

Opinion **ESG investing**

## Japan's ethical capitalism has lessons for the world on ESG

The country's business model and that of western society are beginning to converge

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Industrialist Shibusawa Eiichi is widely credited with creating a system where public companies separated shareholding from management © Alamy

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Stakeholder capitalism has really taken hold amid the social and economic disruption of Covid-19. More than \$30bn has been added to global environmental, social and governance funds in the first nine months of this year, more than in all of 2018 and 2019 combined, [Morningstar data shows](#).

Proposals for a “new social contract”, “more equal, inclusive and sustainable economies and societies,” and putting “people and planet at the heart of global value creation,” are popping up at the [World Economic Forum](#) and other business gatherings.

As companies try to turn the buzzwords into meaningful business practices, it is worth looking closely at Japan. Much academic literature has been dedicated to Japan Inc's requirement to satisfy employees, suppliers, customers and community, as well as the shareholder. Historically, this has been seen as a negative: weaker shareholder returns since the late 1980s have often been associated with companies that did not always put shareholders first.

But the world can learn from the practice of *Gapponshugi*, or ethical capitalism. As Japan transitioned from the Edo period into western-style industrialisation in the 19th century, the views of industrialist Shibusawa Eiichi began to gain influence. Now regarded as the “father of Japanese capitalism”, he is widely credited with creating a system where public companies separated shareholding from management.

Before the Meiji Restoration of 1868, business owners were looked down upon by the ruling samurai class. Profits were regarded as unseemly and incompatible with public good. Shibusawa saw otherwise. His travels to Europe showed him that profits could coexist with the social good. He argued that Confucian morality and profits were two sides of one coin. He founded and advised more than 500 Japanese companies, including Dai-Ichi bank, and worked at the Ministry of Finance.

Shibusawa embraced the concept of putting people before profit for the benefit of wider society. A leading philanthropist, he founded the Japan Red Cross, and became involved in the country's first business school and first women's university. His ideas continue to shape Japanese companies and their dealings with their communities, including shareholders.

Many explanations of Japan's “economic miracle” of the 1960s and 1970s looked at how companies were run. Academics [Ronald Dore](#) and [James Abegglen](#) theorised that an emphasis on collective capitalism produced groups that leaned towards employees rather than shareholders. Bad and good times were shared with suppliers and there was some co-operation with rivals. While shareholders owned companies, board members were career employees who often prioritised other staff.

Dore's [1973 study](#) noted that while British workers rushed to the factory gate when a shift ended, Japanese workers saw their employers as a part of a wider family. Abegglen found that when US managers ranked nine corporate aims, they prioritised return on investment, share price and market share. Their Japanese peers opted for market share, return on investment and new products, ranking share price ninth.

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Now the two societies are starting to converge. For westerners focused on ESG investing, Japan provides a model for shareholders who coexist with other stakeholders. And its companies are trying to prioritise shareholders over other stakeholders, a shift that has seen [the best dividend growth](#) of all developed market equity indices over the past four years.

The country does not have all the answers. [A new study](#) found that three of the top 10

lenders to projects that are driving biodiversity loss are Japanese. But *Gapponshugi* is here to stay. Visitor numbers to a Tokyo museum dedicated to Shibusawa are rising. His legacy could be in for a global revival.

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