

## **Sustainable Development Goals & SHOSHA (Excerpt version)**

Analysis part of the report from Japan Foreign Trade Council, Inc.  
Special Research Committee on Sustainable Development Goals & SHOSHA

### **1. The *Shosha* Business Model**

Often called a “distinctly Japanese” style of business corporation, the *Shosha* came to the fore as Japan achieved economic recovery and set about becoming a leading trading nation in the decades World War II. The *Shosha* proactively expanded overseas and played a leading role in imports and exports, developing networks across the world, and performing a vital role in the development of the Japanese economy. In the years since, they have continued to play a crucial double role, both importing solutions (goods and services) from overseas and taking Japanese solutions to people in other countries at the same time.

*Shosha Handbook 2020*, published by the Japan Foreign Trade Council, shows how investments have accounted for an increasing share of the revenue of the *Shosha* in recent years, in addition to their traditional trading business in commodities and products. As the Handbook makes clear, their business model in recent years has been based on the twin cornerstones of trading and business investments. The Handbook also shows how the *Shosha* have succeeded in creating numerous types of diverse businesses by harnessing their various functions, as shown in the table below.

One characteristic of the *Shosha* approach to business is the “value chain strategy.” The *Shosha* are involved in businesses that transect a wide range of fields from upstream to downstream sectors, covering everything from developing and procuring materials, to manufacturing, processing, distribution, sales, and services. By involving themselves in a wide range of interrelated businesses across a wide range of sectors, the *Shosha* are able to gain a bird’s-eye view of the business as a whole. By providing their services and functions as necessary throughout the value chain, the *Shosha* are able to increase convenience for the customer and to develop a business model that offers higher levels of added value.

The *Shosha* have come through numerous crises over the years. At various times, people have argued that the *Shosha* are in decline, that the *Shosha* have outlived their usefulness, that the winter years have arrived for the *Shosha*, and that their collapse and demise are now inevitable. Time and again, these prophecies of doom have been proven wrong. The *Shosha* have overcome these crises because they have continued to evolve. They have had the flexibility to adapt their functions and roles in response to the shifting times and the changing demands of the environment in which they operate.

The United Nations Sustainable Development Goals (SDGs) were adopted by all 193 member states in 2015. There is now a pressing need for progress toward achieving the goals on a global

level. The SDGs are a perfect example of a new need that has arisen with the changing times. There is no doubt that the *Shosha* have an important part to play in responding to this new need.

#### Main Functions of the *Shosha*

<b>Business transactions</b>	Core functions that promote global trade
<b>Information and research</b>	Collect and analyze extensive, wide-ranging information for use in business
<b>Market development</b>	Analyze supply and demand trends, and open up global markets
<b>Business development and management</b>	Strengthen business development & promotion, and group management
<b>Risk management</b>	Minimize business risk
<b>Logistics</b>	Aspire to optimum overall logistics
<b>Finance</b>	Provide financial functions that are unique to <i>Shosha</i> , and develop leasing business
<b>Organizer</b>	Combine functions organically to develop projects

Source: *Shosha Handbook 2020*, Japan Foreign Trade Council, Inc.

## 2. The Affinities between the *Shosha* Approach to Business and the SDGs

There are many affinities between the *Shosha* business model and the SDGs. Our research committee has carried out in-depth discussions to elucidate the nature of these affinities. We have concluded that there are six main points of affinity, namely: (1) Global networks, (2) Composite approach, (3) Partnerships, (4) Innovation, (5) Bird's-eye view approach, and (6) Focus on the future. (See the table below, Affinities between the Characteristics of SDGs and Strengths of the *Shosha*.) To put it another way, these six affinities represent points of contact, where the aims of the SDGs and the direction of the *Shosha* approach to business are in alignment. By focusing on these points of contact when considering the future of their businesses, the *Shosha* can contribute to the future of humanity and the planet, and turn this contribution into a business opportunity at the same time. The SDGs outline comprehensive and general targets regarding the shape of the future at these points of affinity, and also lay down a number of concrete targets. The framework of the goals themselves is quite free: they are not binding, and the goals need not be achieved in any determined way. This means that it is easy for distinctions to stand out. It is fair to say that whether the *Shosha* succeed in becoming a presence capable of playing a leading role in the world in the twenty-first century will depend largely on whether they are able to tap into these affinities and this freedom, and on how effectively they can harness these aspects of the SDGs in their business.

