

THIRTEEN

How the Japanese Business Community Has Embraced Sustainability

ICHIRO SATO AND KEI ENDO

In 2019, a survey by the World Economic Forum found that Japanese adult citizens (along with those in the UK) had the lowest recognition of the UN's Sustainable Development Goals (SDGs) in the world, with only half having even heard of the SDGs.¹ The low SDG recognition by Japanese small companies was even more striking: in 2018, 84.2 percent of five hundred small and medium-size business owners said they had never heard of the SDGs.² By 2022, the situation had completely reversed: 95.0 percent of Japanese companies recognized the SDGs and 68.6 percent of large firms and 48.9 percent of small and medium-size enterprises (SMEs) had started or planned to start activities linked to the SDGs.³

1. World Economic Forum (2019).

2. Kanto Bureau of Economy, Trade and Industry and Japan Industrial Location Center (2018).

3. Teikoku Databank (2022).

What caused this turnaround? Answering this question is important because countries recognize they need to utilize the resources and capabilities of the private sector to meet their own SDGs. However, it is not easy for them to identify appropriate solutions. This chapter introduces the policies and initiatives applied in Japan, where top-down and bottom-up efforts created a closed loop through which business could embrace sustainability.

Several accounts of the rapid corporate uptake of the SDGs in Japan have been offered. For example, Dooley and Ueno reported that some companies might have found SDGs convenient for promoting their corporate image and “jumped onto the bandwagon,” while others might have felt obliged to proclaim their solidarity owing to social pressure to advance the SDGs.⁴ However, Davis and others point out that, behind the seemingly frivolous look of the recent interest in SDGs in Japan, there were concerted efforts by business and government to create a momentum to revitalize the country using the SDGs as a common reference point.⁵

Japan’s approach is distinctive because the public policies and initiatives to promote the SDGs have influenced the thinking and behaviors of businesses and the general public not only in a top-down manner but also in a bottom-up manner. On the one hand, there have been SDG-related institutional developments through the setting of guiding principles such as Japan’s Corporate Governance Code and Stewardship Code (a top-down approach), while on the other hand, Japan has raised public and business awareness and provided incentives through various policies and initiatives, such as education on the SDGs in schools, awareness raising through the mass media, and the establishment of awards related to the SDGs (a bottom-up approach). Another feature of Japan’s SDG policy is the coupling of the SDGs with the revitalization of regional societies and economies. Although there is only anecdotal evidence as to the effectiveness of these initiatives and policies, the Japanese case may serve as a helpful reference from which other countries can learn how to promote and sustain business contributions to the SDGs. The remainder of this chapter reviews the salient features of Japan’s approach.

4. Dooley and Ueno (2022).

5. Davis, Suzuki, and Sasaki (2023).

Raising Public Awareness of and Education about the SDGs

Shortly after the SDGs were adopted, a survey conducted by an advertising agency found that only 14.8 percent of the general public in Japan were aware of them.⁶ By 2023, SDG awareness had risen to 91.6 percent of civic respondents.⁷ This dramatic increase in the public recognition of the SDGs can be attributed to the intentional promotion of the SDGs by Japanese public sector agencies.

First, education on the SDGs was introduced for students in schools. This became one of the most potent awareness-raising activities in Japan. New government education guidelines, including education for sustainable development (ESD), were established for primary schools, junior high schools, and high schools in 2020, 2021, and 2022, respectively. These guidelines and the ESD policy provide the necessary knowledge of and skills related to the SDGs for all students to become central players in the future of sustainable development.⁸ Based on the new guidelines, schools have developed original curricular material related to the SDGs that entails students choosing their own goals in relation to the SDGs and considering how they and their community can contribute to achieving them.⁹ This focus on SDG education in schools has had a positive impact on SDG awareness directly by influencing students and indirectly by influencing parents through daily parent-child communication in the home.

A second channel that was used to raise SDG awareness was the mass media, including television, websites, social networking services, and newspapers. Following the issuance by the government of the revised edition of *SDGs Implementation Guiding Principles*, which emphasized awareness raising through mass media, a chorus of Japanese national and local media started strong awareness campaigns of the SDGs.¹⁰ TV stations

6. Dentsu (2023).

7. Ibid.

8. Japanese National Commission for UNESCO (2021).

9. Board of Education of Koriyama City (2022); Tokyo Metropolitan Board of Education (2020). In workshops, students may learn and discuss how to contribute to climate change mitigation in daily life, or participate in raising living plants and animals to foster respect for life and the natural environment, or learn about and then practice recycling and reuse for environmental protection.

