, the Internet of Things, cloud computing, and artificial intelligence (AI). Adoption of these new models will result in companies and residents operating more efficiently and having lower energy costs, often turning unused assets into revenue streams. It also lessens the reliance on the central generation of electricity using fossil fuel-powered plants.

Additionally, as president of Tokyo American Club, I launched a broad-based sustainability initiative to measure the club's total carbon footprint and implement ways to reduce it. Beyond acting on energy efficiency, the club is also aggressively looking at the reduction of plastics use and food waste.

As stewards of our planet, it is beholden on all of us to act decisively—and now—on the major sustainability challenges which will impact not just future generations but our own lives. These challenges are not only existential threats but business megatrends and opportunities to rethink society as we know it.



Hannah Perry

Director, Finsbury Glover Hering

Vice-chair, Sustainability Committee

Sustainability as a concept still conveys diverse meanings to both individuals and businesses, and is highly sensitive to context.

I see great value in that flexibility, such that it remains open to interpretation, with the concept continuing to evolve while we evolve as a society.

I find the term interesting to analyze in its Japanese construction: 持続可能性 (*jizoku kanosei*). If you separate the component characters, 持続 (continuity) and 可能性 (possibility), the literal translation becomes “the possibility for continuity.” This notion of continuity echoes the idea of creating a future informed by resilience, growth, and long-term success.

A sustainable business is now closely associated with the concept of the 3Ps: people, planet, and profit. For me, sustainability is at the core of this matrix and, when correctly interpreted, is what holds the three elements together.

Being respectful of the 3Ps, as representing the possibility for transformation, has the potential of ensuring that environmental and societal factors are core considerations in business decisions to produce the continuity required for the creation and maintenance of a sustainable society.



I FIND THE TERM INTERESTING TO ANALYZE IN ITS JAPANESE CONSTRUCTION ... THE LITERAL TRANSLATION BECOMES “THE POSSIBILITY FOR CONTINUITY.”

Ken Haig

Chair, Energy Committee

The UN group that oversees the now ubiquitous SDGs defines sustainable development as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” I like this definition, as it is pretty close to how I think about sustainability, which is: What do we need to be doing now to pass on a habitable planet—and all of the benefits that we’ve enjoyed from a vibrant economy and society—for our children to be able to pass on to their children and beyond.

As I recently learned (from my own children’s investigations into the SDGs for school, no less), the goals that I am most directly focused on these days—both personally and professionally—are:

- 13: Take urgent action to combat climate change and its impacts
- 7: Ensure access to affordable, reliable, sustainable, and modern energy for all

But there are so many other worthy goals that need to be met, and I take heart from the fact that many ACCJ colleagues are working on these from many angles as well.

Frank Packard

ACCJ governor

Chair, Alternative Investment Committee

This is a great time to be in my line of work in finance and investment. Increasing awareness of climate information is driving new deals in ways unimaginable even five or 10 years ago. This moment is exciting, as the creativity of technology solutions and financial structures meet new disclosure requirements.

Sustainability for me is personal. I grew up in the northeastern United States with lots of outdoor activities, including hiking, rock climbing, winter mountaineering, and sports such as collegiate rowing. The outdoor environment was an integral part of growing up.

These days, “sustainability” seems to be increasingly in vogue, perhaps due to our growing awareness of its absence in our lives.

To date, we have often measured economic and investment activities only by the benefits to owners, and have avoided measuring their true costs. To me, sustainability means addressing this tragedy of the commons with verifiable and comprehensive disclosures according to widely accepted standards.

Two ACCJ leaders, Chris Wells and Debbie Reilly, recently framed the issue succinctly: transparency drives action. I believe that when we have developed sensible disclosure requirements, common sense and financial markets will make educated and sustainable choices.

To be sure, sustainable investing goes far beyond transparency itself. ESG disclosures are quickly becoming requirements for key industry participants, such as institutional investors and listed companies. At the same time, these disclosure requirements concerning climate-change information should be viewed as a design opportunity rather than a burden.

Beyond transparency, sustainability means bringing to the table all our best human resources to pursue all possible sources of solutions, including the 50 percent of us who are women.

And sustainability remains personal for me. For 32 years, we have celebrated our wedding anniversary on Earth Day.



Keith Kirkham

Senior commercial officer

Embassy of the United States, Tokyo

It’s common—and correct—to think of sustainability in terms of the environment; whether our world’s resources will continue to support some human activity indefinitely.

Some cases are clear. We can consider the pressure of population growth, assume a rate of consumption, and forecast how long a resource such as codfish or cobalt might last. Other questions are more difficult. How far into the future can we sustain our business models, our ability to innovate, and our path to deliver solutions into a competitive market? Will these mechanisms all be eclipsed by a catastrophic shock, an abrupt change in geopolitics, or will they improve and flourish?

Assessing the risk of unsustainability is different from the risks of natural disasters or political risk. And today, when we seem to turn on a hinge of history, it is hard to know if tomorrow opens to progress or just disruption. Greater computing power and AI have accelerated our entry into a new age of discovery, but understanding social psychology may be as important to sustainability as resource availability.

Ironically, to reach our goals for environmental sustainability, we need a sustainable system—one that creates accurate incentives for behaviors—by which consumers, stakeholders, and government can make decisions and set policy. The Ministry of Economy, Trade and Industry credits its feed-in-tariff (FIT) policy for renewable energy as the incentive that successfully reduced the cost of renewable energy in Japan. FIT was then replaced (as fiscally unsustainable) by an auction system. This is an example of how sustainability is both the destination and the steps along the way.

Eddie Guillemette

CEO, Midori no Ki K.K.

For us, sustainability is about giving more than you take, caring for the environment, and treating everyone with respect. We incorporate these ideas into our real estate and hospitality businesses.

Our EdVenture kids camp focuses on outdoor education, so we spend time on farms, in the forest, and on the water around Niseko, Hokkaido. The kids plant trees to offset their carbon footprint and we encourage all guests to use our compost center to improve the soil and reduce waste.

Our real estate business uses timber construction, orients properties facing south, uses double- and triple-glazed windows, and ensures there is cross ventilation (to avoid the need to use air conditioners). Our goal is to build properties with more sustainable materials and renewable energy sources—although the additional cost of these products in Japan is generally unacceptable to many customers.

Our hospitality business is partnering with Goyoh, a local company, to measure the total impact from a guest stay and the properties we manage. The goal is to share this data and allow guests to offset their carbon footprint via tree planting, forest restoration, and land preservation.

To have a sustainable business and society, we believe that it is critical to promote awareness of the issues and provide simple, cost-effective solutions. ■





ADVOCACY

By Malcolm Foster

EMBRACING SUSTAINABILITY



HOW CAN
COMPANIES DO IT?



As businesses big and small increasingly wake up to the importance of sustainability, some are not really sure where to start. Others have quickly begun to align their business practices to reduce waste and environmental damage, protect human rights, and seek sustainable sources of energy—all aspects of this catch-all term.

Recognizing sustainability as a priority has prompted many companies to go through a “re-visioning process” to redefine their objectives and purpose. Some of these steps question the basic tenets of capitalism, said Ben Fouracre, the Japan representative at business advisory company Berkeley Research Group, LLC.

“It’s no good just to make money anymore. Businesses need to be profitable, but earn that profit without damaging the planet or society,” he said. “Companies are realizing they need some kind of ethical purpose for existing.”

But it’s not just about doing good things; it’s about survival. Businesses are realizing that taking action on climate change, plastic waste, and worker exploitation makes good business sense and is closely linked to their own futures. Ignoring these issues is perilous. “Is our company, our existence sustainable?” Fouracre said companies are asking themselves, “Is our business still going to be relevant in 20 years?”

