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Encouraging Choices by *Seikatsusha* to Co-create a New Socioeconomic System

Chairman's Remarks at the Fiscal 2022 Annual Meeting

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1. Questions for Japan Raised by the Current Era of Fragmentation

A succession of crises has upset the paradigm upon which the international community is founded. The expansion of global capitalism and proliferation of digital technologies have produced economic disparities and societal fragmentation that will be difficult to reverse. Socioeconomic changes brought about by the COVID-19 pandemic are exposing and amplifying the rift between the demographic groups that have suffered and those that have seized new opportunities. Meanwhile, the effects of Russia's invasion of Ukraine have gone beyond causing fragmentation of the international community along political lines. The invasion has also clearly demonstrated that, even for countries that share common values, it is difficult to maintain international solidarity in the face of real-world facts of life such as limited resources and energy.

It feels as if this series of crises has brought the world to the point of tipping into an era of fragmentation and conflicting interests. Under such circumstances, it is likely to be harder than ever to address global challenges such as ensuring environmental sustainability or reevaluating capitalism. Both domestically and internationally, in an era of fragmentation when a diverse range of self-interests conflict, it will be extremely difficult to make choices for the future and create social consensus. No national leader of any kind will be able to provide perfect answers, or models for society that will be supported by the entire population. In such an environment, I believe the only path toward overcoming fragmentation is for the various stakeholders within societies to seek a way to get beyond their mutually differing perspectives and interests to create consensus.

When it comes to practicing a stakeholder-oriented approach, I think that Japan has a natural advantage over other countries. This natural advantage is its set of values epitomized by the samurai code of chivalry and the idea that "the Analects (i.e., the Analects of Confucius, representing morality) and the abacus (representing the economy) are inseparable." It is a philosophy of altruism whereby acting in the interests of others leads to benefits for oneself. I also believe that a mindset emphasizing the happy medium and societal harmony, coupled with Japan's abundant cultural tradition, has instilled in Japanese people a mental tendency to value richness of a qualitative nature, rather than striving toward quantitative expansion or the pursuit of self-interest. I think that the best course for Japan to adopt in the era of fragmentation is to recognize such special qualities and practical

wisdom as strengths, and make the most of them.

On the other hand, we should not ignore the fact that, having experienced 30 long years of economic stagnation, Japan is now in decline, becoming progressively poorer and weaker as a nation. The world's slow recovery from the pandemic and the economic disruption triggered by the Ukraine crisis have highlighted the pressing need for Japan to make choices about key issues determining its future, such as fiscal sustainability, strategies regarding resources and energy, and the use of data and digital technologies.

Japan's issues and the remedies required have already been discussed at length. However, in my opinion, the single biggest issue is Japan's lack of a vision for the type of socioeconomic system it will seek to establish by leveraging its strengths. Although the government's growth strategy encompasses measures such as promotion of start-ups and cutting-edge science including AI and quantum technologies, such measures are merely the means for achieving growth, and represent only part of the picture. I believe we need a comprehensive picture envisaging the end result that details how we will utilize these resources to achieve growth, and what type of society we will create.

2. Striving for a Society Co-created by its *Seikatsusha*

The countries of the world have various different strengths. I personally think that Japan can best demonstrate and leverage its own strengths by becoming a "quality-oriented" nation co-created by *Seikatsusha* that pursues maximum happiness for all its stakeholders along with qualitative societal growth, rather than quantitative economic growth.

The concept of *Seikatsusha* I have in mind is a very broad one encompassing all the stakeholders that make up society. It includes all individuals, who have multifaceted roles as consumers, workers, and sustainers of families and communities. Moreover, all types of organizations comprising the individuals gathered within them, such as companies, schools, societal institutions, local governments, or the ministries and agencies of national government, could also be regarded as forms of *Seikatsusha*.

What I refer to as "a society co-created by its *Seikatsusha*" is a socioeconomic system created collaboratively in a situation where there are no perfect, certain answers. Such a system is created by *Seikatsusha* with all kinds of different interests and perspectives through the choices they make and their participation. We need to make this our shared goal as a society.

I feel that during the past year or so, over the course of repeated discussions with members of the future generation, young business executives, journalists, academics, and my fellow members of Keizai Doyukai, I have gradually gained a clearer picture of the direction a society co-created by its *Seikatsusha* should head in. For instance, it is of crucial importance to pass the baton on to the young people of the next generation, who have the right to make choices about their own future. To address this need, Keizai Doyukai set up its Future Selection Forum in September 2020, and commenced a series of discussions involving multiple stakeholders including young people. What these discussions brought home to us

was the dire lack of information available to enable people to make choices about the important issues that will determine Japan's future. Even for key issues regarding the environment and energy, for example, easily understandable information is by no means accessible to all. People need information that details the various ways in which Japan could achieve its major goal of carbon neutrality, along with which options are realistic, and how daily life would be impacted by choosing those options. Our discussions also revealed that decision-making meetings are nowhere near as diverse as they should be, and that young people's motivation has been eroded by the difficulties they face in taking on new challenges, working things out through trial-and-error, and trying again after failure.

