

What kind of CSR should be promoted even during the economic crisis?

We invited four experts for a dialogue on the topic “What kind of CSR should be promoted even during the economic crisis?” President & CEO Eizo Kobayashi and members of ITOCHU Corporation’s senior management team attended this frank exchange of opinions.

(Held on May 11, 2009)



The worldwide financial crisis was caused by the monetary economy inflating to a size exceeding the real economy

Kobayashi: The present economic slump triggered by concerns for the worldwide financial situation is posing us important challenges regarding the industrial infrastructure itself, within the framework of large-scale changes in our society. I look forward to an exchange of opinions from this aspect today.

Kawaguchi: I also feel that we are in a phase of change, in a time of a paradigm shift. The cause that triggered the runaway and crash of the present financial crisis lies in the discrepancy between the real economy and the monetary economy. During the economic growth in the past ten to fifteen years, the financial markets grew at a pace that was many times higher than that of the real economy, and financial markets inflated to an excessive size. The background for this was the development of IT and financial engineering.

Kobayashi: Just as Ms. Kawaguchi said, I heard that while the ratio of the real economy to the monetary economy was 1:1 in the 1980s, it became 1:2 in the 1990s and is now 1:4. The growth of the monetary economy to four times the size of the real economy caused excessive consumption and excessive supply.

Kawaguchi: And the result was that people who originally did not have rights of claim for real goods started to have rights of claim, and material demands that normally should not be fulfilled were fulfilled, giving us a means to deplete real resources, global resources at an accelerating speed.

This means that desire inflated at an accelerating speed,

demand for real products also inflated, and this triggered an excessive use of resources. The fact that all these have deflated is probably a positive thing for our global resources, I believe.

Takayanagi: When considering this from our standpoint of conducting business, one of the causes for the present economic crisis is our emphasis on the “end-results,” instead of the processes to reach such end-results.

I think we need to take the stance of asking how companies can contribute to society while making profit, but the emphasis was too much on profit. In the end, this is a question of the values of a company and the values of the people who work there.

The economic crisis was caused by short-term orientation and unethical desire. We need an index to measure processes

Hara: I have been watching this financial crisis and am very surprised at the bail-outs by the Obama government. Capitalist market economy was changed into something that may lead to a socialist planned economy, or, in the worst case, even capitalism with a state monopoly. I think that these policies of financial stimulus may cause an irreparable moral hazard for many citizens, and I feel that this will threaten the American society in various forms as society loses loyalty. In other words, I think that the financial crisis is a structural crisis of the capitalist market economy, and that the weakness of economic theories since Adam Smith which lost its self-cleansing capabilities finally emerged in this form.

Davis: Short-termism is the primary cause of the current financial

crisis. Short-termism in the sense that a good profit yield will balance out any social problems caused by the business – an attitude that “problems can be addresses at some later time.” What has been missing is a consideration of the wider meaning and impact of business outcomes at the planning stage. Mr. Takayanagi’s comment that ITOCHU needs to concentrate on processes not simply results in planning its business is laudable. However, in order to realize this, you will require a new set of indices which link processes and results in terms of their efficacy in generating real value.

What is the role of companies in the society of tommorrow?

Sueyoshi: Speaking from a CSR point of view, now is the time when companies are tried for how serious they are about CSR. How do companies bring out that seriousness in their activities in this economic slump? And what will be demanded of companies in the world after the recovery of this slump? I feel that this is where a serious CSR discussion is needed for the first time in history.

Who will support our economy next? In the sense of who is going to be the main actor, I think that the selection is still not done. At the same time, I feel that the philosophy as to how to run an economy will change.

Even when making the same products – what products are made for whom, how are they made, and who will pay for the process of the production? Who will bear what cost, and what kind of sacrifices are tolerated? Even with the same economy and the same GDP, the main actors obviously have to change, and I think that only those who change will be able to become the next main actors.

In terms of the GDP, I do think that it should grow in size, and that we should think about how we can increase the GDP. However, we should not just produce the same things at the same costs, but explore how we can maximize the benefits. I think that this is where our efforts must start.

Takayanagi: Up to now, our thinking centered on the economy, but we cannot continue with only that. I think that this is the present consensus. We private companies must pursue economic activities, but where do we add value?



When considering contributions to society and contributions to the environment, it is important that companies change their attitude. The present population already exceeds the earth’s capacity, and we have reached the point where everyone has to recognize that we must not act just for the sake of the economy. I believe that the issue is how we share this change in attitude.

