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ESR Governance Corporations in Japan

Tadao Onaka

Nagoya University of Commerce and Business Administration, Japan



NUCB BUSINESS SCHOOL
Graduate School of Management



Abstract:

A statistical analysis of 2,920 corporations in Tokyo Stock Market for the 10 years of 2013-22 discloses that 2,020 or **69 % corporations are governed with ESR value and belief**. It indicates two new waves and two facts in Japan corporations.

1. They are getting out of almost 20-year period of '**Stockholder Primacy**' corporate governance era started 1997.
2. They are resuming the value and belief that corporations are '**Social Entity**'.

Fact one: ESR is the most critical requirement for corporations to be sustainable and evolve along any social change and evolution.

Fact two: CEO's commitment on ESR is the most critical engine of the ESR governance and management.

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1. What is ESR: ESR Definition
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8. ESR corporate governance opens the gate of future human society



1. What is ESR: ESR Definition

ESR (Entrepreneurial Social Responsibility) is the corporate governance value Professor Zhongming Wang proposed in the first SREEN conference at Zhejiang University October 2017.

It is the fundamental value for creative leadership aiming at corporate sustainability with highest priority.

ESR realizes corporate sustainability as it makes possible that corporations grow and evolve along with any social change and evolution due to its highest priority value of social responsibility and contribution.



2. How it is measured: GCP as an ESR Measurement

GCP, Gross Corporate Product = a corporation's total net value creation amount:

GCP = Employees Compensation + Net Profit + Corporate Tax

(= a corporation's net creating value after deducting from total sales amount all values that the corporation purchased from others.)

=> indicating the level that a corporation **realizes** creating values for all social stakeholders; **employees, investors and government.**

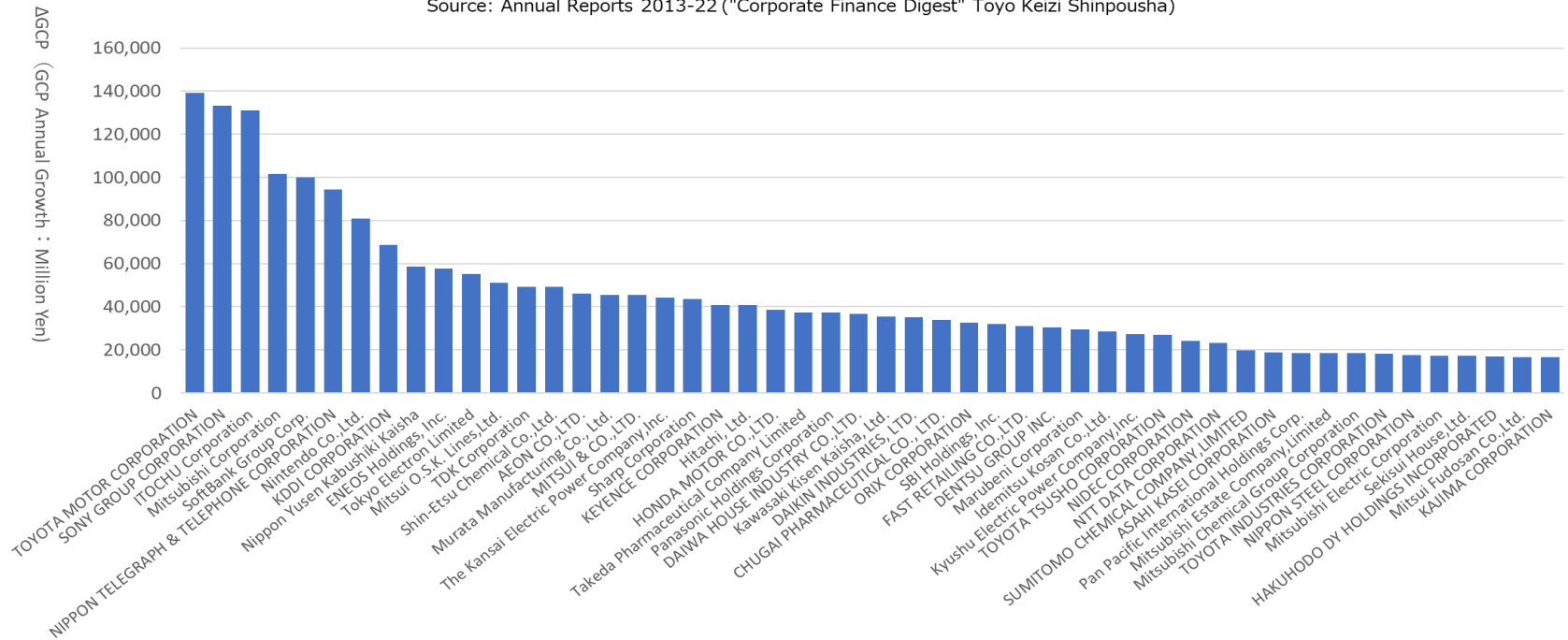
In contrast

ROE, Return on Equity is an index evaluating the level of corporation's short-term profit maximization management with stockholder primacy mission.

