

Achieving a Real Increase in Corporate Value



With the recent establishment of the ESG Management Promotion Group, the publication of the NYK Group ESG Story, and the creation of the ESG Management Committee, the NYK Group has made steady progress in preparing for a full-fledged drive toward ESG management. What is needed to ensure that these activities retain their authenticity and effectiveness? President Hitoshi Nagasawa leads these ESG management initiatives, while Daigo Shimizu, the head of the Business Development Department of Goldman Sachs Japan Co., Ltd., has been invited to advise the ESG Management Committee. In this dialogue, they exchange opinions on future issues regarding ESG management.



Profile

Hitoshi Nagasawa

President, Representative Director, President and Chief Executive Officer

Profile

After joining the Company in 1980, Hitoshi Nagasawa became the general manager of the LNG Group in 2004, a corporate officer in 2007, and a managing corporate officer in 2009. He has been in charge of the Energy Division since becoming a director in 2011 and has chaired a committee overseeing the strategies of bulk shipping since being appointed as an executive vice-president corporate officer in 2018. Mr. Nagasawa was involved in the Company's acquisition of upstream interests in the LNG business and development of the offshore business. His motto is, "Be a nail that sticks out, even if you get hammered."



Profile

Daigo Shimizu

Head, Business Development Department, Equity Sales Group, Global Markets Division Goldman Sachs Japan Co., Ltd.

Profile

After graduating with a master's degree from Kyoto University in 2001, Daigo Shimizu joined Nikko Salomon Smith Barney Limited (currently Citigroup Global Markets Japan Inc.) and then started working at Goldman Sachs Japan in 2007, in charge of SDGs and ESG as head of the Business Development Department. His motto is, "Live as if you were to die tomorrow. Learn as if you were to live forever."

How do you get people on board with ESG?

Nagasawa Recently, the ESG Management Promotion Group conducted an employee awareness survey about ESG management. Compared with the survey results for 2020, the results for 2021 showed a definite increase in awareness of ESG, but still not what we could consider satisfactory. For example, I was most disappointed to see employees answering that they "don't have time to engage in ESG," even though they understood its importance. Time spent working at one's company is also part of the time one spends engaging in society. Carrying out one's work from an ESG perspective is the same as conducting individual daily activities from an ESG perspective. So, it is not really a question of having time.

Dialogue



How can we get people interested in ESG at a personal level? Finding the answer to that is currently one of our most pressing management issues. The ESG management team has been bolstered considerably, including the establishment of the ESG Management Committee, which Mr. Shimizu has joined. That being said, even among committee members there are gaps in and varying degrees of ESG awareness. It might seem like a circuitous route, but I think that the quickest way to achieve the kind of ESG management I envisage may be to take *The NYK Group ESG Story Book*, translated in Japanese, English, and Chinese, and use it as the basis of open and sincere dialogues with Group employees around the world.

■ **Shimizu** I think that when people say they do not have time to engage in ESG, it shows that they still perceive ESG as

something outside of their business. I feel that open and sincere dialogue is important as a way to get employees to integrate ESG thoroughly into their day-to-day business—pressure from the top is certainly not the way to go.

On the other hand, time itself is also an important theme in ESG management. While the management team always makes decisions based on a medium- to long-term time frame with an awareness of various stakeholders, frontline employees who face customers on a daily basis inevitably tend to make decisions based on a short-term time frame. Many companies are facing the issue of frontline employees perceiving ESG as an issue for other people. How can they be encouraged to take personal ownership over ESG efforts, which have a different time frame, as they focus on their daily work? In addition to dialogue, perhaps some other specifically targeted approach

is needed? For example, having employees own NYK's shares is one way, I think.

■ **Nagasawa** I have heard of cases in which a company has encouraged not only management but also its employees to hold their company's shares in a bid to change their collective mindset. At NYK, we plan to change our executive compensation system by incorporating ESG-related results as one of the evaluation items. In addition, we will also look at introducing this into employees' evaluations. The fact is that there is still a deeply rooted tendency to regard business and ESG as being distinct from each other.

■ **Shimizu** As a head of my department, I also want it to be an organization that will make a big impact on society. Therefore, even in the securities industry, which tends to focus on short-term profits, I am strongly

aware of time-line management. For example, we can organize our approximate periods for monetization along one-year, three-year, and five-year time frames. By doing this, in our department we will be able to naturally discuss medium- to long-term projects using "ESG yardsticks." I have had individual discussions regarding the above with members of NYK's ESG Management Committee and I feel that they are gradually beginning to be on the same page. However, since each member comes from a different career background, there still seems to be some slight differences in

more employees incorporating an ESG perspective into their daily activities and striving to not waste food can draw a lot of empathy, increasing corporate value as a result. Examined closely, ESG management may really be about human resource development with a strong focus on changing the awareness of individuals. Some divisions are already fully engaged in ESG through their business activities, while some have not quite got a handle on it yet. What is most important is to raise the level of ESG awareness among all divisions.

continuously indispensable company in the society of the future.