Affinities between the Characteristics of SDGs and Strengths of the *Shosha*

<b>Characteristics of SDGs (perspectives required to achieve the goals)</b>	<b>The <i>Shosha</i> strengths</b>
Global, borderless approach to social issues	Ability to grasp global issues quickly and respond across national borders ( <u>Global networks</u> (1))
<u>Composite approach</u> (2)	Ability to create business through diverse functions and services (multi-faceted resources and expertise)
<u>Partnerships</u> (3)	Large-scale project organization function using partners with expertise in various regions and fields (comprehensive strength)
<u>Innovation</u> (4)	Discernment to open up new business fields, ability to offer solutions to diverse challenges (adaptability to change)
<u>Bird's-eye view approach</u> (5)	Involvement at each stage of the value chain (diverse activities from upstream to downstream processes)
Goal-based governance (“back-casting”)	Business development with a <u>focus on the future</u> (6) (forward-looking, ahead of the curve)

Let’s look at each of these six points in a little more detail.

**(1) Global networks**

The global networks possessed by the *Shosha* are one of their major strengths. The *Shosha* have branches, independent corporations, joint ventures, and other affiliated companies and subsidiaries in important locations throughout Japan and the world. Through their business dealings around the world, the *Shosha* are able to collect and analyze huge amounts of information in a wide range of fields, including politics, the economy, social conditions, industry, companies, markets, technology, laws, and taxation. They put these rich reserves of information to use in their businesses, employing them in their business plans and management strategies. This allows them to grasp global issues quickly and gives them the strength to respond to these problems on an international level across national borders. This is one of their great strengths.

This strength matches well with the characteristics of the world in the twenty-first century that made the SDGs necessary in the first place, and with the concept of the SDGs as a means to solve these problems. One of these characteristics is that while the underlying causes of problems may be the same, they manifest themselves in various ways, and it is impossible to predict where or how these manifestations will occur. The impact of climate change is one easy-to-understand example. Although the single factor of climate change remains the same, in one place this might manifest in the form of violent typhoons and in others as flooding caused by concentrated heavy

rainfall. In other places, the same root cause might result in heatwaves and drought. The impact of this single cause makes itself felt in various ways in different times and places. The same is true for poverty. As well as absolute poverty—people living on less than US\$1.25 a day—there is also the kind of relative poverty and child poverty that is a problem in Japan. Even though the root causes—the state of social security systems, wealth disparities, and employment problems—may be the same, the way in which these causes come to the surface as problems differs. This means that the measures taken to deal with them must differ too. Accordingly, there is not a single fixed approach to achieving the SDGs, and there is a great deal of freedom and flexibility in terms of finding solutions to the problems they represent. Countries and regions differ in their circumstances, environments, and cultures; similarly, it is possible to come up with different solutions to problems as they become manifest in different areas of the world. The SDGs approach allows countries and regions to take an autonomous and decentralized approach to solving problems within their own areas, even while the actors working to develop these methods and solutions cooperate and form broader networks with each other.

The global networks of the *Shosha* are perfectly placed to offer solutions of this kind. While collaborating on a global level, the *Shosha* adapt to the diverse norms, cultures, environments, and policies they encounter in the places where they do business, while the various parts of their global networks work autonomously and in a decentralized manner to find solutions. They are swift to pick up on global challenges, and quick to turn their solutions to these challenges into opportunities. The *Shosha* have business premises in more than 200 cities around the world, and gather information on a scale that cannot be rivaled even by the Ministry of Foreign Affairs and other government bodies. By building on this strength, the *Shosha* have the potential to play a leading role in making progress toward achieving the SDGs.

## **(2) Composite approach**

Both general and specialized *Shosha* perform a wide range of functions, including business transactions, information and research, market development, business development and management, risk management, logistics, finance, and organizer.

The ability to harness these functions and offer diverse solutions is one of the main strengths of the *Shosha*. This strength comes from the multi-faceted resources and expertise they can draw on for solutions. Their ability to consider multiple approaches to a problem means that they can offer solutions that consider the synergies and trade-offs between multiple different problems. This is vital in working to achieve the SDGs.

The SDGs make up the central part of the United Nations document *2030 Agenda for Sustainable Development*. In the outline of its philosophy and approach to the SDGs, the agenda document repeatedly stresses that the 17 goals and 169 targets of the SDGs together form a single objective and should not be thought of separately from one another. The SDGs form a single package.