10. SDGs Promotion Headquarters of Japan (2019).

launched numerous special segments, programs, and variety shows related to the SDGs, and the number of special segments broadcast on TV in Tokyo and Osaka areas reached 493 in 2020, more than three times the 117 segments in 2019.¹¹ As a result, in 2023, 91.6 percent of survey respondents recognized the SDGs, and 63.5 percent said they had learned about the SDGs through TV.¹²

Although the awareness-raising efforts were designed for consumption by the general public and were not specifically directed toward businesses, they have had wide-ranging and profound impacts on businesses. Consumer businesses cannot succeed without support from consumers—the general public. Indeed, the Japanese people, who are now very conscious of the SDGs, feel loyalty to companies engaging in activities related to the SDGs, which means that companies can gain a business edge by promoting their SDG activities.¹³ In addition, businesses in Japan face a labor shortage owing to the falling birth rate and an aging population. The labor force in Japan is expected to show a constant decline at a rate of approximately 500,000 people a year from 2022 to 2035.¹⁴ Thus all Japanese companies are under pressure to attract and retain young employees—people are now aware of the SDGs and prefer to work for companies that contribute to worthy social causes as embedded in the SDGs.¹⁵

Knowledge Dissemination and Awareness-Raising Activities Targeted at Businesses

In addition to the awareness-raising campaigns designed for the general public, the government has targeted business awareness. To this end, government ministries and agencies have published guidance materials related to the SDGs and ESG principles for businesses.¹⁶ For example, the Ministry

11. Dentsu (2021).

12. Dentsu (2023).

13. Ibid.

14. Fujita (2023).

15. Teikoku Databank (2022); Gakujo (2021); Nikkei BizGate (2022).

16. In this chapter, we use the terms SDGs and ESG (environment, social, and governance) principles or factors interchangeably as they conceptually cover similar issues in the business context, although the SDGs are standardized while ESG metrics are informal and vary across businesses.

of Economy, Industry and Trade (METI) and the Ministry of the Environment (MoE) each have published SDG guides for businesses. In addition, the Small and Medium Enterprise Agency published an SDG guide dedicated to SMEs, which often have limited resources to plan and implement initiatives related to the SDGs. These guides emphasize the benefits to business of adopting an SDG perspective as part of their risk avoidance and new business creation strategies. For example, companies may spotlight their commitment to the SDGs as a way to promote their corporate image, appeal to potential employees, and present themselves as attractive partners in creating new business opportunities. The government-produced guides also provide model procedures for companies to link the SDGs to their business practices and to provide relevant information to stakeholders.

Second, the government established awards for companies' good practices related to implementing ESG principles and the SDGs (e.g., the Japan SDGs Award, provided by the Ministry of Foreign Affairs, the ESG Finance Award, provided by the MoE, and the Regional Revitalization SDGs Financial Award, provided by the Cabinet Office). The Japan SDGs Award is especially prestigious because of its presenters and history; the award was established by the SDGs Promotion Headquarters in 2017, and prizes are presented to five to fifteen companies or organizations every year by the prime minister, the chief cabinet secretary, the foreign affairs minister, and the SDGs Promotion Headquarters. These awards have contributed to raising awareness about socially responsible businesses and also assist in business public relations efforts, which incentivizes companies to take action on the SDGs.

Third, another awareness-raising activity by the government is the dissemination of good practices through online platforms. The guidelines mentioned above include good practices, including award-winning companies' activities. Some online platforms also showcase what other companies are doing, primarily focusing on SMEs. For instance, METI hosts a website to disseminate the good practices of SMEs working on the SDGs.¹⁷ The website explains the actions some SMEs took to fulfill the SDGs and what benefits they obtained, giving other SMEs ideas for taking on new SDG-related activities. To date the website has introduced twenty-three good practices by SMEs. In addition, most local governments provide

17. See METI (2024).

information on the good practices of SMEs in their regions on their official websites.