Sustainability also has a personal meaning for many. Dieter Eckert, chief executive officer of TÜV SÜD Japan Ltd., a unit of the German safety, security, and sustainability solutions company, recently became a grandfather. “I have a great interest in ensuring that my grandson will experience an environment and conditions which are worth living in.”

Wrestling with questions about how to create a sustainable world—and what that means for corporate and individual behavior—are the first steps companies and organizations need to take, according to consultants interviewed by *The ACCJ Journal*.

“Companies need to recognize and understand their role in the global ecosystem,” said Tove Kinooka, director and co-founder of Global Perspectives K.K., a sustainability integration consultancy. “When you start to zoom out, you see how interdependent everything is, and how a company’s actions have ripple effects beyond its supply chain.”

Wake-up Call

The Covid-19 pandemic has dispelled any doubts about that broader impact, driving home how interconnected our world is. “It’s been a massive wake-up call,” Kinooka said. “The pandemic seems to have really catalyzed a true desire for action, rather than just talking about things. We’re seeing a lot more companies saying, ‘We want to do something,’ which is very cool.”

Once companies are convinced about the importance of sustainability, it’s vitally important that the vision be embraced at the top. This must be done as a key part of the corporate identity, not treated as a compliance issue or a reaction to activists or investors, the consultants said. “It can’t just be window-dressing,”

said Fouracre. “At the very top of the organization, the leadership team has to define where they stand.”

In the past, sustainability issues were often lumped together under corporate social responsibility (CSR) and, usually, delegated to a department that had very little power or decision-making ability.

That term isn’t used very much anymore, because the “responsibility angle makes it seem that it is something you don’t really want to do,” said Heather McLeish, a director at EY Japan Co., Ltd. and co-chair of the American Chamber of Commerce in Japan (ACCJ) Sustainability Committee. Sustainability now is becoming a core part of corporate identities.

Mapping It Out

The first step toward this is mapping out a company’s value chain—all the points at which the business touches people and the environment—and zeroing in on the biggest sustainability risks, as well as the biggest opportunities, the consultants said.

Most companies already have risk profiles, so it may mean reconstructing these in light of issues such as environmental impact, human rights, waste management, and gender equality. That can mean a major overhaul.

One helpful way to break down sustainability goals is to think of them in three inter-related categories, which can pair with the 3Ps:

- Social (people)
- Environmental (planet)
- Economic (profits)

Another acronym that’s often heard to summarize this is ESG, for environmental, social, and governance criteria.

Risks vary widely depending on the industry. For a coffee producer, for example, looking at their business through this lens would mean examining the natural environment in which the coffee is grown, the living and working conditions of the people who grow and pick the beans, as well as their communities and the way the coffee is transported, processed, packaged, and delivered to customers. There’s waste and energy use to consider, too.

Key risks include:

- Impact on climate change
- Exploitation of workers
- Use of child labor
- Exposure to hazardous chemicals
- Lack of access to education and healthcare

Any of these, if exposed, might damage the company’s reputation, and hurt sales from increasingly conscientious consumers, Kinooka said.

For manufacturers, the value chain is more complicated because parts and raw materials come from all over the place and involve thousands of suppliers



Ben Fouracre
Japan representative
director, Sustainable
Corporation Programs
lead, Berkeley Research
Group, LLC



Tove Kinooka
Director and co-founder
Global Perspectives K.K.

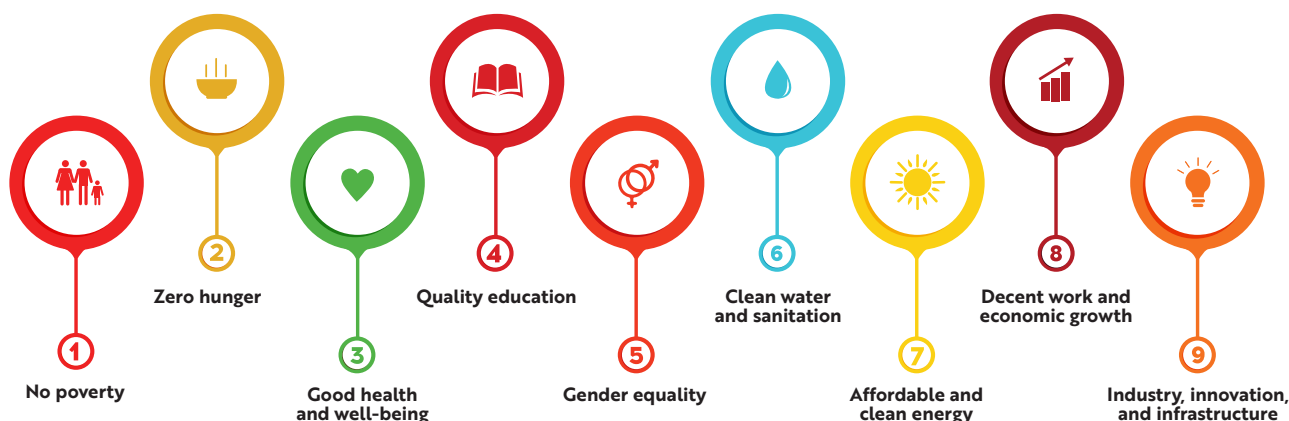


Dieter Eckert
President and CEO
TÜV SÜD Japan Ltd.



Listen to this story:
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United Nations Sustainable Development Goals



and transporters. It's hard to know each one's labor or environmental conditions.

Major concerns include:

- The source of raw materials
- The carbon footprint of transporting materials
- Parts and labor practices among suppliers

"The factory may be careful about its waste management and other things, but where do all these particular elements actually come from? And how do they get to the factory?" said Kinooka. "There are lots of hidden risks. There's potential for corruption and exploitation. It can get murky."

"But another way to look at this is that it is possibly the biggest opportunity, in terms of job creation and economic growth, [so far] in the 21st century," Lewis said. "It's a huge opportunity for companies to fundamentally transform what they're doing, access new consumers, and grow their market share."

Pick a Few

The United Nations Sustainable Development Goals (SDGs) can provide a helpful framework for companies trying to identify objectives that are related to their businesses.

But the commitment needs to be genuine. Sometimes, companies have done very little, despite paying lip service to the SDGs by posting the color-

PEOPLE AND PROCESSES NEED TO BE ALIGNED. YOU CAN'T TRANSFORM IF YOU FORGET ABOUT THE PEOPLE SIDE OF THINGS ... AND IT TAKES BOTH INTELLECTUAL UNDERSTANDING AND EMOTIONAL ENGAGEMENT TO MOVE PEOPLE TO ACTION.

Strategic Opportunities

On the flip side, companies should also use this process to see strategic opportunities that come from paying more attention to sustainability.

If a coffee business builds good relationships with the growers and invests in schools, health centers, and farmer training, "then they not only get a healthier, better-educated workforce, who can understand and implement new techniques for improving yields and reducing environmental degradation, but they also have a strong story with which to engage consumers," Kinooka suggested.

Initially, people may tend to see prioritizing sustainability in a negative light—having to restrict or sacrifice things, such as avoiding plastic, limiting travel, or even not eating meat, said Robin Lewis, co-founder of mymizu, a platform that aims to reduce plastic bottles by providing information about 8,500 free water-refill locations around Japan and thousands more around the world.

ful ring emblem prominently on their website and claiming to be contributing to certain goals. "There's a lot of SDG-washing going on," said Kinooka.