=> indicating the level that a corporation commits on stockholder's value maximization and short-term profit maximization by sacrificing all other investments necessary for future growth.

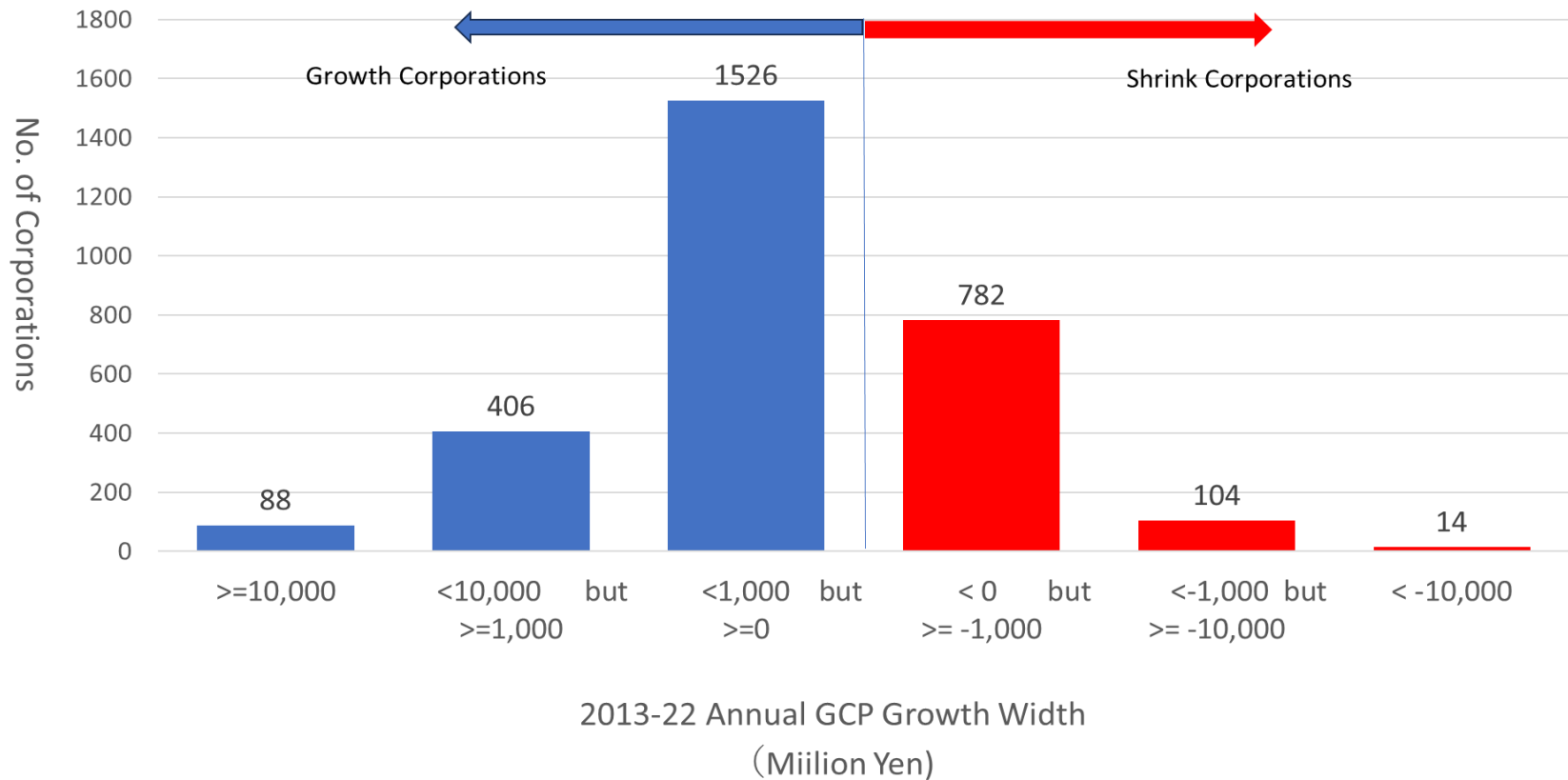
GCP 2013-22 Annual Growth Top 50 Corporations in Japan (Million Yen)

Source: Annual Reports 2013-22 ("Corporate Finance Digest" Toyo Keizi Shimpousha)