Apart from government activities, other public sector entities and industry associations have also played significant roles in raising the profile of the SDGs and ESG principles in the corporate world. The views and actions of the Government Pension Investment Fund (GPIF) of Japan, the world's largest pension fund, brought a sea change in the Japanese financial sector by spearheading ESG-conscious investing. The GPIF became a signatory to the UN's Principles for Responsible Investment (PRI) in 2015 and urged its asset managers to become PRI signatories.¹⁸ The GPIF also required its asset managers to undertake and report their ESG engagement with investee companies, adopted nine ESG indices, and made investments worth 12.5 trillion yen (roughly U.S. \$83 billion at the current exchange rate) tracking these indices as of March 2023.¹⁹ A series of GPIF initiatives and actions shifted the mindset of Japanese institutional investors and investee companies alike toward embracing ESG investment. The Japan Business Federation, Keidanren, also played a significant role. Keidanren revised its Charter of Corporate Behavior in 2017, declaring its member companies' aspiration for achieving the SDGs through realizing Society 5.0.²⁰ Because of its strong political influence, Keidanren's full-fledged support for the SDGs had a strong impact on the views of Japanese companies, particularly the leading large companies, toward the SDGs.

All these initiatives help companies learn what to address and how to do it when considering implementing practices to advance the SDGs and ESG principles. Awareness raising directed at businesses has positive indirect impacts on the awareness of the general public and vice versa, since the companies usually publicize their SDG-related activities in their public relations campaigns. Therefore, the recent dramatic increase in the recognition of the SDGs in Japan could be attributed to the synergy of government awareness-raising activities directed at the general public and those directed at businesses, which effectively raises awareness in the whole of society.

18. Otsuka (2020).

19. GPIF (2023).

20. The term Society 5.0 was first officially used by the Japanese government in 2016. It refers to a future smart society wherein social challenges are resolved by the integrative application of innovative technologies (Cabinet of Japan, n.d.). The relationship between the SDGs and Society 5.0 is discussed in detail in Davis, Suzuki, and Sasaki (2023).

Targeted Direct Incentives

Beyond awareness raising, the national and local governments have provided direct incentives for companies to start and sustain SDG-related activities. One of the most straightforward approaches is the provision of financial incentives. Even before the mainstreaming of the SDGs, both central and local governments had offered a number of subsidies related to SDGs (e.g., the Agency for Natural Resources and Energy provides subsidies for energy savings, which cover part of the renewal costs for energy-saving equipment in industrial facilities; the City of Yokohama provides a subsidy for SMEs to cover part of their capital investment in energy savings, digital transformation, and productivity improvements). Recently, however, an increasing number of local governments have begun to provide SDG-dedicated subsidies, explicitly mentioning SDGs in the name of the subsidy programs. For instance, Arakawa City launched a subsidy for SMEs to develop new products and technologies that will contribute to realizing the SDGs, and Nagano Prefecture has launched a subsidy to assist SMEs in finding new marketing channels for their products that contribute to realizing the SDGs. However, subsidies are not available to everyone; many SDG-dedicated subsidies require obtaining local government registration or certification on SDG alignment, as explained below. Furthermore, the subsidies tend to be small (most subsidies are up to 3 million yen, or approximately \$20,000) and are often targeted at SMEs.²¹ The Japanese government and other public sector agencies also provide incentives for private companies to promote SDG-related business overseas. For example, the Japan International Cooperation Agency (JICA) collaborates with and supports Japanese companies that are expanding their businesses in developing countries when such businesses can significantly contribute to achieving the SDGs there.²²

In addition, local governments in Japan have also started incentivizing SDG-related activities by introducing preferential treatment in public works and procurement bidding. There are two mechanisms in the preferential treatment system. One introduces SDG-related perspectives on the

21. Based on data retrieved from subsidy databases (J-Net 21, “Information on Support for SMEs,” <https://j-net21.smrj.go.jp/snavi/>; and Hojyokin Portal, “Searchable Database for Subsidies and Grants,” <https://hojyokin-portal.jp/>). Subsidies that included the term “SDG” in their title were extracted and examined.

22. JICA (2023), 50–52.

activity into the scoring criteria. The other gives bonus points to companies with a track record of SDG registration or certification. For example, Kyoto City gives additional points to bidders for some public works projects if they demonstrate SDG-related merits in their proposal, such as records of employing disabled persons or female engineers, or a certification of environmental management. As other examples, Saitama Prefecture and Yokohama City give additional points to bidders for some public procurement projects if the bidders have registration or certification documentation of their contributions to the SDGs (box 13.1).