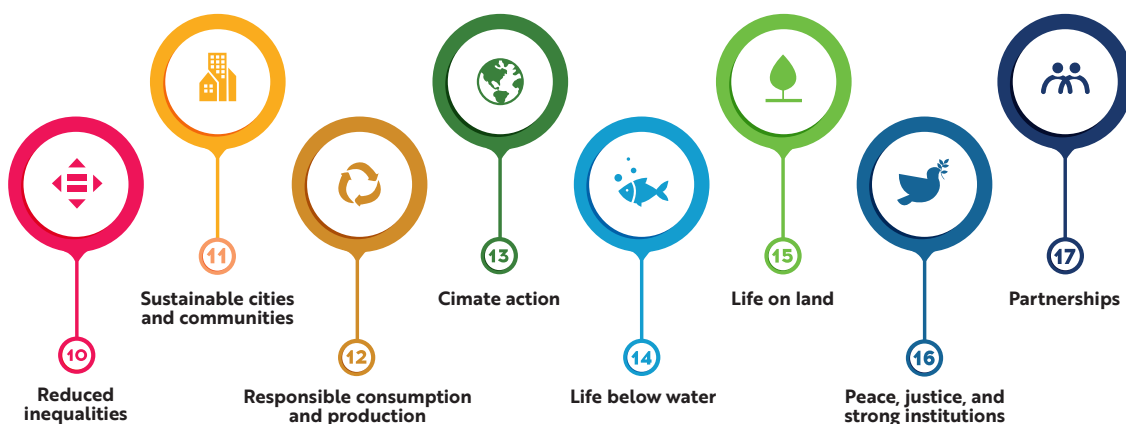
Once companies have mapped out their entire business, they can categorize their activity according to the 17 SDGs, making it easier to choose which goals best align with their operations, said Eckert of TÜV SÜD Japan, which provides safety testing, inspections, and certification.

Generally, it is better to pick a few goals and take meaningful action on them, rather than spread yourself too thin, the experts said. "It's much more credible to focus on a few [goals], especially for smaller companies, and to be able to show what you are doing," said Hannah Perry, a director at Finsbury Glover Hering and vice-chair of the ACCJ Sustainability Committee.

"Companies get this wrong all the time, because they try to do too much," said EY's McLeish.



Learn more about
the UN SDGs
sdgs.un.org



Easy Wins

Educating and engaging employees is the next vital step—and without this, the venture will fail, the consultants said.

Companies that invest time and effort in informing workers about why sustainability is important, and getting them emotionally engaged, generally have more successful outcomes. Workers need the intellectual reasoning behind these new priorities, as well as an invitation to be emotionally invested and to be shown how they can make a difference.

That gives them a sense of ownership, rather than a feeling that they are simply doing things because they were told to do so by their boss. “If employees see sustainability as a compliance issue or a top-down demand, it’s not going to last,” said Lewis, who is also co-founder and director of Social Innovation Japan, a platform designed to bring together entrepreneurs, nonprofits, governments, big business, and academia to tackle real-world problems.

Joy Jarman-Walsh, a Hiroshima-based consultant at Inbound Ambassador, the sustainability-focused company which she founded, agrees that talking with your staff is critical. Encouraging and training employees to look out for wasted water, food, or electricity will make them feel that they are contributing to efforts that make a real difference—and it will also save the company money, she said. “Then the employees feel better about the brand because it’s more ethical, it has more integrity.”

Once staff are engaged, start looking for “easy wins,” Lewis suggested. Plastic waste is a huge problem that employees can immediately start addressing by being encouraged to bring their own bags and water bottles, and some companies have even started banning single-use plastic items.

To inject some fun into the endeavor, Lewis’s non-profit runs the mymizu Challenge that helps companies set up competitions between departments to see which department can most reduce the use of plastic bottles over the course of a month.

For hotel or restaurant chains, food waste may be an issue. Employees could connect with local farms and see if they have a compost system, or donate to Second Harvest, a group supported by the ACCJ Community Service Advisory Council that feeds homeless people, Jarman-Walsh suggested.

Pandemic-related travel restrictions have also prompted companies to reconsider how much travel—a big generator of carbon emissions—is really necessary, the experts said.

Proactively seeking input from staff—asking them, What’s important to you? What do you think we should change?—will also motivate them and lead to more sustainable business practices, said Fouracre.

Employees have detailed knowledge of their segment of the business, so may come up with creative alternatives to things such as packaging or energy use that will probably benefit the company.

With growing calls for supply chain transparency, some companies are looking at setting up hotlines for employees to report problems they see in the supply chain.

And expect to get calls, Fouracre said. “Before you set up a hotline, make sure you’re prepared, and make sure you’re serious about making changes, because if people report it, they expect to see some action.”

One company that did this was surprised to get a lot of sexual harassment-related calls, which they were not expecting, he added.

Sitting down together with key stakeholders—investors, employees, local leaders, and non-governmental organizations—to hear their top concerns and how they view the company is also a valuable exercise, said EY’s McLeish. “It’s always surprising. At every stakeholder engagement that I’ve been a part of, the management goes away saying, ‘I don’t know why we didn’t do this earlier.’”

Not a New Concept Here

European companies are considered the global leaders in sustainability, largely because legislation there has progressed the fastest, requiring companies to meet various environmental and human rights standards.



Heather McLeish
Director
EY Japan Co., Ltd.

Co-chair
Sustainability Committee



Manabu Yamanaka
Engineering manager,
Building Construction
Products Division,
Caterpillar Japan LLC

Co-chair
Sustainability Committee



Hannah Perry
Director
Finsbury Glover Hering

Vice-chair
Sustainability Committee

But while Japan may lag in implementing sustainability practices, many businesses here have welcomed the concept and are eager to put them into action, the consultants said. That's probably because there's a long history to the idea that companies have a social responsibility to care for their employees and surrounding community, as well as the environment.

"Japanese companies have always been set up with the purpose of providing a benefit to society. They're looking for long-term relationships and have a community ethos," explained Fouracre, who said that Japanese trading companies he's engaged with have been particularly proactive.

At Marubeni Corporation, for example, employees highlighted their own corporate philosophy of using the 4Rs—reduce, reuse, recycle, and return to earth—which they felt was a simple but obvious way to approach sustainability, he added.

McLeish said she has never had to sell the "why" a company should be doing this. "Never once in Japan. What we've had to sell is the 'how' to make it work." EY is in a good position to show this by example, thanks to its own carbon-negative ambitions and success, which is outlined in a case study starting on page 38.

Still, some Japanese businesses are reluctant to make changes as the rest of the world moves ahead, and many consumers don't weigh sustainability factors very much when buying products, some experts said.

"Japan is being left behind in terms of sustainable infrastructure, and that's a real worry to me," said Jarman-Walsh.

McLeish sees anecdotal evidence that suggests consumers are becoming more sensitive to these issues, "but, overall, most people don't seem to care. They don't boycott companies or push for change," she said. "Young people do seem to care more."

Tackling sustainability can seem like a huge goal, so McLeish recommends setting up short-term milestones, so that management and employees can see their progress.

The Long View

Going green can take money. Committing to sustainability goals often requires upfront investment—in cleaner forms of energy or better waste disposal, for example—that can dent short-term profits. That's a challenge for listed companies under pressure from investors to produce results every quarter.

But increasingly companies are realizing that making those investments for the long term—a key to sustainability—is not only good from an ethical standpoint, but it makes good business sense, experts said.