Kawaguchi: We only have one earth, and it is physically impossible for us to go on without changing anything. However, we want to prosper. And when considering how affluence is achieved, material things have to increase first to fulfill



the needs for clothing, food and shelter. The GDP only looks at these points, but I believe that from now on, there will be three elements creating affluence: the material element, and also a mental element and involvement with the community. People are slowly changing in the sense of where they look for happiness.

Sueyoshi: I think that the quality of economic activity is changing. And I think that economic activities with this new quality should become more activated. Providing things that enable a more affluent life with less CO₂ and less resources through more activated economic activities is the direction that is needed for our future economy.

Panelists



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The economic crisis is a perfect chance. The key for companies to survive is whether they can adopt a long-term orientation

Davis: Statements of the need for “corporate survival” are often heard within the context of our currently severe economic downturn. Unfortunately a goal of self-survival often becomes a mandate to discount the goals and rights of those around you. Instead of simply struggling for a space on the “lifeboat of corporate survival” you should take this as a good opportunity to reflect on why the market is questioning your current value as a corporation and rethink the overall social value of ITOCHU.

Kawaguchi: About eight years have passed since the word of CSR started to be passed around, and there is a difference of about three rounds in the level. For those who are pioneering, this crisis is an extremely precious chance, strategically. Not just thinking with a short-term orientation about what is directly in front of us, but firmly keeping track of where the trends are heading to in the long term. Companies that have this mindset will remain, and companies that do not will disappear following the market principle. I suppose that the key for survival is the ability to focus on how to consider the next business model.



Hara: I think that companies who have been pioneers of innovation since before have already recognized this crisis as a springboard. When speaking of innovation, we imagine technical innovation, the hardware aspect, but innovation is when technical innovation changes social systems and creates new phases.

In my view, companies are driven not by the development or invention of individual technologies but by changes in tax systems, subsidy systems and other social systems. Take the example of hybrid cars. While companies competed for the lowest fuel costs, reductions or exemptions for automobile-related taxes were created, and users started to receive subsidies. This kind of situation is clearly happening.

Here is a newspaper advertisement published in March. It says “The age of agriculture is coming back one more time.” Common sense suggests that this is an advertisement from the Ministry of Agriculture, Forestry and Fisheries or an agricultural cooperative, but actually, the advertiser is the Team Minus 6%. Not a government agency or an agricultural cooperative, but also the economy world is trying to drastically change the very shape of agriculture itself from the aspect of the environment. This is not just thinking about agriculture in a superficial way talking about employment and so forth. The very structure of Japanese society is greatly

changing through this kind of movement.

Kobayashi: As regards the problem of agriculture, I agree with Professor Hara. In terms of calories, Japan’s self-sufficiency rate is as low as 40%, and we definitely need a solution with respect to this fact. This is not just our economic problem, but a matter of our national security. Because food is fundamental to people’s livelihood.

Furuta: I think that the path which ITOCHU should follow is to take advantage of this chance and create fertile fields for the future, for the next generation.

We named the family of businesses that ITOCHU Corporation is committed to on a corporate-wide basis “L-I-N-E-s.”^{*1}

We are focusing on solar energy, the environmental field, medical care and other fields which the society of the future needs. Our CSR is to act while considering what is good for society, the people and the earth three years, five years, and ten years later.

I think that the financial crisis offers three opportunities. One is the opportunity to make drastic changes to our business models. The second one is an opportunity for human resource development. We are allowed to experience something that only happens once in a hundred years - I think that hardly any business person is as lucky as this. The third one is that we have the opportunity to make investments at a low price (laughs).

*1 L-I-N-E-s: see page 52

The economic crisis clearly exposed the significance of our environmental problems

Sueyoshi: I believe that we are currently in an era where the accounts of the 20th century are cleared while the 21st century is created at the same time. Global warming and other issues faced by the global society have grown serious. It is not that we should revise our thinking because a wave of extremely large economic fluctuation has arrived. Instead, we have no choice other than to respond to this problem as an even larger issue.

That we started to feel the seriousness of the problem is now greatly moving the problem forward. Or, to say it the other way round, companies and organizations that are unable to share the seriousness of the issues and problems we are facing and the awareness of crisis will drop out of the flow of the world. As long as we do not resolve global issues, there is no future for ITOCHU. I think that sharing this view is your starting point.

The current financial and economic crisis is not due to a linear cycle of economic booming and economic stagnation. A very large number of people is aware of the fact that we cannot resolve the problems unless we do something that is different from what we did in the process of recovery from stagnation we experienced in the past. The term “green recovery” is frequently being used lately. We are striving for a green recovery. Sustainability will not be created unless we strive for a “green economy.”