Box 13.1. Examples of Initiatives by Local Governments to Promote the SDGs

1. Yokohama City's SDGs Certification System

Yokohama City was one of the first local governments to establish a certification scheme for companies contributing to achieving the SDGs. The Yokohama City SDGs Certification System was established in 2020. Applications for certification that are submitted by companies are evaluated by Yokohama SDGs Design Center, an NPO operating in association with the public-private partnership between Yokohama City and private companies.* There are three categories of certification: Supreme, Superior, and Standard. Among the benefits of certification, certified companies are given additional points (three, two, and one point(s) for Supreme, Superior, and Standard certification, respectively) in bidding on public projects by Yokohama City. Certified SMEs based in Yokohama City are eligible to apply to a special loan program dedicated to the SDGs in which part of the credit guarantee fee is subsidized by the city.†

2. Society 5.0 Maizuru Version for SDGs

The City of Maizuru in Kyoto Prefecture has implemented a project called Society 5.0 Maizuru Version for SDGs. This project aims to realize a smart community in a rural setting through the introduction of smart technologies, in partnership with technology companies. The project helps introduce smart agriculture and fisheries, attracts remote workers from cities by providing coworking spaces, experiments with Mobility as a Service (MaaS) through a combination of public transport and private ride sharing, disseminates cashless payments for the convenience of citizens and tourists, strengthens the renewable electricity supply and energy saving, and monitors natural disasters using a network of sensors, cameras, and AI technologies.‡ The project was selected as a Local Government SDGs Model Project, and the City of Maizuru was designated an SDGs Future City by the Government of Japan in 2019.§

*City of Yokohama (2022).

†City of Yokohama (2024).

‡Maizuru City (2021).

§Cabinet of Japan (2019a, 2019b).

These direct incentives have some common features. First, although they are for businesses, they may also have indirect positive effects on raising awareness among the general public because they receive visibility through the announcements of awards from both the central and local governments. Another feature is that both types of incentives encourage businesses to obtain government registration or certification with respect to the SDGs since this is usually a precondition to receive SDG-related subsidies and worth additional points on public works bidding.

Corporate Governance Reform and Sustainability

A major corporate governance reform initiative started in 2013 as an integral part of the Japan Revitalization Strategy launched by then prime minister Shinzo Abe. As the first significant milestone, Japan's Stewardship Code was published in 2014, followed by the adoption of Japan's Corporate Governance Code in 2015. The former was based on the British model and the latter was modeled after the OECD Principles of Corporate Governance.²³

The Stewardship Code provides principles for signatory institutional investors to fulfill their stewardship responsibilities. Becoming a signatory is voluntary, but most prominent institutional investors have accepted the code. As of March 31, 2024, 334 institutional investors were signatories to the code. They are required annually to post on their websites an account of how they implemented the principles. If they did not implement some of them, they must explain why. This is known as the "comply or explain" approach. The original code adopted in 2014 referred to social and environmental issues only in the context of monitoring the risks of investee companies. The references to sustainability, including ESG factors, were strengthened through revisions in 2017 and 2020. The current code requires institutional investors to demonstrate how they integrate considerations of sustainability issues into their strategy to fulfill their stewardship responsibilities and engage with investee companies based on such considerations. The inclusion of the ESG factors in the Stewardship Code turned the financial sector into a driving force to promote the SDGs and ESG principles among companies in Japan.

The Corporate Governance Code provides principles for companies listed on the Tokyo Stock Exchange (TSE) to put effective corporate

23. Milhaupt (2017).

governance in place. Listed companies in the Prime and Standard Markets of the TSE must comply with all the principles of the code, while those in the Growth Market need to comply only with the general principles. In either case, companies that choose not to comply with any of the principles must explain why. The code was revised in 2018 and 2021, and the current code requires listed companies to actively address sustainability issues, including ESG factors, to enhance their medium- to long-term corporate value. It further requires the companies to develop their sustainability policy and disclose their efforts to address sustainability issues.