"It's not just about looking good and being nice. It's realizing that if we want to protect our supply chain, our resources, and our people, we need to invest now or we're going to have a big problem in the future," said Kinooka.

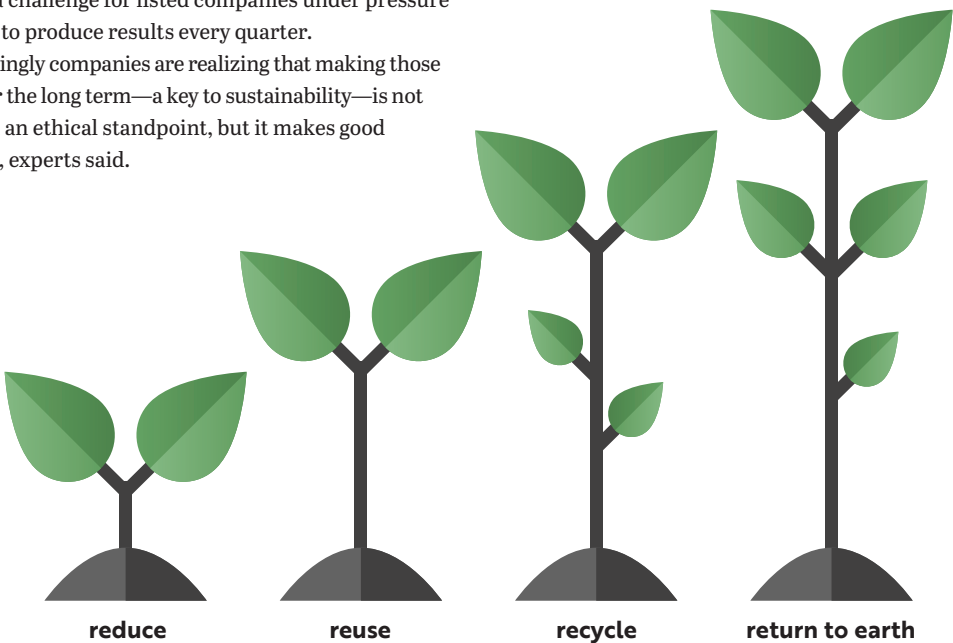
Caterpillar, for instance, is investing in a power source that will eventually replace the diesel engines it uses in its excavation and construction equipment, said Manabu Yamanaka, engineering manager of the Building Construction Products Division and co-chair of the ACCJ's Sustainability Committee. Electric motors can power smaller vehicles, such as passenger cars, but currently are not strong enough for the large tasks and heavy-duty work required of backhoes and reloaders.

Investing in new technologies to explore every possible solution is imperative from a corporate survival standpoint, he said. "We cannot yet say what the major solution for powering small and large construction equipment will be, but we are investing in this area to prepare and look for all potential opportunities," said Yamanaka, who shares a detailed case study of Caterpillar's activities starting on page 40.

Sometimes, small business owners will balk at the upfront costs of solar panels or electric vehicles, for example, but usually those investments end up reducing costs over the long term—and they will give your brand a boost among consumers, said Jarman-Walsh.

Astroscale, an international company headquartered in Japan that aims to remove, and prevent the creation of more, space junk, sees one of its chief purposes as keeping Earth's orbits safe and sustainable for the future. "We often describe ourselves as space environmentalists," said Group Chief Operating Officer Chris Blackerby.

Astroscale is developing spacecraft that will capture defunct satellites and rocket upper stages, which are circling the Earth along with millions of tiny pieces of debris—all of which could damage existing satellites that provide us with communication and ways to analyze weather and climate patterns. The company successfully launched its End-of-Life Services by Astroscale demonstration (ELSA-d) mission on March 22.



The 4Rs

“We want to make sure that the global commons—in this case the orbital environment—is usable for future generations,” Blackerby said. “As a society, we are wholly reliant on data from satellites, whether it’s for exchanging money, communicating, or understanding our climate ... I don’t think people really are aware of how much we benefit from satellites in orbit, and how big a problem this is.”

Blackerby said it’s “very short-sighted” to avoid investing in sustainability practices that bring long-term benefits. “There will be negative impact on future economic activities if we don’t pay attention to the environmental, societal, and governance context.”

Youth Wave

The younger generation is more concerned and passionate about sustainability—after all, they will inherit the earth—and that has big implications both for consumers and recruiting talent, the consultants said.

If companies aren’t taking meaningful steps regarding climate, energy, human rights, and gender equality, they will be facing growing ranks of consumers who may reject their products and services, and instead turn to competitors who are.

They may also have a hard time attracting talent. “Future employees will be saying: ‘Sorry, if you can’t show me that you’re really serious about this, I don’t want to work for you. I’m going to go work for that other company that actually is doing something,’” said Kinooka.

This line of thinking extends to diversity and gender equality. Some companies may have a hard time seeing this as part of the people/social side of sustainability, which they may equate more with labor standards and human rights. Reframing the issue may be necessary.

“Isn’t equal treatment a basic human right?” asked Kinooka. “If we look at equal treatment of all people—whether that’s gender-based, racial, LGBTQ, disabilities, or whatever type of diversity we’re talking about—when it comes down to it, it’s fundamental human rights, and we’re serious about being fair and equitable.”

That means not excluding anyone from the workforce, supply chain, or customer base, she said.

Gender Roles

Gender balance is a huge challenge for Japanese companies, the consultants agreed. Jarman-Walsh said setting quotas for women in management or key departments is the only way to rectify this.

McLeish said companies need to do a better job of bringing women into the leadership pipeline. Some companies will come to her and say they want to put women in senior management, but don’t have any, she said. “I tell them, ‘Well, that’s a corporate fail. How are you planning succession for the future?’”

This requires a big rethink on gender roles and real changes in family, company, and society, McLeish said. Some women will turn down promotions because they are expected to assume most of the child-rearing and household duties, as well as take care of elderly parents, and they don’t want to spend long hours at

the office or out entertaining, as is required of senior executives, she pointed out.

The solution may have more to do with reeducating and helping men revise their own understanding of their roles, particularly in the home, McLeish said. There are plenty of seminars about what it means to be a working mother, but none about what it means to be a working father. “We’ve spent a lot of time talking about changing gender roles for women, but we’ve neglected to talk about the changing gender roles for men,” she pointed out.

“I believe we’ve just left men hung out to dry: just keep your head down, work hard, and you’ll get promoted and move forward,” McLeish added. “I feel that’s led to a great deal of confusion as to what their role is.”

Getting men to think more flexibly about their role and offering more support at home might free women to play a more active part in business and politics, she said, and help Japan narrow its gender divide, which shows up in the wage gap between men and women and the tiny fraction of women in corporate and political leadership.

Gaining Credibility

Communicating what you’re doing as a company on sustainability is also important because you want people to know—but it must come across as credible and genuine.

This can be a tricky balance, as some businesses are doing great things but are too modest to broadcast their activities, or aren’t very good at publicizing them effectively. Others will hype things too much, and increasingly savvy consumers and activists may be able to tell they are being deceived. That will backfire. “Behaviors are changing, and many consumers now consider sustainability in their purchasing decisions,” Perry said.

One way to bring credibility to a company’s efforts is to get third-party certification that your company is really meeting targets and making a difference, said Jarman-Walsh. “You can then put that on your website and branding materials so that consumers will trust you.” TÜV SÜD’s safety inspections and certificates could help with this.

Social media has become an increasingly important way of doing public relations, and Jarman-Walsh suggests tapping influencers on Instagram and YouTube. You may invite those who already have a reputation for talking about zero waste and sustainability to visit your company or try your products.

