

***Kyosei* - A Concept that will Lead the 21st Century**

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Canon

*In 1988, a year after celebrating Canon's 50th anniversary, we announced the beginning of a new phase in the company's evolution. At this time we sought an appropriate corporate philosophy that would guide the company's future development and express its vision. After much discussion we expressed this philosophy as "the achievement of corporate growth and development, with the aim of contributing to global prosperity and the well-being of humankind." This is the idea behind **kyosei**.*

Kyosei

*What exactly is **kyosei**? At Canon we use a concise definition — living and working together for the common good. A more detailed version is "all people, regardless of race, religion or culture, harmoniously living and working together for many years to come."*

*It is my belief that the concept of **kyosei** should occupy a central position in the personal ethics of each individual. I also believe it should be a creed that all corporations and nations follow, and that it should be the guiding principle for the new world order that is currently emerging.*

*Around the time when Canon announced its philosophy, the concept of **kyosei** was being discussed in business, economic and academic circles in Japan. At present, the discussion has caused much confusion, due to a lack of true understanding of the concept of **kyosei**. It has also been misinterpreted and criticized as being a justification for the formation of cartels.*

*For this reason I would like to clarify the ideas behind **kyosei** and explain my own thoughts about this philosophy.*


Ryuzaburo Kaku

The evolution of socially responsible and ethical companies

During my many years in corporate management, there is one question that has always puzzled me. Despite the fact that humans operate companies and do their best to provide society with useful products and services, why are corporations criticized by the public and frequently blamed for causing social problems?

After thinking about the characteristics of the ideal organization, I realized that many companies that exist today can be classified into four types. Each type reflects a different stage in the growth and development of companies and the evolution of socially responsible business. At each progressive stage a company becomes more socially responsible and draws less criticism.

This development process, of course, does not apply to criminal organizations that perform illegal acts to gain profits. It only applies to those companies engaging in legitimate activities.

Four stages

I refer to the **first** type of company as the "**purely capitalistic corporation.**" As I see it, these companies are at the initial stage of corporate evolution. This type of business stimulates the economy, however management and owners share the benefits of operation and care very little for employees. The exploitation of workers leads inevitably to labor-management conflicts and the problems described by Karl Marx.

The **second** type I call the "**company that shares a prosperous future.**" This type of corporation addresses the shortcomings of the first type of organization. In this kind of company, managers and workers are united in working for the prosperity of the corporation and both have a share in the profits. This solves labor disputes, but

this type of company is still criticized by the public because it does little to solve problems in the local community and is often not concerned with environmental protection. For example, it is sometimes negligent in managing waste and noise, because its managers and workers are simply pursuing greater personal wealth.

At this point, the **third** type of corporation emerges. I refer to this kind as the "**company assuming local social responsibilities.**" In this classification companies respect the interests of their own stakeholders — customers, staff, shareholders, suppliers, competitors and the local community.

They also spare no effort to further the advancement of their own country. But while they accept social responsibilities, these are limited to those within their own national borders and local area.

While this type of company draws little criticism within its domestic sphere, it is often censured by other countries because it cares for only local and national interests and is not concerned about global problems, such as the deterioration of the environment, global trade imbalances and imbalances in development.

I have defined the **fourth** type as the "**corporation assuming global social responsibilities.**" It may also be described as a "truly global corporation." This type of company cares for all its direct stakeholders including its local community and beyond. While this type of corporation experiences no labor disputes and exists harmoniously with the local community, it strives to fulfill its corporate obligations on a global scale. Its social responsibilities transcend national boundaries. Canon's concept of *kyosei* applied to its relationship to all people symbolizes the company's commitment to the aim of becoming this fourth type of company — a truly global corporation.

Addressing imbalances — the role of the truly global corporation

What role should the truly global corporation fulfill?

I believe the major problems that this earth is currently experiencing can be categorized into three forms of imbalance. These are: **imbalances in trade between developed nations; imbalances in development between industrialized and developing nations; and the contrast between the quality of the environment one generation inherits and that left to the generation that follows.** I believe that truly global corporations should play a role in addressing these imbalances.

At the moment there are significant trade imbalances between advanced countries that are adversely affecting the international balance of payments. The second imbalance involves the gap between the poor and the wealthy nations. I believe a truly global corporation has the obligation to contribute to the resolution of trade friction, and should also build production facilities in developing countries and transfer technology to support the development of nations undergoing industrialization.

In fact, I believe that the best way to globalize a corporation is to localize it in communities around the world. I think a foreign-based corporation should re-invest profits into the country where it conducts business in order to contribute to local employment as well as to the trade balance and technological progress of that country.