A question is how these twin codes have effectively encouraged companies to address sustainability issues. One issue is the coverage of the codes: how many institutional investors and companies are subject to them? Among the 334 signatories to the Stewardship Code, 254 have corporate numbers registered in Japan; they represent fewer than 1 percent of the pension funds and about 14 percent of other institutional investors.²⁴ These numbers may look modest, but most major asset owners and asset managers are signatories to the Stewardship Code, implying that the monetary-based shares of the signatories are significant. As for the Corporate Governance Code, the total number of companies listed in the Prime, Standard, and Growth Markets of the TSE was 3,939 at the end of April 2024. According to the 2021 Economic Census for Business Activity, Japan had roughly 1.78 million companies.²⁵ This means that only about 0.2 percent of companies are directly influenced by the Corporate Governance Code.

However, far more companies are likely to be influenced indirectly by the Stewardship Code and Corporate Governance Code through engagement with those directly subject to them. According to a survey of five hundred SMEs, 20 percent identified suggestions or requests from their business customers or suppliers as the biggest reason for addressing the SDGs.²⁶ Again, this implies the potentially extensive impacts of the codes through the supply chains of companies listed on the TSE or through engagement with signatory investors of the Stewardship Code.

24. The list of institutional investors that have accepted the Stewardship Code is provided by the Financial Services Agency of Japan and is available at <https://www.fsa.go.jp/en/refer/councils/stewardship/20160315.html>. As of March 31, 2024, 334 institutions had signed.

25. Statistics Bureau of Japan (2021).

26. Japan Industrial Location Center (2021).

Another issue is how the codes change the perceptions and behaviors of related investors and companies. The TSE periodically studies and publishes the state of implementation of the Corporate Governance Code by its listed companies. The latest report studied 3,293 companies listed on the Prime or Standard Markets.²⁷ The implementation of sustainability-related principles is reported in table 13.1, and this information indicates that most companies have recognized the importance of addressing sustainability issues for raising their medium- to long-term corporate value and have developed basic policies around sustainability initiatives. However, only two-thirds of them disclose their sustainability initiatives, indicating that some companies have yet to implement sustainability policies. There are no corresponding data for compliance with the Stewardship Code.

We therefore reviewed the policies to address the principles of the code and stewardship reports disclosed by the signatory institutional investors. A list of the access links to these materials is available on the Financial Services Agency website.²⁸ We found that 71 percent of the stewardship policies referenced ESG principles or sustainability.²⁹ This may be a good sign that most institutional investors take sustainability seriously. However, many policies provide only a boilerplate statement about sustainability and adherence to ESG principles, merely repeating the phrasing found in the Stewardship Code. Among the ninety-one stewardship reports submitted by a subset of the signatories, 81 percent contained references to ESG principles or sustainability, but the level of detail of the ESG and sustainability engagement varied greatly. Our review suggests that the signatories to the code that have implemented meaningful ESG or sustainability engagement with investee companies are still in the minority.

27. Tokyo Stock Exchange (2022).

28. The website for the Financial Services Agency of Japan website is <https://www.fsa.go.jp/en/refer/councils/stewardship/20160315.html>. The analysis was conducted using the list as of June 30, 2023.

29. In the calculation, duplication was eliminated. When more than one institutional investor referred to the same policy document, it was counted only once. References to ESG principles or sustainability were not counted if they appeared only in the names of positions or divisions. References to “sustainable investment” were counted, but “sustainable growth” was not counted.

Table 13.1. Implementation of Selected Sustainability-Related Principles of Japan's Corporate Governance Code (2021)

Code number	Supplementary principles	Compliance rate (%)	
		Prime	Standard
2.3.1	"The board should recognize that . . . sustainability issues . . . are important management issues that can lead to earning opportunities as well as risk mitigation and should further consider addressing these matters positively and proactively in terms of increasing corporate value over the medium- to long-term."	95.8 (+1.9 pt)	94.0 (+0.7 pt)
3.1.3	"Companies should appropriately disclose their initiatives on sustainability when disclosing their management strategies. . . . In particular, companies listed on the Prime Market should collect and analyze the necessary data on the impact of climate change-related risks and earning opportunities on their business activities and profits and enhance the quality and quantity of disclosure based on the TCFD recommendations . . . or an equivalent framework."	62.5 (-4.2 pt)	59.4 (+0.8 pt)
4.2.2	"The board should develop a basic policy for the company's sustainability initiatives. . . . In addition, . . . the board should effectively supervise the allocation of management resources . . . and the implementation of business portfolio strategies to ensure that they contribute to the sustainable growth of the company."	86.4 (+6.2 pt)	67.2 (+3.5 pt)

Source: Modified from Tokyo Stock Exchange (as of July 14, 2022).