I exchange views on a range of issues with the vice chairmen of Keizai Doyukai and our committee chairpersons, and during such discussions we often reflect on current shortcomings. Topics include the barriers to innovation that lie within corporations and the importance of animal spirits in pursuing growth, as well as the need to redefine Japan's goals beyond economic growth, such as increasing the happiness and prosperity of the population. We believe that the root causes behind the failure of Japan's growth strategy to actually produce growth relate to the policymaking process, such as key performance indicators (KPIs) without vision, execution of strategies without verification, and lack of clarity on where responsibilities lie. We are currently examining these issues.

As corporate executives, we too are *Seikatsusha*; through these ongoing discussions we are seeking to delineate the options as we see them, so we can call on *Seikatsusha* of all kinds to make choices for the future.

3. Mechanisms for New Growth, New Wealth Distribution, and New Assessment of Value

A society co-created by its *Seikatsusha* is one possible alternative we came up with in response to Prime Minister Fumio Kishida's advocacy of "a new form of capitalism." We believe that what make this alternative different from the Japanese society of the past are its mechanisms for enabling new growth, new distribution of wealth, and new assessment of value.

Mechanisms for new growth

"New growth" should not specifically target economic expansion. Instead, we need to regard it as a means of balancing growth with sustainability and solutions to societal issues, while increasing the happiness and prosperity of a wide range of stakeholders.

The methods we use to achieve this new growth should not be modeled on what has worked in the past; we should instead place innovation at their heart. It is clear that insufficient innovation is the reason Japan has fallen behind other leading industrialized nations in terms of economic growth over the past 30 years. To prioritize innovation, a strategy for fostering a start-up ecosystem will be essential, but that alone will not be enough. Without the support and involvement of the Japanese people, it will be impossible to achieve new growth through innovation. New products and services produce growth only when they are chosen and used by people, and are made available to the general public. We therefore need to instigate

a movement among Japanese citizens to turn Japan into a society that welcomes innovation and the changes it brings.

I want to impress upon the public that any *Seikatsusha* can be an innovator, and that this is the key to generating prosperity. Innovation can take many forms, whether it relates to products, business processes, markets, organizations, or any other sphere. In Japan, as elsewhere, new services such as express home delivery and e-commerce have changed people's day-to-day lives while generating new markets and employment. Likewise, I believe that Japan's structural issues offer much innovation potential, such as productivity improvements in the service industry, which accounts for 70 percent of Japan's GDP and employs a large number of essential workers; revitalization of local economies where birthrates and populations are rapidly declining; and efficiency improvements in public administration and services through use of data and digitalization.

I would like Japan to be a country where all kinds of *Seikatsusha* including companies, the national government, public administrative bodies, local governments, and universities tackle their own individual issues, and in the process generate widespread innovation. In such an environment, the efforts of all *Seikatsusha* would combine to generate growth for society as part of a cycle.

Mechanisms for new wealth distribution

Assuming Japan pursues new growth by means of innovation, we need to reconsider the role that distribution of wealth would play and who would undertake such distribution.

Companies, in particular, have a responsibility to allocate financial resources not only to their shareholders and investors, but to all their stakeholders including employees and local communities, as well as to the environment and future generations. It is of particular importance for companies to prioritize investment in the human resources who are the source of their capacity to generate value; all companies should provide remuneration commensurate with the value their employees generate, as well as continuous opportunities to develop capabilities and skills. At the same time, companies should collaborate with their industry peers, and with other sectors, to create social infrastructure that facilitates such investment in human resources.

To enable such distribution of wealth by companies to work effectively, it is essential to bring market mechanisms into play, promoting the replacement of old businesses with new ones, as well as the mobility of human resources. Companies that are unable to distribute wealth appropriately, or are unproductive due to their inability to adapt to industry restructuring, should be actively encouraged to withdraw from the market promptly and reinvent themselves. Meanwhile, the people who work in such companies should be protected by directing them toward jobs offering better employment terms, or to new employment opportunities; this is what industry needs to aim for.