The third and most important type of imbalance is the contrast in the quality of the environment that one generation inherits and that which it leaves to the next generation. This imbalance between present and future encompasses the entire range of environmental issues including the problems of human population and energy resources.

In 1989, Canon declared the beginning of its ecology era and strengthened its commitment to decreasing CFC and carbon emissions. In 1990, the company launched a worldwide campaign to collect and recycle toner cartridges used in personal copying machines and laser beam printers. These activities represented the first step of our involvement in environmental protection.

Global corporations that conduct activities across national borders are creating wealth and stimulating economies around the world. As the sole creators of wealth, businesses should transcend the boundaries of national borders or industrial types to resolve these three types of enormous imbalances.

The role of business in addressing imbalances

Up till now, addressing these imbalances has been seen as the responsibility of government. However, I believe that business must play a role. I think business is obliged to become involved in finding solutions to social problems and that corporations have the talent, skill and resources to do so.

Today's business and information flows have entered a "borderless era." Because an increasing number of businesses transcend national borders, corporations will find it more difficult to do business unless the world enjoys peace and stability. In other words, for a corporation that operates globally, working to promote worldwide stability and prosperity corresponds to greater profits.

Business can assist government and bureaucracy. I think that these institutions are sometimes overly concerned with being re-elected and securing funds and sometimes lose sight of the need to find solutions to problems.

Often governments' concerns focus on domestic rather than international matters. Global businesses, however, take a world view and should demonstrate leadership through their concern for global issues.

I am aware that my ideas have drawn criticism for being "too idealistic" or "impractical" and "not in the interest of the survival of business." However, I believe that business' involvement in social issues is both a moral and a practical obligation.

***Kyosei* relationships — the two sides of a balance sheet**

My ideas on the four types of corporations explain how I see *kyosei* from different perspectives. The corporation can have a *kyosei* relationship with employees, with the community, and with the world.

However, these are only my ideas in relation to *kyosei* and the **distribution** of wealth — the debit side of a balance sheet. Emphasis on *kyosei* and distribution alone will surely create misunderstanding. To support this ideal, a corporation must naturally **create wealth** and fulfill its **production role** (the credit side of a balance sheet). This balance sheet, which explains my ideas about the role of business, follows.

Role of Business

Distribution (<i>Kyosei</i>) Business as a Builder of a Better Society	Creation Business as a Creator of Wealth
1st Category of Company Purely capitalistic companies	1. Innovator Intrinsic role of business
2nd Category Companies sharing the future	2. Independence Overcoming collusion with government and bureaucracy
3rd Category Companies acting in stakeholders' interests and assuming local social responsibilities	3. Fairness Overcoming unfair practices, excessive or inadequate competition
4th Category Companies assuming global social responsibilities	4. <i>Kyosei</i> between corporations Competition and cooperation with rival companies

To balance wealth creation and distribution, Canon not only advocates "*kyosei* with the world" but it has also launched its "premier corporation" concept, which links *kyosei* with Canon's main strategies to create wealth — research and development, diversification, and globalization of the organization.

To fulfill its role to create wealth, I believe that companies must be innovative, independent from government, and engage in fair competition.

Innovation — the key to wealth creation

To create wealth, companies must be innovative. Innovation refers to the creation of new technologies and products. However, it goes further than this. A corporation must also be innovative regarding its production technologies; marketing, merchandising and sales; as well as in its management and organization.

These types of innovation conform to the ideas expressed by the economist J. A. Schumpeter at the beginning of this century.

One often hears corporations being criticized because they place efficiency above all else — but I think such critics are mistaken. Companies must focus all efforts on achieving the previously mentioned types of innovation in order to create wealth as efficiently as possible.

I believe that a corporation that aims to be innovative should act independently, avoiding alliances with political parties and government.

Up till now, Japanese corporations have been deficient in this respect and have been criticized accordingly. This deficiency can be partially attributed to the fact that, since the Meiji era (late 1800's), the Japanese government has placed priority on the economic development of the country. Corporate growth has served as the means that Japan has "caught up" with the industrial standards in Western countries.

There is no doubt that competition is extremely important for promoting and motivating innovation. However, it must always be fair and legal competition. A corporation that competes by being

innovative, highly efficient, or by offering original technologies, products or services is engaging in fair competition. However, companies can also achieve a competitive advantage through malicious and illegal means.

***Kyosei* and fair competition**

While competition is vital to drive innovation, in my opinion, either too little or too much competition between legitimate businesses can have negative social consequences. I call these two extremes "under competition" and "over competition."

I refer to "over competition" as the imitation of a product immediately after it is discovered or invented by another party. This shows a lack of respect for another company's intellectual property and a lack of ability to innovate. A company's social contribution, as well as its competitive advantage, will increase if it develops original products and services, or improves significantly on those already on offer.