Note: The texts of the supplementary principles are quoted from Japan's Corporate Governance Code (2021). *pt*, percentage point.

Corporate Sustainability Policies in the Context of Regional Development

Corporate governance reform through the two codes, which encourage more corporate and investor efforts to address sustainability issues, primarily targets large companies. Although the codes' influence extends to

some smaller companies through large companies' supply chains, the range of influence is still small if one considers the very large number of SMEs. In Japan, SMEs account for 99.7 percent of companies in number, 70 percent of employees, and 53 percent of the value added in the economy.³⁰ Thus sustainability policies targeting smaller companies are needed.

As a principal example of such policies, the promotion of sustainability initiatives by local companies, including SMEs, has been integrated into the government's policies to revitalize regional economies. The coupling of the SDGs with regional revitalization, which is a central policy agenda in the Japanese context of dwindling regional economies in aging rural communities, is a unique characteristic of the application of SDG policies in Japan. This began when the Japanese government started publishing a strategy document for regional revitalization, *Town, People, Job Creation Comprehensive Strategy*, in 2014; it has been revised six times since.³¹ A reference to the SDGs first appeared in the 2016 edition.³² The latest edition of the strategy (2020) identified the SDGs as a guiding principle and a driving force to implement regional revitalization.³³ The 2020 strategy included initiatives to facilitate the establishment of registration or certification schemes for local companies to address the SDGs and to assist local financial institutions providing SDG- or ESG-related financing for regional revitalization.

The registration or certification schemes are established and operated by local governments. According to the guidelines on local SDG registration or certification schemes commissioned by the Cabinet Office of Japan, there are three types of schemes: registration of declarations, registration of initiatives, and certification of initiatives.³⁴ The declarations refer to the intention expressed by local companies to address the SDGs. The registration of initiatives registers local companies' initiatives to address the SDGs, including targets, implementation plans, and self-monitoring and evaluation results. Certification occurs when initiatives are reviewed and certified by the local government. As of the end of July 2023, twenty-three prefectures and sixty-four municipalities had established such schemes.³⁵

30. The Small and Medium Enterprise Agency (2023).

31. Cabinet of Japan (2014).

32. Cabinet of Japan (2016).

33. Cabinet of Japan (2020).

34. Research and Study Group of SDGs Finance for Regional Revitalization (2020).

35. The Regional Revitalization SDGs Financial Research and Study Group (2021) has published the latest list.

**Table 13.2. Results of Corporate Participation in the
SDG-Related Registration or Certification Schemes**

Category	Feedback from companies on the results of their participation
Internal engagement, and learning	<ul style="list-style-type: none">• Better understanding of the SDGs and their linkages with their businesses• Better understanding of their contributions and progress toward fulfilling the SDGs; better understanding of the challenges involved• Enhanced internal uptake of the SDGs
Stakeholder relationships and partnership	<ul style="list-style-type: none">• Extended networks with external companies and people• Greater appeal to business partners and prospective employees
Access to finance	<ul style="list-style-type: none">• Subsidies awarded for SDG-related initiatives

Source: Compiled by the authors based on feedback information from companies participating in the registration or certification scheme in Tottori and Nagano Prefectures (Tottori Prefecture, n.d.; Act SDGs, 2021).

Only five local governments were running certification schemes as of July 2023. Some local governments run two or three types of registration or certification schemes in parallel. Both the numbers of schemes and the number of companies registered or certified are growing. Examples of the benefits for local companies from participating in such schemes include greater opportunities to receive SDG-related financing from local financial institutions, preferential treatment in public procurement, eligibility for subsidies awarded by local governments, business matching facilitation among companies, opportunities for the exchange of knowledge and experience with peers, and greater corporate visibility and recognition.

