

# Chapter 6 Teaching Guide

## Sustainability in Japan

### 1. Chapter Overview

Chapter 6 examines Japan's sustainability landscape through the lenses of business culture, governance reform, regulatory architecture, and market transformation. It explains why Japan has long been perceived as a challenging market for ESG-oriented investors, while also demonstrating why it is now one of the most consequential sustainability markets in Asia.

The chapter highlights how cultural norms (long-termism, consensus-building, trust) intersect with structural reforms—including corporate governance codes, stewardship expectations, and capital market pressure—to reshape corporate behaviour. It also explores how demographic change, physical climate risk, cross-shareholdings, and rising shareholder activism create both constraints and opportunities for sustainability integration.

This chapter is particularly important for investors, corporates, and international executives who must navigate Japan's highly institutionalised yet evolving system, where progress is incremental but increasingly durable once achieved.

## **2. Key Learning Objectives**

After completing this chapter, students should be able to:

1. Explain how Japanese business culture influences sustainability strategy and engagement.
2. Understand Japan's complex regulatory and institutional architecture and its implications for ESG.
3. Assess how demographic and climate risks shape sustainability priorities in Japan.
4. Analyse the role of corporate governance reforms in changing corporate behaviour.
5. Evaluate the impact of cross-shareholdings on capital efficiency and accountability.
6. Understand the rise of shareholder activism in Japan and its sustainability implications.
7. Identify sustainability-related opportunities arising from Japan's transition and innovation agenda.

### **3. Summary of Key Points (Instructor Version)**

- Japan's business culture emphasises long-term relationships, consensus, and quality.
- Decision-making is often slow but leads to durable outcomes once alignment is achieved.
- Regulatory oversight is sophisticated but fragmented across multiple ministries and agencies.
- Demographic aging and labour shortages are structural sustainability challenges.
- Physical climate risks pose material threats to supply chains and infrastructure.
- Cross-shareholdings continue to weaken capital efficiency and governance, despite reforms.
- Corporate governance and stewardship reforms are reshaping investor–company dynamics.
- Shareholder activism is becoming more mainstream and constructive.
- Japan's innovation capacity and climate commitments create long-term opportunities.

## **4. Teaching Guidance: How to Use This Chapter**

### **a. Recommended Teaching Approach**

This chapter works best as a country deep-dive following the Greater China chapter (Ch 5), allowing students to contrast:

- policy-driven systems (China)
- hybrid financial hubs (Hong Kong)
- governance-led markets (Japan, Taiwan)

It is well suited for:

- MBA / EMBA courses on global markets
- Executive education for foreign investors and boards
- Stewardship and engagement training
- Japan-focused strategy or sustainability modules

The chapter supports comparative discussion, culture-aware analysis, and governance case studies.

### **b. Suggested Class Flow (90 minutes)**

- i. Cultural framing (15 minutes)

Ask students:

“Why does progress in Japan often appear slow—but prove hard to reverse?”

Discuss nemawashi, trust, and long-termism.

ii. Institutional architecture (20 minutes)

Map:

- MOJ, FSA, METI, TSE, Keidanren
- Governance codes and stewardship expectations

Emphasise coordination challenges and reform momentum.

iii. Risks and constraints (25 minutes)

Explore:

- Aging demographics
- Labour shortages
- Climate and physical risk
- Cross-shareholdings

iv. Governance reform and activism (20 minutes)

Analyse:

- Stewardship Code impact
- TSE market reforms
- Activist cases (e.g., cross-shareholding unwind, capital efficiency)

v. Synthesis (10 minutes)

Reinforce Japan as a high-friction but high-quality sustainability market.

## **5. Common Student Misconceptions to Address**

- Japan resists change more than other markets
- Consensus culture prevents shareholder influence
- Activism is incompatible with Japanese business norms
- Governance reform is cosmetic
- Climate risk is secondary to governance issues

Instructors should redirect discussion toward institutional evolution and compounding reform effects.

## **6. Instructor Tips for Effective Discussion**

- Encourage patience-based analysis rather than short-term judgments.
- Highlight how cultural norms shape engagement strategy.
- Use interviews to ground theory in practitioner insight.
- Contrast Japan's activism model with US-style confrontation.
- Emphasise governance as an enabler of environmental and social progress.

## **7. Suggested Supplementary Readings (Optional)**

### **Governance & Capital Markets**

- ACGA. *CG Watch – Japan*
- FSA. *Corporate Governance Code*
- Japan Stewardship Code

### **Sustainability & Climate**

- METI. *GX Transition Strategy*
- Cabinet Office of Japan. Climate risk assessments
- TCFD / ISSB adoption in Japan

### **Demographics & Society**

- Statistics Bureau of Japan
- OECD. *Aging and Productivity*



## **8. How This Chapter Connects to the Rest of the Book**

Chapter 6 builds on the regional insights of Chapter 5 by examining a mature, governance-led sustainability market. It demonstrates how ESG integration depends on cultural legitimacy, institutional reform and investor persistence. The chapter sets up later discussions on stewardship escalation, board effectiveness and long-term value creation in advanced Asian markets.