“They can introduce your business to their fans, who are already motivated to look for sustainability,” she said. “Then you would have a really good inroad, and it’s probably a lot cheaper than traditional marketing.”

Overall, it’s important to understand that sustainability involves executing a strategy, but it is also about people and focusing them on a unifying purpose, the consultants said. “We really want companies to understand that people and processes need to be aligned. You can’t transform if you forget about the people side of things,” Kinooka said. “And it takes both intellectual understanding and emotional engagement to move people to action.” ■



Robin Lewis
Co-founder
mymizu

Co-founder and director
Social Innovation Japan



Joy Jarman-Walsh
Founder and
sustainability consultant
Inbound Ambassador



Chris Blackerby
Group chief
operating officer
Astroscale Holdings Inc.

ENGAGE & INSPIRE

EY NET-ZERO INITIATIVES HELP CLIENTS, SUPPLIERS, AND THE PLANET

Of all its sustainability and corporate social responsibility initiatives, Ernst & Young Global Ltd. (EY)—along with American Chamber of Commerce in Japan (ACCJ) Corporate Sustaining Member company EY Japan—is particularly proud of its ambitions in the area of carbon emissions. And rightly so.

In late January, the company unveiled plans to build on its NextWave strategy, first announced in 2020, and become carbon negative this year. That is to be achieved by setting targets to significantly reduce absolute emissions across the company, as well as removing and offsetting more carbon than the global organization emits.

If that were not enough, the seven key components of the plan are designed to reduce EY's total emissions 40 percent and achieve net-zero emissions as early as 2025. That percentage is consistent with a science-based, greenhouse gas-reduction target to cut an organization's emissions in line with climate science and the goals set in the 2015 Paris Agreement to limit global warming to 1.5 degrees Celsius above pre-industrial levels.

The campaign has become an integral part of EY's NextWave strategy, designed to create long-term value for all stakeholders and support the company's plan to build a better work environment.

"We believe that combating climate change is a vital element of building a better working world," said Carmine Di Sibio, EY global chairman and chief executive officer, in a statement.

"While this challenge is unique and different for each organization, we are inspired by those that are setting ambitious targets, despite the difficulties they face," he said. "EY people are passionate about tackling big challenges and, with the power of 300,000 of them, we will not only transform EY to become a leader in sustainability but also help EY clients do the same."

Leading by Example

The main tenets of the plan are broad in their scope and ambitious in their reach. They could also hold lessons for other companies looking to follow in EY's green footsteps.

On a global basis, the company aims to reduce business travel emissions 35 percent by fiscal 2025 from the fiscal 2019 baseline. It estimates that air travel accounted for 75 percent of its total carbon emissions in 2019. Solutions include using virtual collaboration technologies and adopting new tools and tech to help staff

make better travel choices and encourage greener alternatives whenever possible.

A reduction of 35 percent in travel-related emissions translates to a cut of more than two million tons of CO₂ between 2019 and 2025.

The company will also narrow its overall electricity usage and is committed to procuring 100 percent of its energy needs from renewable sources by 2025. This achievement will earn EY membership in the RE100, an organization that brings together more than 300 of the world's most influential companies, all of which rely on renewable sources for 100 percent of their electricity needs.

Implementation of innovative ways of working has already enabled EY to reduce its real estate occupancy figure from 13.8 square meters per person in 2009 to 7.6 today. That has resulted in a decline in power consumption of more than 150 kilotons of CO₂ equivalent, which matches the annual energy use of 17,830 homes or 612 million kilometers (380 million miles) driven by average passenger vehicles.

In addition, EY is structuring its electricity supply contracts through virtual power purchase agreements with solar and wind farms to introduce more than twice the amount of electricity that it consumes into national grids from 100 percent renewable energy. That will offset the company's office electricity emissions, reduce total electricity costs, and help to decarbonize the electricity generation sector.

Under the scheme, EY teams will have the tools that enable them to calculate, and then work to reduce, the amount of carbon emitted when carrying out work for EY clients. And the feedback from clients has been positive, the company told *The ACCJ Journal*, with many saying they want to work even more closely together to reduce the collective impact on the planet.

Furthermore, EY has set suppliers the goal to meet their science-based targets by no later than 2025 and is committed to working with those companies to help them meet the goals.

Collaborative Support

The seventh and final element of the program is premised on the belief that the biggest difference that EY can make is to help clients on their journeys to decarbonize their businesses. This move creates value for all stakeholders through sustainable action, including financial value for their investors. EY is increasing invest-

ments in the services and solutions that will make the company a global leader in sustainability, including in its Climate Change and Sustainability Services teams, as well as its strategy, consulting, and tax service lines.

Announcing the initiative, Steve Varley, vice-chairman of EY Global, said that, “EY has set this ambition because it is increasingly clear that, collectively, we need to do even more to help avert a climate change disaster.

“EY people are proud that we met our ambition to become carbon neutral in 2020,” he said. “Inspired by them, and others undertaking major steps, we challenged ourselves to go further, faster.

“We are deeply concerned about the science and what that means for our planet,” Varley added. “We believe that becoming carbon negative in 2021 and net zero in 2025, reducing our emissions in line with a science-based target, is the right ambition to have.

“We realize that these challenges are different and more difficult for certain industries. That is why there are also investments in new solutions and services to help EY clients protect and create value by becoming more sustainable, too.”

Making a Difference

As well as helping the planet and generations to come, EY is confident that it will help the company in the more immediate

future. Being carbon-negative will not only “engage and inspire” the present workforce, the company said, but it “will also build EY member firms’ reputations as employers of choice, attracting talent who increasingly want to work for responsible businesses.”

To further bolster the company’s commitment to reducing its environmental impact and driving sustainable growth, EY has recently launched two initiatives: one with the Sustainable Markets Initiative set up by His Royal Highness The Prince of Wales, and another with the S30, a forum of 30 C-suite sustainability leaders divided into three working groups that focus on accelerating business action on sustainability. Further, the company has joined the Terra Carta, a green recovery charter for business. Launched by The Prince of Wales earlier this year, it places sustainability at the heart of the private sector.

EY is also playing a leading role in the sustainability conversation in the World Economic Forum’s International Business Council, which has drawn up a core set of common metrics and disclosures on non-financial factors for investors and other stakeholders.

EY was the first of the big four accounting firms to become carbon neutral. The other three have set 2030 as their net-zero target year. Achievements to date put EY in the same bracket for world-class sustainability leadership as fellow ACCJ member companies Microsoft, Google, Salesforce, and IKEA. ■

BEING CARBON-NEGATIVE WILL NOT ONLY “ENGAGE AND INSPIRE” THE PRESENT WORKFORCE ... IT “WILL ALSO BUILD EY MEMBER FIRMS’ REPUTATIONS AS EMPLOYERS OF CHOICE.”



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CONSTRUCTING COMMUNITIES

CATERPILLAR COMMITS RESOURCES GLOBALLY TO HELP THOSE HIT BY THE PANDEMIC

In a year of unprecedented disruption—on both corporate and personal levels—Caterpillar Inc. has gone above and beyond what was already an impressive devotion to sustainability, extending a helping hand to those less able to withstand the impact of the global health crisis.

“Caterpillar has a long-standing commitment to sustainability; it’s one of our five Values in Action,” Manabu Yamanaka—engineering manager of the Building Construction Products Division at Caterpillar Japan Inc.—told *The ACCJ Journal*. “It is part of who we are and what we do. It inspires us to help our customers build a better world through products and services that fulfill society’s basic needs—such as shelter, clean water, education, and reliable energy—in a sustainable way.”

