



Ken Shibusawa

CEO, Shibusawa and Company, Inc.

After gaining extensive market experience at foreign financial institutions and hedge funds over many years, Ken Shibusawa set out on his own in 2001 to found Shibusawa and Company, Inc., where he assumed the role of CEO. In 2007, he founded Commons, Inc., which was subsequently renamed Commons Asset Management, Inc. in 2008, and took on the position of Chair. In January 2023, he founded &Capital Inc., where he currently is Representative Director & CEO. Furthermore, he is active in a wide variety of roles, including his positions as member of various government panels such as the Council of New Form of Capitalism Realization. He is also the great-great-grandson of Eiichi Shibusawa, who is widely known as “the father of Japanese capitalism.”

Fumihiko Kobayashi

Member of the Board,
Executive Vice President, CAO*

* Chief Administrative Officer

CAO
DIALOGUE

“*RONGO (Ethics) and SOROBAN (Economy)*” and “*Sampo-yoshi*”

Mr. Ken Shibusawa and CAO Kobayashi talked about visualizing the “non-visible value” of companies and the way sustainability runs through the past, present, and future.

A Sense of Mission Shared by Entrepreneurs Who Lived in the Same Era

Kobayashi:

ITOCHU is proud of our 165 year history of sustained operations since our founding in 1858, when Chubei Itoh I commenced linen trading operations. Counting from when he opened the first store called “Benchu” in Osaka’s Honmachi area in 1872, 2022 marked the 150th anniversary of our Company. Notably, that was also around the same time that Eiichi Shibusawa, regarded as “the father of Japanese capitalism,” resigned from the Ministry of Finance, entered the business world, and launched his own business. Shibusawa’s book, “*RONGO (Ethics) and SOROBAN (Economy)*,” details a management philosophy that explains how businesses are destined to fail if the balance between profits and morality is

not achieved. Chubei Itoh I also adhered to the philosophy that trade is a “compassionate business,” and that a business will fail if it does not equally benefit the seller, the buyer, and society—also commonly known in Japan as the philosophy called “*Sampo-yoshi*.” I think these two men had a lot in common regarding their business policies and philosophies.

Shibusawa:

Yes, indeed. Firstly, the Shibusawas were originally farmers of indigo and silkworms, so they were involved in the textile business and shared that in common with the Itohs. As Japan’s modernization progressed amid the drastic changes of the era, both men broadened their perspectives beyond their family businesses to embrace a common sense of duty to help enrich the world through business. I also believe that they worried about society’s divergence away from the “*bushido*” philosophy and

morality, and embracing a philosophy focused solely on putting profits first.

Kobayashi:

Turning now to the modern era, Japanese companies have been adopting concepts and systems based on European and American shareholder capitalism. To date, they mainly undertake management with maximizing shareholder returns as its mission. Now, however, in line with the idea that the pursuit of shareholder profit alone cannot guarantee the sustainability of companies, “stakeholder capitalism” is being increasingly emphasized, starting with Europe and the United States. This revives the spirit and sense of mission that our two founding fathers held close to their hearts, and their mission of enriching the world through business. With a universality transcending both eras and borders, their vision is making a comeback.

Shibusawa:

To avoid simply replicating superficial imitations of European and American concepts, and also to uphold our own traditional Japanese spirit, Eiichi Shibusawa professed that we should value not just the “How,” but also the “Why.” Companies will not exist in perpetuity if they only have good management processes and methods. I believe that the “power of human” is the source of a company’s sustainability. ITOCHU has now grown to become a huge company, despite its humble beginnings as a small start-up when it was founded. Over the long course of over 160 years since its founding, I believe ITOCHU has been able to sustain its operations by maintaining a trailblazing spirit throughout each new era, and also by endeavoring to meet the diverse and changing needs.

Sustainability Unique to General Trading Companies

Kobayashi:

In the pursuit of progress with our sustainability going forward, we remain well aware of the need to avoid merely continuing to do the same things as in the past in order to ensure the sustainability of our Company. I would be very grateful if you could offer your advice and guidance related to ITOCHU’s vision and the direction in which our Company should head.

Shibusawa:

When we talk about sustainability, companies and stakeholders need a “common language.” General trading companies operate a wide range of businesses across diverse industries, with varying positions in the business flow process ranging from upstream to downstream. Also, the businesses of trading companies are intricately woven into people’s day-to-day lives. Consequently, there has been an organic increase in the external demands and expectations which general trading companies need to consider.

Accordingly, there are many sustainability issues that need to be addressed, and I am sure ITOCHU receives various guidance on them. But I think what ITOCHU needs to avoid is just passively responding to this multitude of issues. Instead, ITOCHU should proactively advocate its core philosophies that have enabled it to establish a strong track record of sustainability reflected in its over 160 years of operations. For example, the differing positions on and status of GHG emissions reductions in each country make it a difficult course to navigate. And while developed countries aim to withdraw from fossil fuel burning activities, emerging and developing countries will still need coal and other inexpensive sources of fuel for their ongoing development. I think it is somewhat unrealistic to expect these countries to avoid the use of any fossil fuels, but I expect ITOCHU to work on resolving issues in various countries by providing new technologies and solutions cultivated from its involvement in a diverse range of businesses.

Kobayashi:

In accordance with our medium-term management plan, ITOCHU has laid out “Enhancing our contribution to and engagement with the SDGs through business activities” as one of our basic policies. Our Company was the only one among the general trading companies to have disclosed information on GHG emissions from all of its related fossil fuel businesses and interests. Moreover, we formulated targets that newly include the concept of “offsets” in the context of GHG emissions reduction. By FYE 2022, we sold three of four thermal coal interests that we held in FYE 2019 as part of our efforts to reduce GHG emissions from fossil fuel businesses and interests. Our Company aims to achieve the Japanese Government’s “2050 Carbon Neutral” goal 10 years ahead of schedule, in 2040, by leveraging business expansion in areas such as renewable energy to help offset and reduce our Company’s own GHG emissions. However, I feel that Scope3 emissions disclosure poses a major challenge for ITOCHU because it operates businesses with a huge number of companies across supply chains in a wide range of business fields. (▶ Page 78 Approach to Climate Change and Related Initiatives)

Shibusawa:

This appears to be an issue that is unique to general trading companies. When I have conversations with overseas experts, it is assumed to disclose estimates; however, people in Japan worry about how accurately they can disclose GHG emissions from the upstream to the downstream. The criteria for Scope3 emissions disclosure is still being discussed overseas as well, so for example by conducting flexible initiatives such as proactively identifying the range of Scope3 emissions to be disclosed based on the characteristics of its businesses and demonstrating the relationship with financial information, I think ITOCHU could become a leading model for companies facing similar issues.