

# Dialogue with ESG Investors

TOYOBO President (at the time) Seiji Narahara sat down with Ken Shibusawa, founder of Commons Asset Management and the great-great-grandson of TOYOBO founder, Eiichi Shibusawa, to talk about sustainability within the TOYOBO Group.

The dialogue took place on May 15th, 2020 via web conferencing system.



**Ken Shibusawa**

Chairman, ESG Chief Executive  
Commons Asset Management, Inc.



**Seiji Narahara**

Representative Director,  
President and CEO, Co-Coo  
TOYOBO CO., LTD.

# Using Shibusawa's *The Analects and the Abacus* as a guide for creating a sustainable modern society

## Thoughts on TOYOBO's founder

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### Continuing the legacy of Eiichi Shibusawa

**Narahara** Eiichi Shibusawa is considered the father of capitalism in Japan. He founded TOYOBO and set up 500 other companies with the belief that businesses are social institutions. He left us with the phrase *Jun-Ri-Soku-Yu* (adhering to reason leads to prosperity), which has always been our guiding philosophy, the core of our management, and the foundation for our business decisions. His words are what has kept our business running for over a 100 years.

**Shibusawa** I'd like to start by saying how wonderful it is to hear how everyone in the TOYOBO Group feels a close tie with my great-great-grandfather. Eiichi Shibusawa dedicated his life to "empowering Japan as a nation." He was born at a time when a person's social standing determined their future. No matter how hard a person may try, a merchant could never be treated like a Samurai class. He understood that to empower a nation, people must be given equal opportunities despite ones social standing. I think this burning passion was behind his drive to help found over 500 companies.

**Narahara** TOYOBO is a company that began with private investment, which was Shibusawa's idea. During his overseas inspection, he saw how private companies were involved in creating industries and national infrastructures. I believe that made him think that Japan should also follow that trail.

**Shibusawa** Since he understood the importance of the private sector as a driver of national empowerment, I would guess that he saw the potential for the spinning industry to be a core industry for Japan.

## Principle for business management

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### The power of "and" in *The Analects and the Abacus*

**Narahara** The TOYOBO Group has revised its business portfolio by shifting its focus from textiles to specialty businesses, and we are now generating steady profits. However, in fiscal 2019, we redefined our corporate philosophy system to gear it toward further growth. The reason we refined the philosophy was because we are

currently at a challenging stage of becoming a new TOYOBO. Therefore we wanted to clarify the reasoning behind our motivation to work.

During that process we looked back at the maxim Shibusawa bestowed on our Company—*Jun-Ri-Soku-Yu* (adhering to reason leads to prosperity). In the past, we had interpreted *Jun-Ri* to mean "refrain from doing what is wrong," but after rereading his book *The Analects and the Abacus*<sup>\*</sup>, we began to understand that *Ri* refers to Confucius' *Analects*. According to Shibusawa, the most important teaching of *the Analects* was to help people in need and to enrich society. Today, we might say that we should "use our technology and human resources to resolve issues in society as well as the world and as a result achieve better lives for ourselves. I believe that is the message that Shibusawa put into *Jun-Ri-Soku-Yu*. Do you agree with this interpretation?

\* Eiichi Shibusawa's *The Analects and the Abacus* is a book on business management philosophy. It combines the ethics of *The Analects* of Confucius with the practice of a profitable business, which is "the abacus." Shibusawa asserts that business practices should be ethical and that the profits must be used to achieve a better society.

**Shibusawa** Yes, I believe so too. I think the theme of *The Analects and the Abacus* is what we now call "sustainability." The abacus, which represents a focus on generating profits, is a necessity for a company to survive. But a business that solely pursues profit will at some point run into difficulties. At the same time, a narrow approach focused solely on *the Analects*, or a strict moral path, would not be sustainable in a drastically changing world. In other words, it's not *The Analects* "or" the Abacus. A car whose wheels were the *Analects* on one side and the abacus on the other could not drive straight if it were using wheels on just one side. I think Shibusawa understood the importance of the "and" that balances *the Analects and the Abacus*.

## The Company's purpose

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### Looking beyond the COVID-19 world

**Shibusawa** Referring to what you said earlier about knowing the reason, more and more companies are looking at the purpose<sup>\*1</sup> of their enterprise. The word "mission" that often appears in corporate philosophies tells a company and its employees "what we do" but a purpose tells them "why

we do it.”

**Narahara** TOYOBO’s purpose is contained in *Jun-Ri-Soku-Yu* (adhering to reason leads to prosperity) and, as you mention, is to help solve the world’s problems. That is the reason we have changed our organizational structure. We set up divisions based on solutions because we recognized that if we are going to address society’s issues, we needed an organization that was geared to producing solutions.

As we shared the new explanation of the philosophy, within the company we noticed that having a clear understanding of the “why” in our business raised employee motivation to a completely different level compared to being asked to work to increase profits. The refining of the corporate philosophy system created a positive atmosphere among our employees doing their best to find ways to contribute to resolving social problems.

**Shibusawa** The financial markets are increasingly looking favorably on companies that share that idea. I launched Commons Asset Management to support Japanese companies generating sustainable value creation, and found that the companies doing that were always addressing some kind of social issues.