Time of Need

During the pandemic—which has seen a sharp economic downturn piled on top of the rapid spread of the coronavirus to virtually every corner of the world—that promise to deliver sustainability has proved more important than ever.

In 2020, the Caterpillar Foundation—launched in 1952 to promote the resilience, sustainability, and economic strength of communities around the world—committed \$10 million to support response efforts and help organizations directly impacted by the coronavirus. This was followed by an additional \$3.4 million for 2021, Yamanaka said. The investment is having a global impact as it supports the world’s most pressing needs by partnering with the United Nations (UN) Foundation and the World Health Organization (WHO) Covid-19 Solidarity Response Fund.

This commitment includes a two-to-one match on eligible US employee and retiree donations, while the foundation also is collaborating with Caterpillar facilities around the world to donate to local charities, responding to the need for coronavirus-related health, housing, food, and other basic requirements in communities the company’s employees call home.

India has been in the headlines in recent months, with millions of people at risk of contracting the virus and not having access to adequate healthcare. This comes on top of their often-irregular access to routine medical services, food, and water. One of the biggest problems has been an acute shortage of bottled oxygen needed to treat those with serious cases of Covid-19.

The Caterpillar Foundation is giving \$1 million to help India’s health system deliver care to families and communities across identified hot-spot locations by funding the purchase of critical medical supplies and equipment such as oxygen concentrators, as well as the optimization of oxygen plants.

In addition to the foundation’s efforts, Caterpillar India is providing an initial contribution of \$1.4 million, enabling an additional supply of oxygen, and donating beds with ventilator support to hospitals. The company is also supporting vaccination drives and setting up temporary relief shelters. Independent Caterpillar dealers are contributing oxygen solutions to address the shortage as well.

Brazil is another of the hardest-hit countries, and the foundation is donating \$250,000 to help coordinate with local partners to deliver essential medical aid and basic supplies to hospitals and communities. The aim is to halt the rising number of new Covid-19 cases and put a cap on deaths.

Communities that Thrive

More broadly, the Caterpillar Foundation is working in partnership with the UN Foundation and the WHO to support the Covid-19 Vaccines Global Access initiative, more commonly known as COVAX, to promote equitable access to coronavirus vaccinations with a \$500,000 gift.

In addition, to continue emergency relief work and address vaccine hesitancy—particularly among rural, Black, and Hispanic communities in the United States—the foundation is investing \$250,000 to support the US-based non-profit Ad Council and the Covid-19 Vaccine Education Initiative of the COVID Collaborative, a diverse and comprehensive team of experts, leaders, and institutions in health, education, and the economy. The slogan of the group’s vaccination campaign is, “It’s up to you.”

Representing one of the largest public education efforts in US history, the initiative is designed to reach multiple distinct audiences throughout the country, answering key questions and empowering Americans with the information they need to make informed decisions for themselves and their families about coronavirus vaccines.

Yamanaka said the philanthropic arm of Caterpillar “has been on a mission to improve lives since its founding in 1952.”

“Today the foundation is focused on building resilient communities that thrive in a rapidly changing world,” he added. “Just as our company and customers work to build infrastructure, the Caterpillar Foundation helps build stronger individuals, communities, and economies around the world.”

“Covid-19 has affected every community that Caterpillar and the Caterpillar Foundation serve,” he said. “The foundation’s investment of \$13.4 million in 2020 and 2021 to assist response efforts supports its mission of building communities that thrive.”

At the same time as helping people in the communities that Caterpillar already serves, the company’s staff have still had to go about their work, adapting to dramatically changed circumstances, while staying safe and ensuring access to the products and services that customers depend on to get their jobs done.

“We have prioritized the safety, health, and well-being of our production, distribution, and support employees who have continued to come into our facilities by implementing safeguards to protect our team members in accordance with regulatory requirements and guidance from health authorities,” Yamanaka explained. “Additionally, to prevent the spread of the coronavirus, some of our global team have been working remotely.”

“The return to the workplace will vary around the world as the pandemic evolves, but our commitment to workforce safety will not.”

Environmental Care

As if that weren’t enough to keep the company busy, it has this year been playing a key part in the One Tree Planted initiative, a non-profit organization dedicated to advancing the United Nations Sustainable Development Goals (SDGs) through global reforestation efforts.

Caterpillar has invested \$1 million in the charity. It’s just the latest in the company’s 95-year commitment to building a better world, and through the donation Caterpillar will collaborate on tree planting missions in 95 communities across the globe.

The company “is on a mission to help build resilient communities that thrive in a rapidly changing world,” Yamanaka said. Part of that strategy involves restoring local ecosystems to help communities grow stronger and become more sustainable.

As a result, the One Tree Planted partnership is about much more than planting trees, he explained. It is about contributing to restored forests, cleaner air and water, stabilized soils, and improved biodiversity.

In Japan, Caterpillar has selected two key locations—the cities of Akashi, in Hyogo Prefecture, and Yokohama, in Kanagawa Prefecture—where it will work with local partners to carry out the initiative.

Safety First

The well-being of the company’s employees remains a critical focus and is at the forefront of its strategic goals and metrics, supported clearly and visibly by management, Yamanaka said.

“In addition to metrics, we believe the best way to drive a culture of safety excellence is to create an environment where our team is accountable for their own safety, as well as the safety of those around them,” he said. “We relentlessly strive to ensure our workforce returns home safely every day.”

From day one, every new hire the world over is provided with the knowledge they require to perform their job without incident, with leaders regularly undergoing training in their role in standards and regulation compliance, thereby setting an example to reinforce the strong culture of safety, he added.

And that commitment has paid off, with the company last year having delivered its best recordable injury frequency (RIF) performance on record, and having improved on the previous record, set the year before.

The company’s new goal is to further reduce RIF by an additional 50 percent for the period 2018–30 and to remain an industry leader in terms of safety.

Maintaining lasting risk reduction will require even further maturity of our safety culture, said Yamanaka, adding that the company’s plan includes fostering a culture of caring by involving employees in developing solutions, listening to their concerns, and ensuring they feel comfortable talking to their peers about unsafe behaviors.

Continuing to provide learning opportunities for our leaders, safety professionals, and employees will enhance the company’s efforts, he added.

The result is Caterpillar holding one of the coveted spots on the *Dow Jones Sustainability World Index*—a list of global sustainability leaders as identified by S&P Global through its annual Corporate Sustainability Assessment—for a 21st consecutive year. The ranking represents the top 10 percent of the largest 2,500 companies in the S&P Global Broad Market Index, based on long-term economic, environmental, and social criteria. ■



Manabu Yamanaka
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Co-chair
ACCJ Sustainability
Committee



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Caterpillar ensures that all workers are well trained to do their job safely.

WATER WAYS

COCA-COLA JAPAN'S 2030 PACKAGING VISION SEES A WORLD WITHOUT WASTE

From canned coffee and energy drinks to bottled water, fruit juices, green tea, ginger ale, and the drink that made the company a household name around the world, Coca-Cola markets more than 800 products in Japan. A business on that scale would typically consume vast amounts of raw materials and produce a great deal of trash—but the company has ambitions to help achieve a world without waste.

In May, the Shibuya-based unit of the global beverage giant announced that more of its bottled products on sale here are adopting 100-percent recycled plastic material, known as rPET, including those from Coca-Cola and Georgia Japan Craftsman.