■ **Nagasawa** I think you are absolutely right. As the times and society continue to change, there is not much point in setting out detailed rules. It is important to have an awareness of whether your own actions are in line with the Company's goals, whether the current rules need to be changed, and so forth. On the other hand, there will also be situations in which people do not know what to do or find it difficult to decide the best course of action. I would like frontline employees to begin by making judgments based on "ESG yardsticks." For situations that are difficult to call, we are thinking of establishing a consultation desk and creating a system to give specific direction as a company. My main objective is to ensure that Group employees do not have any confusion or worries about ESG. If we think about it in terms of a Group management framework, then there are jobs that I have never experienced in each operating company, but that does not make it permissible to make errors of judgment. I regret to say that, in the past, we have had cases when the NYK Group failed to fully learn the lessons from incidents of misconduct at Group companies and implement them Groupwide. I would like all of our Group companies in Japan and overseas to seek consultation whenever they are really unsure about how to best carry out their business activities in the future, in addition to enhancing the governance functions of NYK itself.

■ **Shimizu** I would like NYK Group to be an organization that has the empathy of the public and where individual employees feel that they can make a positive impact through their business. Working backward from there, what kind of initiatives should we engage in now? There are various approaches, such as schemes whereby employees hold NYK's shares, information networks via which they can foresee global trends, and efforts to rigorously ensure compliance.

However, I think the most critical element is a corporate culture. Governance is usually associated with internal controls and compliance. Nevertheless, for me governance is really about an awareness of goals and a way of thinking. That is to say, it is almost one and the same with corporate culture. Under a rules-based approach, people tend to simply stop thinking, which may prevent the kind of real change in mindset you are aiming to achieve. I think that what is needed is a corporate culture in which individual employees exercise discretion about their day-to-day activities while keeping in mind the goal to be a

what they say and what they mean in the discussion process. When these are harmonized, I think that the NYK Group's ESG management will evolve even further.

■ **Nagasawa** I am also hopeful that this will happen. The Group has wide-ranging operations, with different types of vessels in its maritime shipping industry as well as in the air cargo transportation business and the logistics business. There may also be some who think that management does not understand the front lines. However, as parts of the world today suffer from food shortages, for example, companies with



How can you achieve a mindset that can forgo making a profit?

■ **Shimizu** From a perspective of really increasing corporate value, it might be necessary to decide not to make a profit in certain situations. This also ties in with the concept of a time frame. Even if a company makes a profit in the short term, in some cases it could result in a loss when considered over a 10-year period due to reputational damage or fines and so forth. We should consider the costs and benefits from a medium- to long-term perspective and, when it is difficult to make a decision, seek consultation. There are no free lunches in business—some degree of risk is always involved. Before deciding to target short-term profits, we must use “ESG yardsticks” and consider the risks and returns precisely across different time frames. In my department, we are careful to judge whether or not a business will continue to steadily grow into the future, and we clearly identify businesses in which we should not engage. Of course, there are times when a competitor takes a profit opportunity from in front of our noses; however, if we had taken it the Company might have suffered reputational damage and sacrificed returns over the medium to long term. I believe that such decisions will allow the Company to develop unrivaled competitive advantages five or 10 years down the road. One simple way of describing governance might be a mutual awareness that some decisions involve accepting not making a profit in the short term. Also, even if a business gets derailed as a result of taking a risk, this should not be taken as a failure but as fuel for the next successful venture. Although being overly hesitant to take risks is not ideal, that does not mean one can be insensitive to the risks one takes. Finding the proper balance when taking risks is an important point for developing a long-term vision.

■ **Nagasawa** There are times when I hear from the front lines that they would like to embark on projects that would contribute to ESG management but sacrifice profits in the short term. I give the go-ahead to these projects if the commercial viability and risks thereof are well organized in terms of time frame and if the front line in question has a clear vision for creating future corporate value. We need to be patient when it takes time for a business endeavor to contribute to earnings. On the other hand, if we take a risk and the business fails, we need to review it carefully to see where the process management or evaluation was inadequate.

■ **Shimizu** Companies are increasingly required to show their long-term vision and strategy over a 10- or 20-year time span and to be accountable. In order to have a dialogue with a long-term view, trust and determination are required and the Company has to make considerable effort. I think this is quite a dramatic change, comparable to a kind of Meiji Restoration of the business world, moving from a feudal to a modern era. This is not an easy task at all. However, I felt that being asked to serve as advisor on the ESG Management Committee is truly a great opportunity. If a venerable company with a long history such as the NYK Group can dramatically transform its mindset, it will have a huge influence on other Japanese companies. I hope to leave my name in the NYK Group's history as something of a modern-day version of Japan's late-19th-century reform advocate Ryoma Sakamoto.* With this admittedly grandiose inspiration, I will do my best in the role.

■ **Nagasawa** After listening to your seminar, I became acutely aware that the NYK Group really does need to make changes. From that moment, I completely changed my awareness and started to think about our ESG Story. I am greatly encouraged by what you have said today, and I would ask you to continue giving thoughtful opinions from multiple perspectives to members of the ESG Management Committee. Thank you for your help.

* Ryoma Sakamoto was a samurai born in 1836 in the Tosa Domain on the Japanese island of Shikoku. He later founded the private trading company Kameyama Shachu in Nagasaki and was instrumental to bringing about the Meiji Restoration, which led to the opening of Japan to foreign trade.