Looked at individually, however, some trade-offs arise between some of the goals, if we consider them based on current conditions. For example, ending hunger by 2030 (Goal 2) is likely to require increased production of agricultural crops, but this may have a negative impact on measures to address climate change (Goal 13), since agriculture is a major source of greenhouse gas emissions. Several of the SDGs involve trade-offs of this kind. This is an inevitable

consequence of the fact that the goals were established following a political process of international negotiations, and that logical consistency was not a priority in drawing up the goals.

However, making use of one's strengths when faced with trade-offs of this kind is often what leads to innovation. These apparent contradictions between some of the goals are precisely the reason why there is room for innovation and potential for business opportunities to arise. Let us take the case alluded to above as an example. Is an increase in agricultural output crops really necessary to eradicate hunger? Some calculations suggest that if we could reduce food waste, it would be possible to feed the world's population without increasing agricultural output. The ability to take a comprehensive view of the situation, including trade-offs, will be crucial to making a shift to this way of thinking about the problems.

Not many businesses have the ability to consider issues from a truly comprehensive perspective. If the *Shosha* can harness and develop their strengths in this area, then achieving all the SDGs goals may no longer be just a dream.

### **(3) Partnerships**

“Partnerships” are specifically mentioned in Goal 17 of the SDGs. Global partnerships make up a central part of the targets. A considerable number relate to policies made by the public sector, but many also relate to the business of the *Shosha* within the private sector. The *Shosha* are expected to play a particularly important role in promoting “development, transfer, dissemination and diffusion of . . . technologies” (Target 17.7), trade (Targets 17.10, 17.11), and multi-stakeholder partnerships (Targets 17.16 and 17.17), among others. The content here concerns ways of promoting actions to achieve the SDGs; these goals and targets therefore apply to all measures aimed at achieving the other goals and targets too. This only increases further the expectations that can be placed in both the general and specialized *Shosha*.

The function as an “organizer” of large-scale projects, having numerous business partners around the world, and building on past experiences to choose the ideal partner for each case, is often cited as one of the major weapons in the *Shosha* arsenal. The experience built up over the course of working on the ground in regions around the world is particularly valuable. The importance of these vast resources of accumulated experience, combined with their global networks, is beyond measure. This will allow the *Shosha* to use their strengths to play a leading role in finding solutions to the global challenges and goals of the SDGs within a local context.

It will be important to incorporate the perspectives of the SDGs, as goals that speak on behalf of a sustainable future for humanity and the earth, into the objectives that the *Shosha* set out to achieve when they exercise these strengths in the future. Sustainability is a goal that has been important for the *Shosha* in the past in terms of their human relationships in the areas where they do business. In some cases, however, the tendency to accept local conditions and ways of doing things may have led the *Shosha* to lend support to customs that are not sustainable. The role of women in society and work styles are examples of areas where this may have been the case. The reality is that in many countries around the world today, male-centrism and misogyny are still deeply rooted in society. As the *Shosha* look to develop business opportunities in the SDGs era, they will obviously do so on the basis of the legacy they have built up by entering local areas and working within them to build sustainable relationships in the past. In addition, however, it is to be

hoped that companies will also look to develop their business in a way that shows awareness for the global standards of the SDGs. In the case of the example cited above, companies could provide an example by espousing gender equality in the workplace. Ultimately, this approach will help companies to obtain resources and pursue high-quality production on a sustainable basis, boosting the significance of their presence in society and helping to increase corporate value.

#### **(4) Innovation**

As we saw in the section on the composite approach above, one of the major challenges with the SDGs is to resolve trade-offs between the goals and targets, and to increase the synergies between them. For this, innovation will be essential. Innovation is the flip side of the composite approach. It requires flexible thinking, and a way of thinking that can make the imaginative leap from goals and objectives to seeing what is necessary to achieve them. In this sense, applications of the SDGs have the potential to steer the innovative capabilities of the *Shosha* in an even more positive direction than ever before.

The *Shosha* have always continued to evolve and have successfully overcome numerous challenges and difficulties in the past. They were able to do this by creating diverse businesses and continuing to innovate. People often associate innovation with scientific breakthroughs, but in the context of the *Shosha* the word is not limited to this sense. Their innovation often consists of what Schumpeter would call “new combinations.” It is the innovation that arises from the rich reserves of goods and services, markets, functions, uses, and technologies at their disposal, and from bringing them together to create new business.