**Narahara** As a company that is following Shibusawa’s teachings, it is very pleasing to hear that investors are looking for companies that are applying the concepts in *The Analects and the Abacus*. I believe we can achieve a sustainable society if the world make more effort to recognize and address social issues.

**Shibusawa** It has been thought that a good company was one that ran their businesses rationally and raised their share price. However, this approach only benefited certain people



and led to disparities in society, raising the question of whether a successful drive for profits is enough create a society that is sustainable overall. The issue gained a further spotlight at this year’s World Economic Forum\*2 in Davos, Switzerland, which focused on the topic of “stakeholder capitalism”\*3.

The outbreak of the COVID-19 pandemic has only brought further attention on the topic. I expect the real value of the SDGs and ESG lies in the world coexisting with the COVID-19 and after COVID-19.

**Narahara** I think the world will be a very different place after the pandemic. In TOYOBO Group’s directly related operations, we have been producing and shipping 20 times more virus test kits than usual for use in coronavirus testing centers in Japan and China. We’ve also released research reagents that shorten the detection and measurement period.

We are doing everything we can to help. For example, we are testing technology we created to examine how the norovirus spreads in kitchens. We are trying to see how we can use it for the coronavirus. We supply about 40% of the Japanese market for food packaging films, and we believe we can make a major contribution if we can develop films that the virus cannot stick to or survive on.

I think we will also need to change our business operations. New lifestyles will make it increasingly important to introduce workstyle reform and to digitalize our operations. Risk management will also have to be more stringent.

\*1 Many companies have been focusing on the purpose behind their management strategies and branding in recent years. They are essentially looking for the basic reason for the existence of their company or organization in society.

\*2 The World Economic Forum is an annual international conference founded by the economist Klaus Schwab. Intellectuals, journalists, and political and business leaders convene to discuss important global issues.

\*3 Stakeholder capitalism is the idea that companies should not be bound to prioritize the interest of shareholders. Its approach is to fully encompass the interests of the stakeholders, which includes employees, customers, local communities, and the global environment.

## Towards sustainable growth

### Becoming a global frontrunner

**Shibusawa** I think the spinning industry is the industry that has continued to change and evolve among the Japanese industries. My hopes are that TOYOBO will be a frontrunner.

Discussions with you have made me realize that you deeply respect and understand the true nature of Eiichi Shibusawa's philosophy.

There is a need for dialogue not just with investors but with the various stakeholders in society. I also think it is important that the Company communicate both inside and outside the company. In regards to the commitment to SDGs, it is important for the president to reveal his passion as well as the direction very openly.

**Narahara** I agree. I think it's important to share my thoughts in my own words. I've visited offices and talked directly with many employees, but I was finding it a real challenge to reach out to all of them. As for the company reorganization this April, I presented a video on the company intranet where I spoke about various matters including the direction we are taking the Company. The response from employees was very positive.

**Shibusawa** New technology is enabling so many new possibilities. Speaking of which, right now I'm talking live with the CEO of a major listed company over the internet.

**Narahara** If we can't meet to talk with someone in person, we will find other ways to communicate with our stakeholders.

**Shibusawa** I would like to change our topic to corporate governance, I think it's wonderful that four of your 10 directors are outside directors. I'd like to ask for your opinion regarding the absence of women or non-Japanese voices in the Company's internal directors and executive officers.

**Narahara** In the past five years, about 40% of the new university graduates we've hired were women. We've also been actively hiring midcareer professionals from outside the company. Although it's taking some time, we are assembling a more diversified workforce that will be the source for the Company's future executive officers and directors.

**Shibusawa** In the future, I think society will want companies to clearly demonstrate how they are benefiting society.

**Narahara** Indeed, I think companies will need to disclose quantitative data showing their "social impact." We took a first step in that direction in May 2020 by identifying the material issues (materiality) for the Company. For each materiality, we plan to set KPIs and monitor our progress, which we will report internally and publicly.

**Shibusawa** Since TOYOBO is a leading maker of materials



company with its roots in textiles, I would also like to see the company active internationally, such by participating in the creation of global standards and guidelines.

**Narahara** We have started to take steps in that direction. In August 2019, we joined the Circular Economy for Flexible Packaging (CEFLEX), a collaborative initiative of a European consortium of companies. I am looking forward to passing Eiichi Shibusawa's spirit of *Jun-Ri-Soku-Yu* (adhering to reason leads to prosperity) to future generations as I seek to guide the Company towards sustainable growth. Thank you very much for this interesting discussion today.

**Shibusawa** Thank you. It was my pleasure.



## Ken Shibusawa

Chairman, ESG Chief Executive  
Commons Asset Management, Inc.

Mr. Shibusawa joined an international relations association, then obtained an MBA in the United States. He then entered business in the financial industry, working at a foreign-affiliated financial institution, where he traded Japanese government bonds and foreign exchange options, and sold equity derivatives. He was the Japan representative for a major US hedge fund. He left the company in 2001 and established Commons Asset Management, Inc. in 2007. He has been the Chairman of the company since 2008.