GCP Growth/Shrink Distribution 2013-22

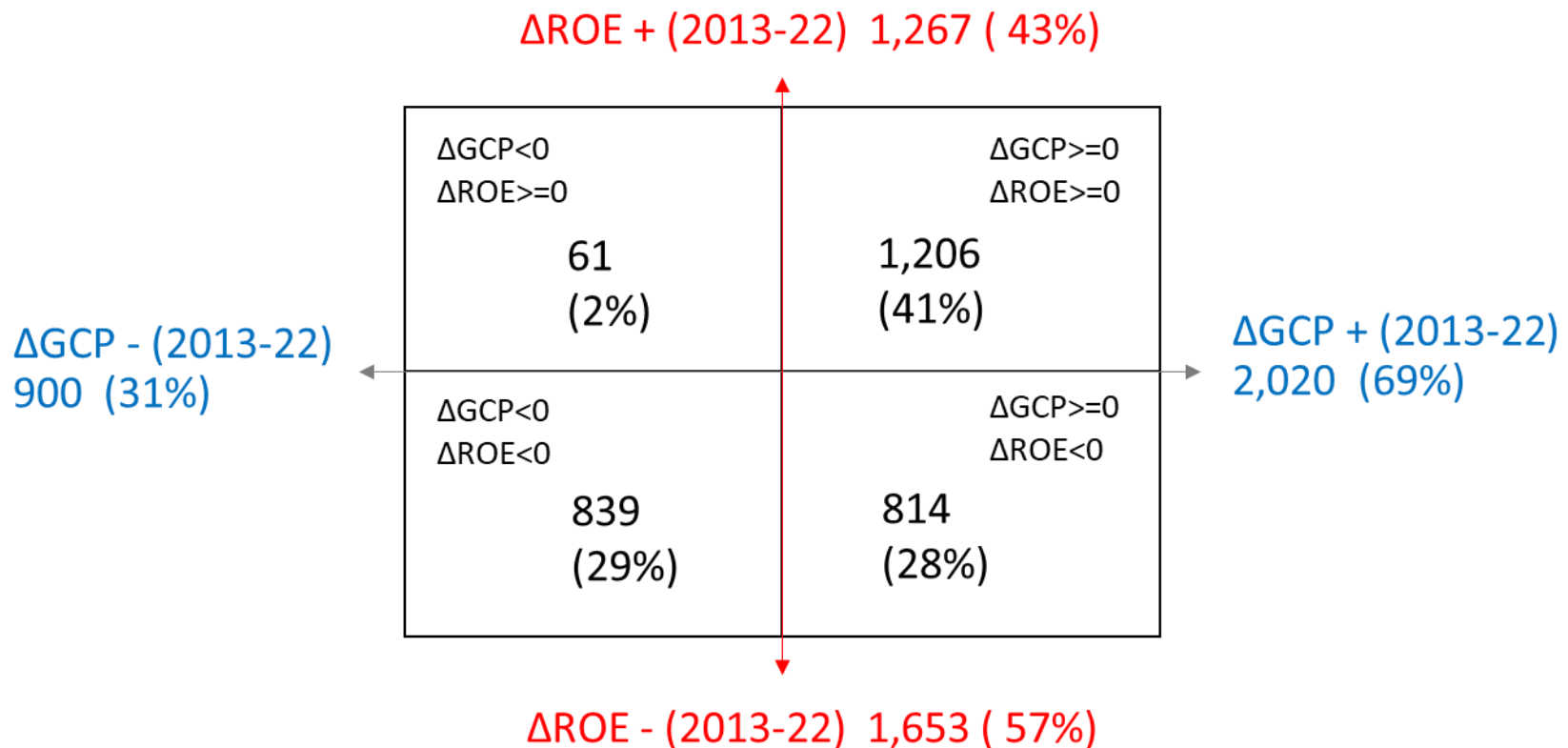
2,920 Corporations in Japan Stock Market



3. GCP and ROE growth of 2920 corporations in the period of 2013-2022

Statistics 1: 2,020 corporations (69%) have increased GCP

Statistics 2: 1,653 corporations (57%) have decreased ROE



4. From **Stockholder Property** governance to **Social Entity** governance

What can be inferred from the statistical fact that **2020 corporations (69%)** have **increased GCP** while **1653 corporations (57%)** have **decreased ROE** ?