As a result, American Chamber of Commerce in Japan Corporate Sustaining Member Coca-Cola (Japan) Co., Ltd. and its five bottling partners—The Coca-Cola System in Japan—will be able to cut CO₂ emissions by as much as 60 percent per bottle, meaning a reduction of about 35,000 tons per year. It will also equate to approximately 30,000 tons saved by not utilizing new plastic from petroleum-based materials.

Vision for Tomorrow

Coca-Cola Japan unveiled its 2030 Packaging Vision in January 2018 and raised the bar with higher targets in July 2019. The vision is designed to promote bottle-to-bottle recycling—the collection and recycling of post-consumption PET bottles to transform them into new PET bottles—and to completely eliminate the use of newly produced petroleum-based materials in its PET bottles by 2030.

The first 100-percent rPET bottles were introduced for I LOHAS water last March and the label-free version of the product the following month. Also last year, some 28 percent of the bottles used in Coca-Cola's soft drink business were made of recycled

PET plastic. But the company intends to boost that to 50 percent by the end of 2022, as it continues its shift to the use of 100-percent rPET for its flagship lines.

And by 2030, 90 percent of each bottle will come from recycled plastics, with 10 percent from plant-derived plastics.

At a press conference on May 13, Coca-Cola Japan President Jorge Garduño unveiled the company's latest plans: "I am glad to announce that, on May 31, the Coca-Cola System will be introducing 100-percent recycled PET bottles for our flagship brands, Coca-Cola and Georgia, in addition to I LOHAS. I believe this step puts us on an accelerated pace towards realization of a world without waste."

Sustainable Pillars

To meet that goal, Coca-Cola's Packaging Vision has three pillars:

- Design
- Collection
- Partnerships

In addition to using sustainable materials in its bottles, the company is reducing the amount of PET plastic in each bottle. A 1.5-liter bottle of Coca-Cola weighed 75 grams in 1982, but a mere 42 grams in 2012.

The label-free bottles for I LOHAS water are easier to sort and dispose of because individual bottles bear only a stylish design worked into the plastic. The product is only sold in cases, with the cardboard packaging bearing information about the ingredients and other statutory data that is usually found on the product label.

The company supports Japan's PET bottle collection drive, which already sees 93 percent of bottles being collected, thanks to the efforts



The Coca-Cola and Georgia coffee lineups have joined I LOHAS in 100-percent-recycled PET bottles.

Photo: Coca-Cola (Japan) Co., Ltd.

of companies, government, and communities. In its sustainability report, Coca-Cola said it wants to avoid a single one of its cans or bottles ending up in the ocean. In 2019, when 250 of its employees took part in a beach cleanup campaign in Chiba Prefecture, they collected enough litter to fill a two-ton truck.

Under its partnership program, in 2019 Coca-Cola worked with the Nippon Foundation, a non-profit organization dedicated to social innovation. The goal was to identify the mechanisms by which waste is transferred from land to Japan's rivers. With the joint report, it was hoped that previously unknown routes marine litter takes could be identified. That knowledge could then be used to devise effective prevention strategies and promote the cyclical reuse of PET bottles and other plastic resources, the company said.

Cut Waste and Purify

Another area in which the company is working to reduce its consumption and waste is water. Coca-Cola is introducing measures to cut the amount of water that it uses during the production process. In 2019, the company used 16.27 million cubic meters of water, a year-on-year reduction of 1.84 million cubic meters.

Coca-Cola plants are designed to ensure that wastewater, used for the washing of packaging and equipment, or for cooling, is appropriately processed before being released into sewers or rivers. The wastewater is purified on site using microorganisms in the activated sludge process and is verified against standards specified under Japanese law and the Coca-Cola Operating Requirements, also known as KORE.

Coca-Cola conducts surveys to identify plant water sources—and the vulnerabilities of those sources—as well as participates in water stewardship initiatives around the world. The company follows the same tried-and-tested path in Japan, locating water sources for its manufacturing facilities based on scientific surveys, assessing their vulnerabilities, and then formulating source protection plans.

Solid Plan

It's a similar story with solid waste at Coca-Cola facilities, with a portion of used tea leaves recycled into livestock feed or agricultural fertilizer. The Tokai plant of Coca-Cola Bottlers Japan operates a methane fermentation system to convert coffee grounds, used tea leaves, and wastewater treatment sludge into an energy source.

Another area that has been addressed is distribution and transportation, with the company optimizing delivery and sales logistics by centralizing distribution bases and reviewing routes to maximize efficiency. Coca-Cola staff are undergoing training to promote eco-driving, the company's fleet of vehicles is being reduced, and hybrid and other low-energy vehicles are being introduced.



Coca-Cola Japan President Jorge Garduño and actress Haruka Ayase at the May 13 press event.

In a further effort to preserve the environment, the company's new generation of vending machines are cooled using hydrofluorocarbon-free refrigerants, which have no impact on the ozone layer and minimal global warming potential. All 880,000 machines are also equipped with LED lighting as standard.

People Matter

In parallel with the company's commitment to the environment, Coca-Cola is just as invested in providing a fair and free working space for its employees, of whom there are 20,000 at 22 plants across the country.

As of December 2020, fully 42.2 percent of the Coca-Cola Japan workforce comprised women, with the ratio of men to women close to one-to-one. Similarly, 30.7 percent of the company's leadership positions in December 2019 were held by women, a vast improvement on the average of eight percent across all companies in Japan.

The company has been carrying out a wide-ranging reform of its global operations since last year, designed to bring about future growth. The percentage of women in management roles is seen as one of the most important issues in that evolution. This means that some 35.7 percent of Coca-Cola's leadership positions in Japan and South Korea were held by women as of March 2021.

The aim, the company says, is to create working environments that are "truly diverse" and it will continue to make efforts to promote the employment, skills development, and career progression of women. Globally, the target is to increase the ratio of women in leadership positions to 50 percent by 2030, although Coca-Cola Japan is already moving quickly and is aiming to hit its target by 2025.

The company is actively supporting its LGBTQ+ staff and employees with disabilities. Respect for diversity is part of the company's core values in terms of its growth and sustainability strategies.

It has been part of the Valuable 500 disability inclusion organization since January, and is currently drawing up employee welfare programs and work regulations that provide same-gender partners with equal treatment as spouses in a legally recognized marriage. ■

Photo: Coca-Cola (Japan) Co., Ltd.



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NURTURE & SUPPORT

WILDFLOWER HOUSE FOUNDER TALKS ABOUT THE DRAMATIC RISE IN CHILDREN WHO NEED CARE

Located not far from the coast in Kisarazu, Chiba Prefecture, Wildflower House—known as Nonohana-no-ie in Japanese—is a privately-run children's home established in 1985 that cares for children of all ages—infants through high school. Some 57 children are presently living at the home.

The facility has been recognized and awarded by the United Nations Educational, Scientific, and Cultural Organization as well as the prime minister and emperor of Japan. As an independent non-profit, it receives some financial support from the national and local governments, but it is not enough to cover all expenses, with additional funds needed for things such as building repairs, educational opportunities, and extracurricular activities.

The American Chamber of Commerce in Japan (ACCJ) has donated to Wildflower House a number of times since 2007, and those donations have paid for, among other things, a floor-heating system for part of the home's great hall.

In March 2016, we talked to founder and general director Misao Hanazaki and facility director Mitsutaka Nakao to learn more about the home. The following are edited excerpts, and data has been updated.

Tell us about the children living at Wildflower House.

Hanazaki: About 85 percent of our children were taken into protective custody because they were abused or neglected by their parents. Indeed, we see that, nationwide, about 80 percent of the children in children's homes are there because of abuse or neglect. Japan has 600 children's homes with about 39,000 children under care.