Hara: I think that underlying this sub-prime loan issue was the fixed notion, or a notion of threat, of unlimited growth of the economy, including the real economy. I suppose that all of you are putting your bets on innovation and the potential of breakthroughs, but can an economy enjoy unlimited

growth based on mass production, consumption and disposal when it is subject to resource limitations and environmental limitations as severe as this?

We were all walking while dragging with us the so-called “modern economy” like worn-down shoes that did not fit any more, stumbled over a stone called financial derivatives, and the shoes came off. What we need after this is rebuilding society to fit reality in size and quality while keeping in mind that the earth is limited. I think some kind of curse fell off with the collapse of the fast-growing economy.

What is the role of ITOCHU?

Sueyoshi: What does the world demand from companies like ITOCHU that have general trading company functions operating on a global basis? What is demanded rather than expected is, how they resolve structural problems of the world through their businesses, and with what awareness of the problems they try to resolve them. When the answers are published in the CSR Report and the like, people will understand the stance of ITOCHU Corporation, and when people associate their awareness of problems with this, they will start to feel sympathy for ITOCHU Corporation.

Maeda: It is our policy to realize our role in society through our main line of business.

Rather than identifying one issue for every employee to work on, ITOCHU’s CSR lies in every employee approaching and pursuing his or her work with an ethical mindset. We would like to communicate this stance in our CSR Report.

Furuta: The happiness that employees can gain through their work is satisfaction in their work and a sense of worthwhileness of what they do and what they live for. This is a perfect match with CSR. I am convinced that it is important for us at ITOCHU Corporation to practice CSR with confidence, no matter whether there is an economic crisis or not.

Takayanagi: Our corporate mission is “Committed to the Global Good,” and both management and employees are thinking hard about what “Global Good” is. When we think about what “good work” is, that will probably be CSR. Nothing changes just because regulations were changed. The roots are in changing the attitude, and this is what we must try to achieve. In this sense, I think that this means that we should continue to consider by ourselves what “good work” is.

Davis: Organizations which articulate an objective and valid social mission – and which make clear the role necessary of each individual employee in order to realize this mission – have no need of ever stricter and restrictive regulations. I think the appropriate analogy is that of team sports. No one is motivated to play sports for the enjoyment of following the rules. Rules exist to ensure fairness, not to enforce good performance. ITOCHU needs to think of what it stands for, why working here means good work, and thereby creating a good company.



Sueyoshi: The mid-term targets of the framework on climate change^{*2} will be decided very soon, and I think that this will change the shape of our economy significantly. This is not simply about how much we reduce CO₂. This will change the shape of nations, of economic policies and will also change the lifestyle of individuals.



Until 2020, various value standards will fundamentally change, and this means that the value standards for good work, in other words, the principle of market mechanism will also change. And this is why we should pay close attention to the mid-term targets.

Hara: I recently had the opportunity for a discussion with students on societal marketing^{*3}, and I thought that today’s discussion crossed this topic a lot. Shift from a way of marketing that centers on the economic activities of a company to a way of marketing inside the social system as a whole.

“Realizing social benefit and welfare,” “conserving the environment” and “improving the quality of life.” Use these three points as the basic philosophy to ultimately introduce “socio-biological values” into marketing.

I feel that when looking at problems facing us through the eyes of ITOCHU, these three points say it all.

Kobayashi: Thank you very much for this valuable discussion today. The confusion will doubtlessly be followed by a new order. How will we exist in this order? In what form will we be accepted as a good corporate citizen? We will continue to ask ourselves these questions.

^{*2} Mid-term targets of the framework on climate change: on June 10, 2009, the Japanese government announced that its mid-term target for the reduction of greenhouse gas until 2020 was a cut by 15% compared to 2005.

^{*3} Societal marketing: marketing with a focus on the relation between the various elements constituting a society.

Reflections from the dialogue

This year’s difficult theme “What kind of CSR should be promoted even during the economic crisis?” led to a broad array of valuable opinions from experts about the proposed role of companies in this economic crisis, and the role ITOCHU Corporation should fulfill.

The present severe economic environment is precisely the very time when our seriousness towards CSR is tested. Only those companies that can adeptly act on changes in societal value during this economic crisis and perceive these as opportunities will survive. These perceptive views were very meaningful to us.

With the opinions we received today in mind, we will fulfill our own role through our main line of business, thereby contributing to the development of a sustainable society and creating a corporate culture where every employee matters and wants to contribute much more.

Kazutoshi Maeda

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