Inference 1:

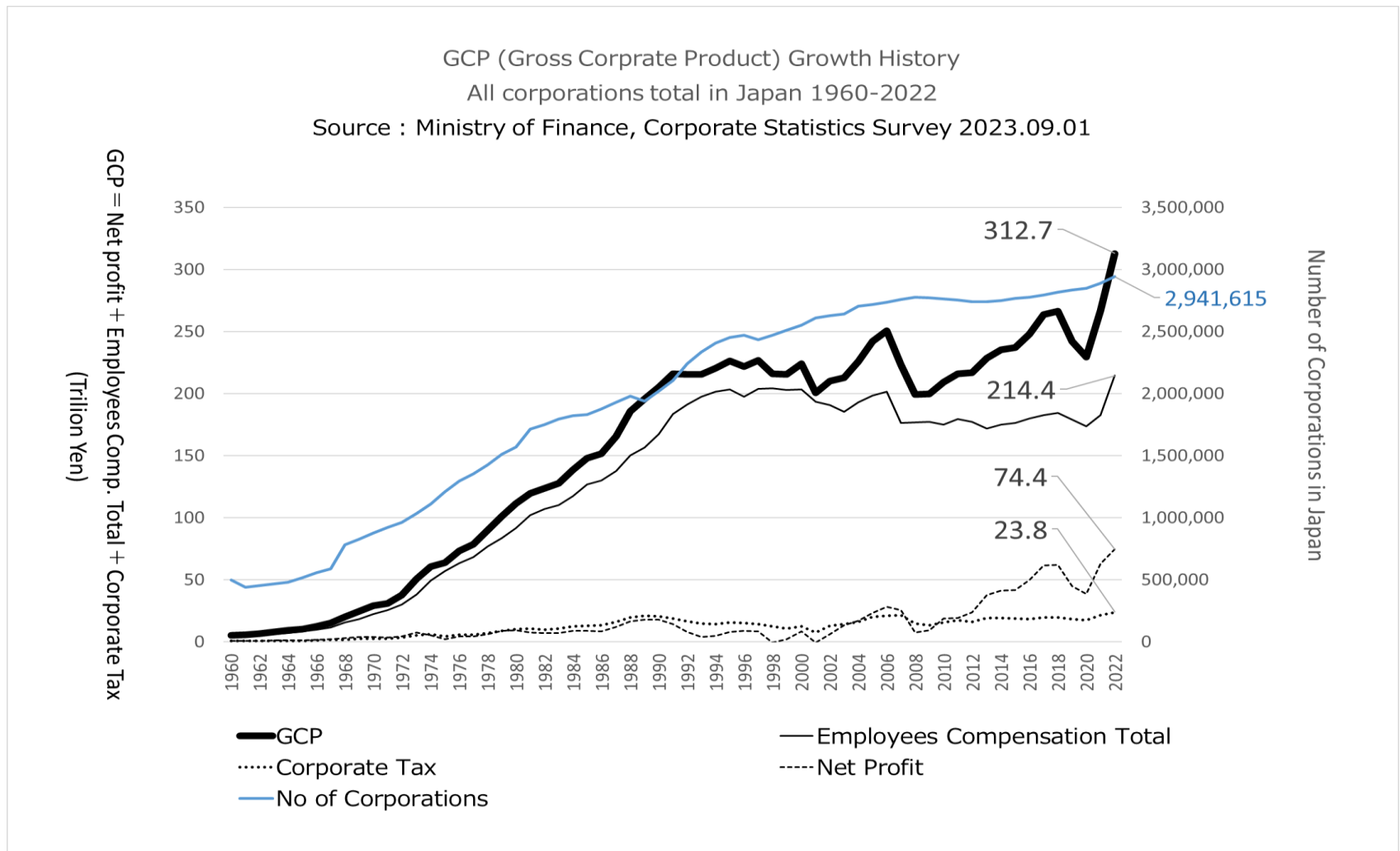
A transition from the corporate governance of “**Stockholder Property**” to that of “**Social Entity**”.

Inference2:

A new wave of **ESR leadership competency and corporate sustainability governance is growing** beyond **the traditional Scientific Administration leadership for short term corporate efficiency governance.**