How have things changed since you opened the home?

Hanazaki: Thirty years ago, there were very few children who came to us because they were being abused. In those early days, we had lots of cases where the father had custody after a divorce, but found himself too busy with work to look after the children, or both parents had a serious illness at the same time. In these situations, once the parents' lives settled down, they intended to start taking care for their children again.

Nakao: I've been here 20 years. In the early days, parents would often come to visit their children. Sometimes on weekends, parents would come out and help us mow the lawn with their children, help us cook, or they'd play sports with their children outside—things like that.

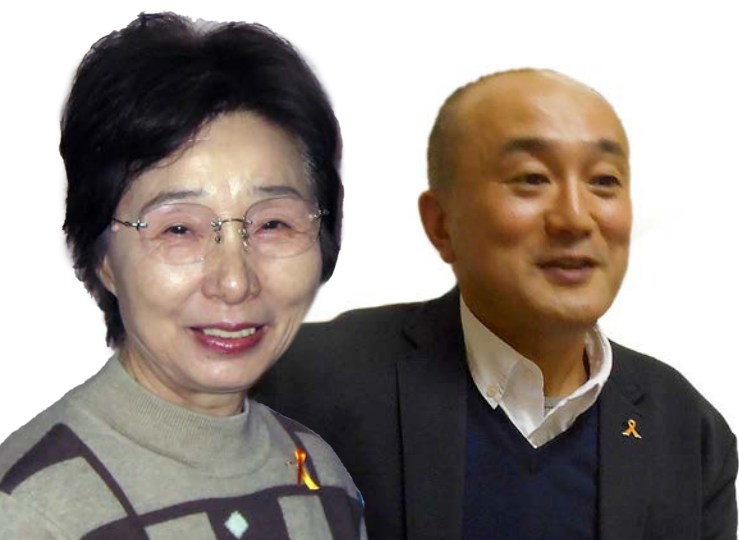
Hanazaki: That's right. There were lots of cases in which the parents were sick or financially constrained, but they still wanted to participate in the care of their children. They even formed a group to allow parents from various families to come together to talk and do things for the children and Wildflower House. But recently, the number of children who come to us because of abuse has really skyrocketed. Of course, they can't be allowed to see their parents anymore.

Has child abuse really become that bad?

Hanazaki: Yes. If we look at the figures from the Ministry of Health, Labour and Welfare, we see that, in 2013, there were about 73,800 cases in which the child welfare authorities got involved. There were 88,800 in 2014, and during the pandemic year of 2020 the number topped 100,000 for the first time, with police reporting 106,960 cases. That means the current level is about six times the year 2000 figure of 17,700 cases.

Could more people become foster parents?

Hanazaki: Currently, there are fewer than 10,000 people registered as willing to become foster parents nationwide, and only about 6,000 children living with foster parents. So, looking at the



◀ Founder and general director Misao Hanazaki (left) and facility director Mitsutaka Nakao

total number of children in (broadly defined) protective custody, we see that 85 percent of them are in children's homes, and only 15 percent are with foster parents. The fact that it is so hard to get more people to become foster parents is a distinguishing aspect of child welfare in Japan, and it's something I think we need to look at.

Why has abuse increased so dramatically?

Hanazaki: One reason is that many parents today were themselves abused as children, and they end up doing the same—it's a vicious cycle. Another is that, as a result of divorce, the number of single-mother families has been increasing, and over half are impoverished. The mother is often forced to work multiple jobs and is unable to look after her children. Exhaustion and stress lead to child abuse or neglect.

Another is that there seems to be an increase in the number of children with mental or developmental disabilities, or ADHD, and parents find it difficult to communicate with them. This also ends up in abuse.

How do privately- and government-run homes differ?

Hanazaki: Here in Chiba Prefecture, there is one government-run home, while there are 19 privately-run homes. The government makes payments to the latter based on the number of children living there. These payments are divided into a portion to cover staff salaries and a portion to cover the direct care expenses of each child.

But the government uses a lower rate per staff member and per child for privately-run homes than what is allocated to the government-run facility. There, the staff are paid in accordance with the (generous) government employee pay scale, and this usually works out to be more than what the government gives the private homes to cover staff salaries. Further, the government facility operates on a higher staff-to-child ratio than the government uses when calculating the payment made for staff at a private home.

Roughly how much money does a private home get from the government?

Hanazaki: Private homes receive a combined so-called *sochihi* payment from the national and local governments. This is basically calculated as a certain amount per child plus an additional amount for staff salaries, calculated at the rate of one staffer for every four children. This staff-pay allotment is far too low and is a real problem for private homes.

I should add that the national government does give a supplement to cover the cost of psychiatrists and family counselors should we hire them.

How do you cover the other half of staff costs?

Hanazaki: There's nothing we can do except ask for donations. Some homes that don't receive enough donations will reduce the number of staff overall, or the number of staff on night duty, but I absolutely do not want to compromise our children's care or safety.



Fortunately, because we receive donations from the ACCJ, as well as directly from various foreign capital companies in Japan and private individuals, we somehow manage to get by without cutting staff.

But we really can't do it with just the donations, so we end up having to save on our non-personnel operating costs wherever we can and apply those savings to staff salaries. For example, when we receive donations of food, we can move some of our food budget over to cover staff salaries. By saving here and there, we somehow manage to pay our staff.

How much of your budget depends on donations?

Nakao: Our annual budget is about ¥300 million.

The government payments we receive comprise about 95 percent of that, and donations from organizations and individuals cover about three percent.

How else do you use donations?

Hanazaki: We use them to cover the cost of extracurricular activities for our children. Because of the donations we receive, they can attend *juku* (cram school) and participate in other activities along with their friends from school who are not living at Wildflower House. This is psychologically very important for them.

Lots of our children have come to us from troubled homes where they didn't have a quiet place to study. Some weren't even going to school. I really want to ensure that these children get at least basic academic skills.

Nakao: Starting a few years back, the government began giving us additional payments to cover extracurricular activities and *juku* costs for our middle-school children—but these payments are only for middle school. Of course, our high schoolers participate in extracurricular activities and go to *juku*, too, so we must cover those costs with donations.

When they are able to participate in activities outside school, they can form friendships and connections with children and their parents from various schools in the area—not just their own—and the connections they make with others in the area are really important.

With the help of the donations we receive, we're going to keep doing our best to create an environment in which our children can grow up healthy and enjoy good life experiences as they become young adults. ■



Tad Johnson
ACCJ Community Service
Advisory Council member

ACCJ governor



Minako Kichiraku
Journalist



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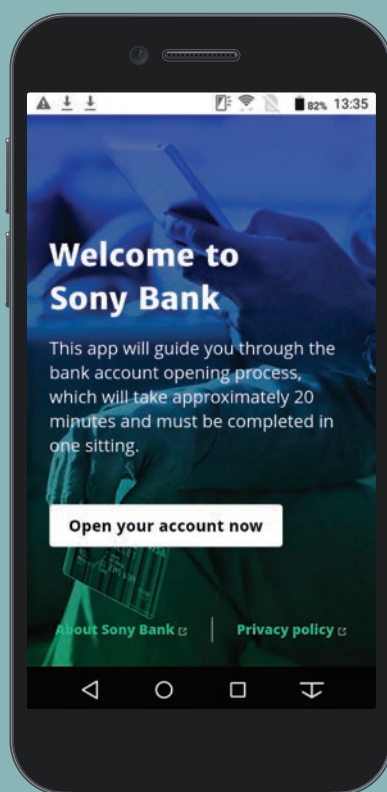
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