As Kanie notes, the governance mechanism of SDGs is based on a voluntary commitment to goals and targets and the monitoring of progress toward them with indicators.³⁶ The significance of the SDG registration or certification schemes lies in that they bring companies, including SMEs, on board with the SDG governance mechanism. The effectiveness of such schemes, however, is yet to be evaluated. Some anecdotal evidence of their impacts based on feedback from some companies participating in registration or certification schemes in two prefectures is presented in table 13.2.

36. Kanie (2017).

These schemes are designed and operated differently in respective localities, and such diversity could provide many testing laboratories and valuable learning opportunities for devising effective approaches to encouraging companies to address sustainability issues.

Forming Good Corporate Citizens

This chapter has reviewed a range of measures taken in Japan to encourage companies to contribute to the SDGs. These measures can be classified based on the type of motivation they resort to. As Simon Sinek has said, “There are only two ways to influence human behavior: you can manipulate it, or you can inspire it.”³⁷ Manipulations include giving various forms of incentives, imposing formal or informal regulations, or putting pressure on stakeholders. Such manipulations are necessary, particularly to prevent companies from harming human rights and well-being, public safety and order, or the environment. However, we argue that companies need to be inspired if they are to make enduring efforts toward progress on achieving the SDG.

What inspires companies, then? There is no definite answer to that question. The same measure, for example distribution of SDG informational materials or establishing a registration scheme for SDG initiatives, may inspire some but not others. Only manipulative measures can be targeted to specific outcomes. However, the range of awareness-raising and educational activities about the SDGs that have been implemented in Japan to date may have had profound under-the-radar impacts on the current broad social support for the SDGs by inspiring members of society in all walks of life, although such impacts are difficult to evaluate empirically. In addition, a likely ingredient of corporate inspiration is mutual engagement with company stakeholders and between executives, managers, and all employees to discuss how they can progress toward achieving the SDGs as a society and what companies can contribute to that progress. Various SDG platforms are already established in Japan to facilitate engagement, interactions, and knowledge exchange among companies, governments, and civil society organizations.³⁸ Encouraging more companies to participate in such platforms

37. Sinek (2009), 16.

38. See, e.g., Cabinet of Japan (2023), MoE (2023), and the Association for Sustainable Transition’s Platform Clover (<https://platform-clover.net>).

could help participants, including companies, to inspire one another to take actions linked to realizing the SDGs.

However, we cannot expect companies to contribute to the SDGs in isolation. A company's ability to deliver significant progress toward the SDGs will be undermined if its shareholders focus only on maximizing short-term profits, or if its customers demand that the company supply goods and services at the lowest possible price no matter how problematic the production process may be. If we are to fulfill the SDGs as a society, shareholders should request companies to contribute to the SDGs even if this means sacrificing some short-term profits, and customers in turn should expect companies to supply goods and services responsibly even if this leads to higher prices. Of course, this does not mean companies must contribute to achieving the SDGs at any cost. Balance matters. That is why companies need to engage with their shareholders, customers, suppliers, governments, and other stakeholders to discuss what they expect from each other in progressing toward societal realization of the SDGs.

The SDGs are political goals, and achieving them in each society is a political process. Sandel, in giving an account of Aristotle's elaboration of politics, explained that the purpose of politics was to cultivate "distinctive human capacities and virtues—to deliberate about the common good, to acquire practical judgment, to share in self-government, to care for the fate of the community as a whole"—or, in fewer words, to "form good citizens."³⁹ If we apply this perspective to the SDGs, the purpose of the political process to implement them would not be just achieving these goals but to form good citizens and good companies along the way through collaborative deliberations and interactions within society. The SDGs may change over time if circumstances change or if stakeholders decide to change them. Thus, achieving the current set of SDGs may not in itself be the ultimate purpose. Forming good citizens and companies would have far more enduring positive impacts for ensuring the sustainable progress of society, regardless of what sustainability issues may be most crucial at any given time. In that respect, sustainability education for all (Target 4.7 of the SDGs) deserves more attention in the post-2030 development goals. If lifelong learning about sustainability is institutionalized for all stakeholders in society, the societal transition toward sustainability will be equipped with a steady driving force from good citizens and good companies.

39. Sandel (2010), 193.

Companies are essential members of society as corporate citizens, and forming good corporate citizens is of utmost importance to ensure the sustainability of society.⁴⁰ Engaging companies in the societal journey toward achieving the goals outlined in the SDGs provides valuable opportunities to form good corporate citizens along the way.

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