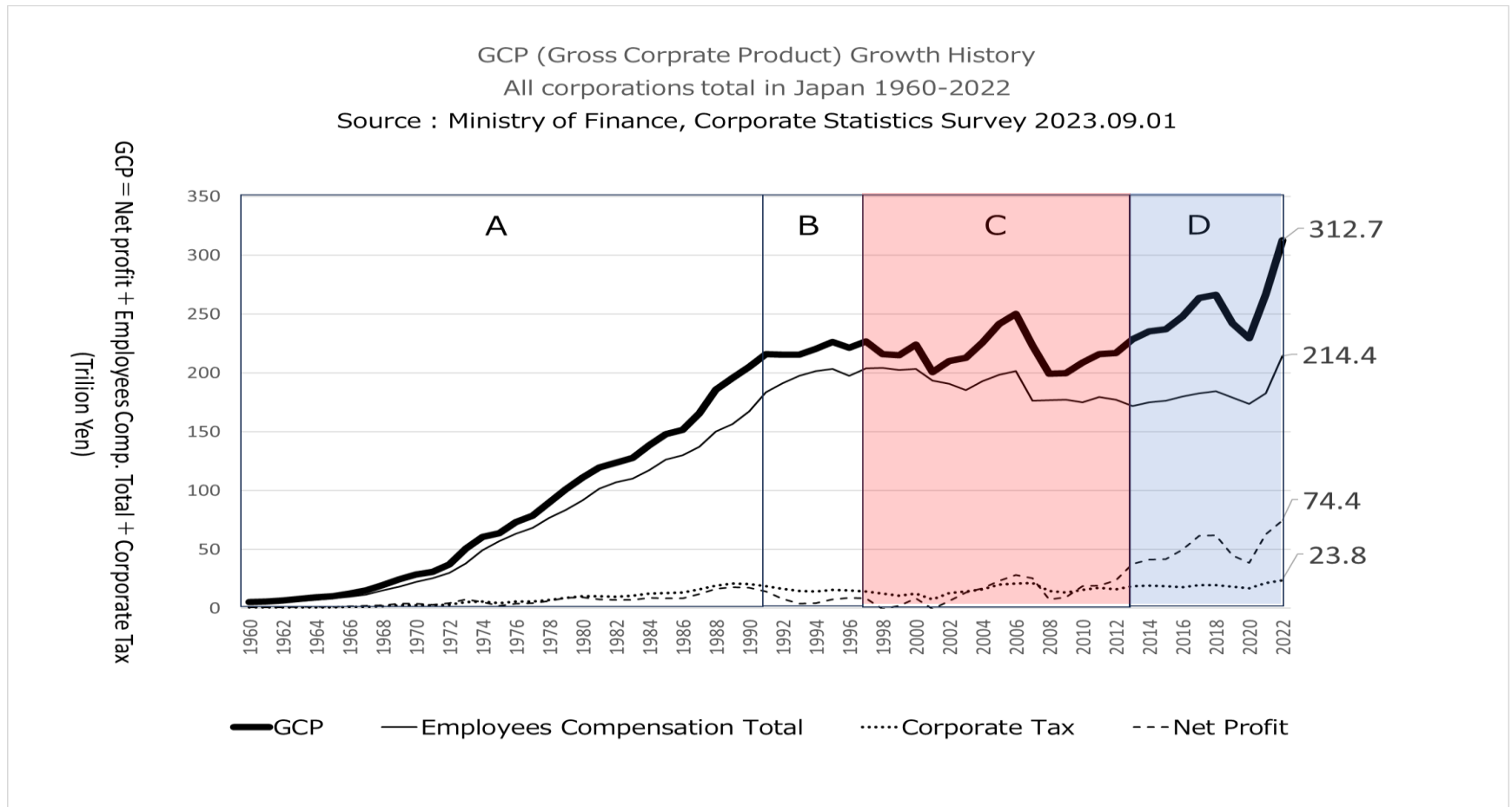
5. 60-year history of GCP growth in corporations of Japan



5. 60-year history of GCP growth in corporations of Japan can be classified into 4 Periods of A,B,C, and D:

A= High Economy Growth period, B = Bubble Bursting Struggle period

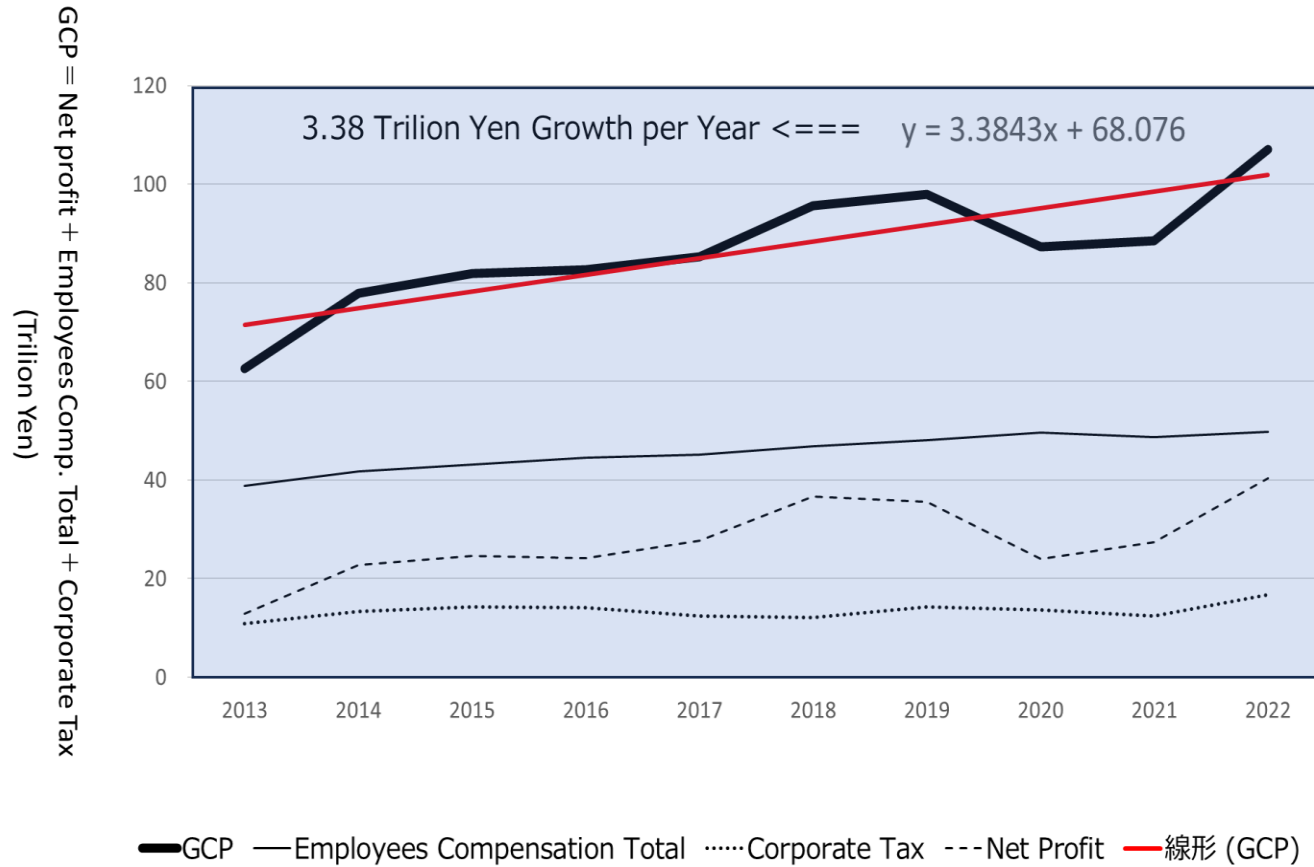
C= Stockholder Property Governance period , D= ESR or Social Entity Governance period