#### **(5) Bird’s-eye view approach**

Both the general and specialized *Shosha* are involved in all stages of the business process, from upstream to downstream sectors, and are involved in addressing issues that arise throughout the supply chain even in the case of a single product. From one perspective, this could be regarded as increasing the risk of entanglement in a multiplicity of problems. But from the perspective of the SDGs, it is fair to say that this approach brings the promise of bigger business opportunities.

One thing that is extremely important for sustainability is a perspective that can consider the entire supply chain. This will be particularly important for achieving the sustainable consumption and production patterns that make up Goal 12. To achieve this goal, it will be necessary to link consumption to production, and the connection between these two is a cause of concern around the world. In fact, linking consumption and production is a function that the *Shosha* already perform, and this gives them a major advantage.

The approach is one that goes beyond merely looking at an object and stops to consider the stories behind the object and how it came into existence. Take clothing, for example. How were the fabric and textiles sourced? Is the material made from organic cotton that has no impact on the environment, or is it a manmade fiber? How were the textiles made? In a factory where men and women work equally, and where there is no use of child labor? What about transportation? Has care been taken to minimize carbon dioxide emissions in transporting the materials and

finished products? In the case of transport by sea, were steps taken to reduce the risk to marine biodiversity and invasive species from ballast water? What about waste disposal and recycling?

To take an all-encompassing bird's-eye view of these multiple supply chains, to provide transparent explanations, and to work to increase traceability—these things are more difficult than they may appear. Although international accreditation systems such as Fairtrade and the Forest Stewardship Council act as frameworks that provide at least a certain level of traceability, not all products are covered by these accreditation systems, and there are costs involved in accreditation itself.

In these situations, if due diligence is carried out by the *Shosha*, and transparency is guaranteed across the entire supply chain, there could be no greater value in terms of making progress toward achieving the SDGs. It is to be hoped that the *Shosha* will be aware of this strength they possess and will work to reinforce it and put it to good use.

## **(6) Focus on the future**

The SDGs only outline goals and targets: there is no fixed method by which they must be achieved. The SDGs therefore represent a new style of global governance, in which people in different parts of the world are free to think of their own ways of achieving the goals, taking into consideration the conditions and background of their own situation, while still working toward shared global goals. Treating the goals as a starting point makes it possible to come up with ideas without becoming trapped by obstacles in the real-world. It becomes possible to think about the essence of the goals, to consider what is necessary and what is superfluous, to see what needs to be done and what steps should be ruled out. This approach makes it possible to arrive at ideas that would be unlikely to arise simply from an analysis of the status quo. It is from the gaps that exist between the goals and the current reality that innovation can be born. When innovation cannot achieve the goals in one single leap, it will be time to think of scenarios. One effective approach is “back-casting.” This is the opposite of “forecasting,” which involves imagining the future based on the present situation. Instead, “back-casting” starts from an imagined situation in which the goal has been achieved and works back from there to consider scenarios that link the imagined future to the present. When we start out from our present position, there is a tendency for obstacles and difficulties to loom large in our thinking—all the reasons why our goal might be impossible to achieve tend to stand out prominently. But by working back from a position in which the goals have already been achieved, it is possible to see directions that remove these obstacles. The SDGs can help to foster this kind of thinking.

The *Shosha* business model is often described as one that is focused on the future, and the *Shosha* have long had a reputation as companies whose strengths allow them to act as pioneers who are often ahead of the curve. The *Shosha* are not satisfied with their existing business; they are constantly on the lookout for new suppliers, new customers, new markets, and new business. At the same time, a constant process of reform is underway within the *Shosha*, as they work to adjust their business models, organizational structures, and approaches to management and adapt them to the future.

In this sense, a perspective that looks at the present from the viewpoint of the future is one that the *Shosha* have possessed for some time. Indeed, the concept of the SDGs themselves is one that could be described without exaggeration as a typically “*Shosha*” kind of idea.

### **The future for the *Shosha* and SDGs**

As we have seen, the strengths of the *Shosha* approach to business contain at least six elements that are likely to be extremely important in the effort to achieve the SDGs. These six factors are also important core elements from the perspective of both *Shosha* business model and the SDGs. These points of affinity are likely to become important pointers when considering the direction that the *Shosha* will take in the years to come. The SDGs represent a vision for a sustainable future for humanity and the planet we live on. If the *Shosha* can harness their strengths and tap into the growth that can come from this vision, they can help to ensure their own future prosperity as well.