At the same time, we should call on the government to reconsider the purposes of wealth distribution in line with changed assumptions regarding Japan's socioeconomic system, and to update and redesign the taxation and social security

systems accordingly. In order to encourage new growth, it will be important to regard individuals who succeed due to enterprise and hard work as a benefit for society as a whole, and to celebrate them and remunerate them appropriately. In conjunction with this, we need a mechanism that alleviates the pain of failure and risk-taking, and supports people in trying again. Meanwhile, another important role of distribution is to instill peace of mind throughout society by ensuring widespread availability of a safety net that guarantees the livelihoods and opportunities of the socially disadvantaged, thereby preventing entrenched economic disparity and cycles of poverty.

The new distribution we are envisaging as part of a society co-created by its *Seikatsusha* should be undertaken by *Seikatsusha* of all kinds. A mechanism incorporating incentives needs to be put in place so that, separately from governmental distribution, companies and individuals can also contribute to the public good or address societal issues by directly allocating financial resources through donations and the like. Given that the wishes and concerns of *Seikatsusha* are not fully reflected within Japan's current democratic system, linking their concerns to financial support for the wider society or backing for enterprising innovators would help to energize *Seikatsusha* as active contributors to society.

Mechanisms for new assessment of value

To ensure that companies adequately fulfill their roles in terms of both growth and wealth distribution, new mechanisms will be required for assessing corporate value.

For instance, when a company seeks to generate substantial results 10 or 20 years into the future by investing in and allocating financial resources to its employees, local communities, the natural environment, and R&D, or by embarking on organizational changes with a view to developing new businesses, this can cause a temporary reduction in profits and dividends. In such a situation, it is easy to imagine that a short-term assessment by the markets focused exclusively on the decreased profits and dividends could lead to a fall in share price, and negativity toward the management.

However, companies have both short-term and long-term timelines as they seek to generate value for society on a sustained basis. This being the case, I believe it is impossible to express all the overt and latent value a company possesses by using stock price and market capitalization as the sole measures. A typical example would be the issue of how to measure as-yet unrealized value generated by innovation (an intermittent undertaking), including future profits and societal impact, and how to incorporate this unrealized value into current assessments. Such considerations have a significant influence on companies' decisions and actions. As corporate executives, we intend to continue proactively communicating with stakeholders and explaining our companies' business activities, while also using our own unique perspective as business managers to inform stakeholders about potential new frameworks for understanding corporate value.

4. Leveraging the Power of Corporate Executives to Encourage *Seikatsusha* to Make Choices and Co-create

Japan's future holds many problems and risks that we will have to deal with properly

at some point, such as accelerating societal aging and population decline, natural disasters that are already predicted, and the risk of losing the international community's confidence in our national finances or currency. We must also prepare more urgently than ever for the possibility that, given the international situation in recent years, geopolitical tensions could suddenly escalate if another country decides to take advantage of Japan's letting its guard down as a result of such problems. However, the world is not going to take these circumstances into account and wait while Japan deals with its challenges. We have to tackle ambitious targets such as meeting the United Nations Sustainable Development Goals by 2030 and achieving carbon neutrality by 2050. As we do so, we should be prepared for potential risks so we can dodge them, either by competing with other countries or by cooperating with them as the situation requires.

Faced with such an outlook, will we simply reconcile ourselves to our current state of comfort and gradual decline, or will we seek to overcome our various challenges and aim to be a leading nation on the world stage? I believe this is the fundamental question today's *Seikatsusha* must face up to and the choice they must make.

Keizai Doyukai, for its part, is ready to take action to realize a cycle of new growth and distribution through our own efforts, without waiting for the government to debate, arrive at conclusions, and implement reforms. We intend to take a leading role in co-creating a new socioeconomic system, encouraging a variety of *Seikatsusha* to make choices by setting forth our vision for a society co-created by its *Seikatsusha* and indicating what needs to be done to achieve it. As we pursue this goal by informing stakeholders and taking action, we will give full rein to companies' capabilities as diverse, powerful *Seikatsusha*.

One approach will be to propose novel policies that inspire people by engaging in discussions with a range of stakeholders, including members of the next generation, as a means of complementing a new, consensus-oriented policymaking process involving interested parties and others directly impacted. Another approach will be to put these policy proposals into practice in our companies to encourage behavioral change among our employees and customers, as well as other stakeholders interacting with our companies' value chains. Our third approach will be to gather like-minded corporate executives together under the banner of co-creation by *Seikatsusha* to learn from each other through frank debate and nurture the leaders of the next generation.

During my final year as chairman of Keizai Doyukai, I intend to share this mission with all our members and do my utmost to build momentum toward *Seikatsusha*-driven co-creation. I hope I can continue to rely on your support and involvement as I do so.