GCP (Gross Corporate Product) Growth History

2920 corporations in Japan Stock Market 2013-2022 (D Period)

Source : Annual reports "Toyo Keizai Corporate Finance Digest" 2022



6. Top 50 corporations of GCP growth as of 2022: ESR and Longevity

	Corporation Name	Industry	ΔGCP Size (Million Yen)	Foundation	Longevity (Years)	GCP as of 2022 (Million Yen)	GCP Tree Ring Width (Million Yen)
1	TOYOTA MOTOR CORPORATION	Transport Equipment	139,175	1937	85	4,716,111	55,484
2	SONY GROUP CORPORATION	Electrical Machinery	133,250	1946	76	1,371,526	18,046
3	ITOCHU Corporation	Wholesale	131,176	1949	73	2,820,407	38,636
4	Mitsubishi Corporation	Wholesale	101,604	1950	72	2,733,979	37,972
5	SoftBank Group Corp.	Information & Communication	99,878	1981	41	1,485,916	36,242
6	NIPPON TELEGRAPH & TELEPHONE CORPORATION	Information & Communication	94,310	1952	70	2,370,247	33,861
7	Nintendo Co., Ltd.	Other Products	80,846	1947	75	716,471	9,553
8	KDDI CORPORATION	Information & Communication	68,537	1984	38	1,123,282	29,560
9	Nippon Yusen Kabushiki Kaisha	Marine Transport	58,702	1885	137	1,128,012	8,234
10	ENEOS Holdings, Inc.	Oil & Coal Products	57,727	1894	128	934,377	7,300
11	Tokyo Electron Limited	Electrical Machinery	55,244	1963	59	626,006	10,610
12	Mitsui O.S.K. Lines, Ltd.	Marine Transport	51,009	1964	58	781,663	13,477
13	TDK Corporation	Electrical Machinery	49,259	1935	87	829,128	9,530
14	Shin-Etsu Chemical Co., Ltd.	Chemicals	49,159	1926	96	706,825	7,363
15	AEON CO., LTD.	Retail	45,945	1926	96	1,327,958	13,833
16	Murata Manufacturing Co., Ltd.	Electrical Machinery	45,547	1950	72	718,268	9,976
17	MITSUMI & CO., LTD.	Wholesale	45,503	1947	75	1,832,011	24,427
18	The Kansai Electric Power Company, Inc.	Electric Power & Gas	44,133	1951	71	204,553	2,881
19	Sharp Corporation	Electrical Machinery	43,460	1935	87	1,293,986	14,873
20	KEYENCE CORPORATION	Electrical Machinery	40,712	1974	48	539,316	11,236
21	Hitachi, Ltd.	Electrical Machinery	40,669	1951	71	129,183	1,819
22	HONDA MOTOR CO., LTD.	Transport Equipment	38,608	1948	74	1,562,251	21,111
23	Takeda Pharmaceutical Company Limited	Pharmaceuticals	37,404	1943	79	596,910	7,556
24	Panasonic Holdings Corporation	Electrical Machinery	37,293	1935	87	1,293,986	14,873
25	DAIWA HOUSE INDUSTRY CO., LTD.	Construction	36,806	1955	67	597,680	8,921
26	Kawasaki Kisen Kaisha, Ltd.	Marine Transport	35,458	1964	58	781,663	13,477
27	DAIKIN INDUSTRIES, LTD.	Machinery	35,007	1934	88	582,665	6,621
28	CHUGAI PHARMACEUTICAL CO., LTD.	Pharmaceuticals	33,858	1943	79	464,776	5,883
29	ORIX CORPORATION	Miscellaneous Finance	32,488	1964	58	799,989	13,793
30	SBI Holdings, Inc.	Securities & Commodity Futures	32,031	1999	23	531,191	23,095
31	FAST RETAILING CO., LTD.	Retail	31,137	1963	59	495,136	8,392
32	DENTSU GROUP INC.	Services	30,278	1901	121	732,073	6,050
33	Marubeni Corporation	Wholesale	29,617	1949	73	1,146,356	15,704
34	Idemitsu Kosan Co., Ltd.	Oil & Coal Products	28,605	1911	111	472,858	4,260
35	Kyushu Electric Power Company, Inc.	Electric Power & Gas	27,402	1951	71	83,399	1,175
36	TOYOTA TSUSHO CORPORATION	Wholesale	27,127	1948	74	548,036	7,406
37	NIDEC CORPORATION	Electrical Machinery	24,062	1973	49	610,578	12,461
38	NTT DATA CORPORATION	Information & Communication	23,181	1988	34	400,816	11,789
39	SUMITOMO CHEMICAL COMPANY, LIMITED	Chemicals	19,865	1925	97	390,865	4,030
40	ASAHI KASEI CORPORATION	Chemicals	18,850	1922	100	441,583	4,416
41	Pan Pacific International Holdings Corp.	Retail	18,643	1980	42	222,408	5,295
42	Mitsubishi Estate Company, Limited	Real Estate	18,642	1937	85	252,643	2,972
43	Mitsubishi Chemical Group Corporation	Chemicals	18,495	1933	89	468,822	5,268
44	TOYOTA INDUSTRIES CORPORATION	Transport Equipment	18,137	1926	96	391,895	4,082
45	NIPPON STEEL CORPORATION	Steel Products	17,480	1950	72	942,049	13,084
46	Mitsubishi Electric Corporation	Electrical Machinery	17,319	1921	101	597,370	5,915
47	Sekisui House, Ltd.	Construction	17,175	1960	62	359,398	5,797
48	HAKUHODO DY HOLDINGS INCORPORATED	Services	17,032	2003	19	274,655	14,456
49	Mitsui Fudosan Co., Ltd.	Real Estate	16,665	1941	81	324,101	4,001
50	KAJIMA CORPORATION	Construction	16,658	1930	92	209,016	2,272
					Ave. Longevity		Ave. Tree Ring Width
					75		12,981
					years		Million Yen

* = Average GCP of 2013-22



The averaged longevity of top 50 GCP growth corporations is 75 years.

	Corporation Name	Industry	ΔGCP Size (Million Yen)	Foundation	Longevity (Years)	GCP as of 2022 (Million Yen)	GCP Tree Ring Width (Million Yen)
1	TOYOTA MOTOR CORPORATION	Transport Equipment	139,175	1937	85	4,716,111	55,484
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The averaged tree ring width of top 50 GCP growth corporations is 13 Billion Yen since the foundation for the period of the average 75-year longevity.

6. Annual GCP Growth of top 50 corporations as of 2022: ESR and Longevity



7. Engine and Enabler of ESR Corporate Governance in Japan

Engine: Corporate top management's value and belief that corporation is a 'Social Entity' existing for the wealth of nations.

While the value had been damaged not a little since the 1997 introduction of stockholder primacy governance, after almost 20-year struggles between short termism and corporate sustainability pursuit, many corporate leaders find that stockholder primacy collapses corporate sustainability.

(Even before the U.S. Business Roundtable chairmen, Jamie Dimon, announced "Scrapping Stockholder Primacy" in 2019.)

Enabler: Bank of Japan's zero interest rate strategy for almost 30 years since 1996.

It has eliminated the social 'Inflation Expectation' and encouraged corporations and people to go for "real value creation" for society.



7. Engines and Enablers of ESR Corporate Governance in Japan

Engine: Corporate top management's value and belief that corporation is 'Social Entity' existing for the wealth of nations.

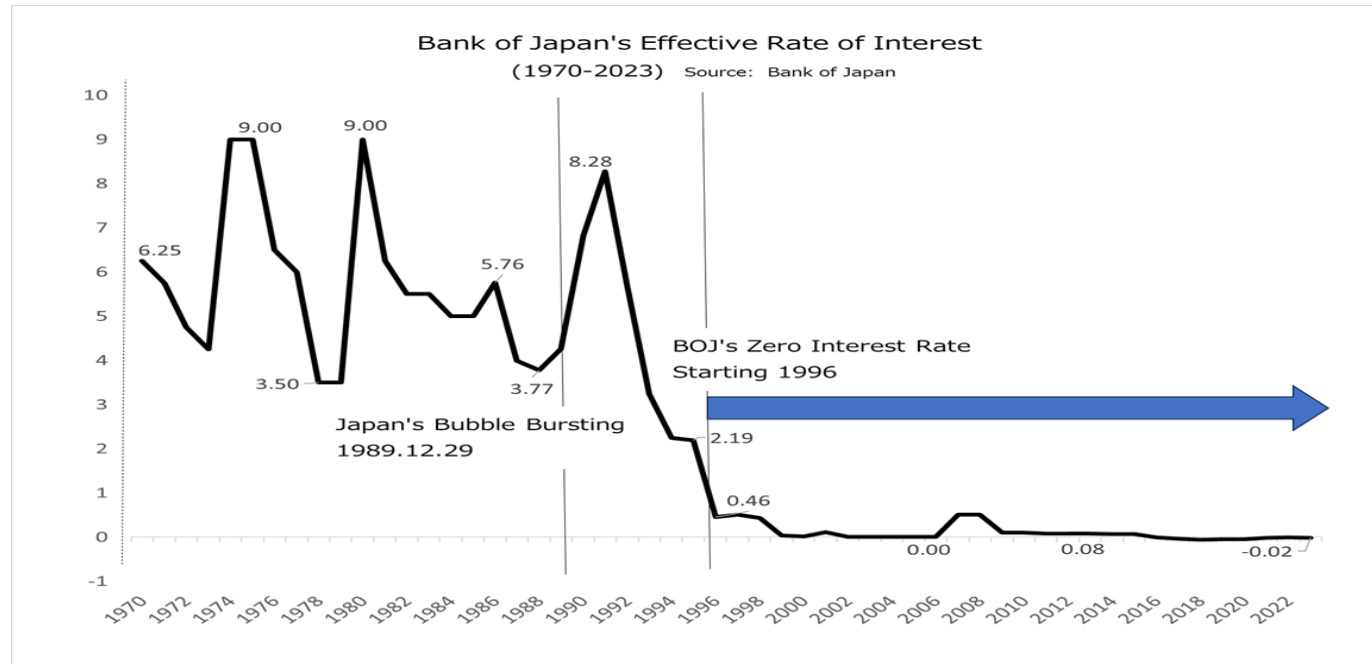
Most of all corporates realizing GCP growth and sustainability have corporate mission of social contribution and innovation based on respecting employees' human dignity.

For an example, Toyoda Koryo, Toyoda family's mottos, respect employees contributing to the society with creativity and innovation. (Ref. "Toyota CEOs' Five Main Principles" Tadao Onaka, 2018)



7. Engines and Enablers of ESR Corporate Governance in Japan

Enabler: Bank of Japan's zero interest rate strategy for almost 30 years since 1996.



BOJ and MOF of Japan might implicitly inherit the message Hayato Ikeda (Prime Minister of Japan 1960-64) left in his book “Balanced Finance Strategy” that Inflation collapses nation’s ethics and deflation defects nation’s thoughts.



8. ESR corporate governance opens the gate of future human society

ESR, Entrepreneurial Social Responsibility, or the value that corporation should be Social Entity realizes the sustainability of corporations, the foundation of local and global economy.

Any nation will never go into military conflicts as long as its economy is sound and prosperous. There is no reason at all for any nation to damage its own wealth prosperity by itself with military conflicts with other nations.

ESR, by nature, can be introduced commonly under any style of government or social systems. Any style of government or social system can be sustainable as long as it can incubate ESR governance corporations as its economy foundation.

Then, why not, our pursuit of ESR leadership for corporate governance, will be the critical key to open the future of global human society?

Isn't ESR the critical key of the sustainability of corporation, economy and human society? (Ref. "Creativity Installation Protocol" Tadao Onaka, 2021)



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“ESR Governance Corporations in Japan”



Mitsubishi Corporation (1975-91), GE Medical Systems (91-94), PricewaterhouseCoopers Consultant LLP Director (1994-2001), Hewitt Associate Japan MD (2001-03), NUCB Business School Professor (2009-20) Visiting Professor (2021-), Global Management Networks Co., Ltd. CEO (2004-), CoachSource LLP Executive Coach (2004-) MSIA, Carnegie Mellon University (1983), BE, The University of Tokyo (1975)

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Nagoya University of Commerce and Business Administration, Nagoya, Japan



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Graduate School of Management