What I mean by "under competition" is business engaging in activities such as bid-rigging and cartels. The elimination of unfair competition requires rigorous examination by corporations. The government must promote the transition to a system in which the general rules of fair competition will be strictly observed.

A final question that arises is, assuming that a corporation is engaging in fair competition, how does a corporation achieve *kyosei* with its competitors.

Even if a competitor falls into difficulties, I do not approve of taking a "survival of the fittest" approach to destroy another party until it is liquidated. Competition involves being innovative during the process of creating original products or services; it is not a kill-or-be-killed struggle in which one is either the predator or the prey.

A corporation that is seriously committed to innovation, and holds the potential to develop its own original technologies, products, and services, should be capable of addressing a segment of the complex and diverse needs of society. Liquidating such a corporation will not benefit the society as a whole.

The survival of the fittest is said to be the prevailing rule of the natural world. However, a close observation of animals in their natural habitat reveals more subtle relationships between species. When lions attack zebras, they never kill more zebras than they need to eat for survival. Wisdom thus operates to protect the zebra species. In my view it is a mistake to believe that competition means a fight until the other party is destroyed and all competition eliminated.

Of course, the weeding out of dishonest corporations, which act illegally to make money, will be beneficial to society. *Kyosei* does not contradict the concept of true and fair competition. It also differs completely from the view that every corporation deserves protection from ruin. It promotes respect among innovative rivals who compete fairly.

Cooperation to advance innovation

Innovative corporations with specialties in different areas can also work together in the spirit of *kyosei* to produce outstanding products. In this way a synergy is created and products can be produced that either company alone could not develop.

An example of such a *kyosei* relationship is Canon's partnership with Eastman-Kodak, which has resulted in the launch of a digital camera that is among the world's best. Digital cameras are used to input images into computers or to send images down a telephone line. The new digital cameras are the result of the best of Canon's lens and camera technology with the expertise Kodak has in the field of digital-image storage.

In this way, if every company does its best to be innovative and develops specialist skills they can often team up with other companies with different strengths to create further innovations and provide the world with better products and services. Canon has such cooperative *kyosei* relationships with Texas Instruments, Hewlett-Packard, Eastman-Kodak, Olivetti and Apple.

Naturally, cooperation between companies must observe anti-monopoly regulations and must involve respect between the parties and mutual benefits.

To create new technologies and innovative new products, we are also forming close cooperative relationships with American venture-capital businesses that possess excellent technologies. We are currently working with companies that are developing an electronic-beam exposure device, producing solar cells, and advancing computer technologies. These are yet another example of companies working together in a *kyosei* relationship.

When forming a venture-capital business, a joint-venture or when making a capital investment in another company, Canon observes specific rules. It provides what the other party is lacking, such as capital or production technology; and bases production and worldwide marketing of a new technology or product in the country where it was invented.

According to my concept of *kyosei*, a corporation should make every effort to create wealth by fair means and, in terms of the distribution of profits, it should play a very active role as a company that assumes global social responsibilities. The view that *kyosei* limits competition is way off the mark. Although it is crucial to eliminate unfair competition, *kyosei* can be seen as being a prerequisite to fair competition between independent corporations.

The fifth type of corporation

I have recently come to believe that a fifth category is needed in my analysis of companies as they evolve into ethical social institutions. This fifth type I see as a company that seeks to change the world for the better. Companies in the fifth stage also try to increase the number of like-minded partners that assume global social responsibilities and that are actively concerned with global problems.

Companies in the fifth stage realize it is not right for the enormous number of corporations existing in the world to remain apathetic about the various perplexing problems emerging on our planet. They know it is not enough for a corporation to transform itself only into a fourth type of corporation and simply strive to correct imbalances — it knows it must go further.

Kyosei applied at the national level

The *kyosei* concept must also be put to practical use at the national level by like-minded corporations. I am aware of the tremendous advantages and disadvantages that national government policies exert on corporations and society. I have also experienced the limits of what a single corporation can achieve with respect to economic friction, exchange rate fluctuations, and other problems.

Since I am Japanese, I decided to apply my ideas about *kyosei* to Japan and I have developed a vision for the country as a truly ethical nation. Central to my ideas is that Japan should abandon its former "one-nation prosperity" creed of striving for advancements for Japan alone and adopt the concept of *kyosei* so that Japan can exist in harmony with the rest of the world. In addition, I believe Japan should cooperate with the US and EU to contribute toward the resolution of serious world problems.

Since the Meiji Restoration in 1868, Japan has made every effort to "overtake and pass" the West. This has been a government priority and is evident in its promotion of industrialization and aim for higher productivity. It was also seen in the country's policy of developing a wealthy nation and a strong military.

However, the government's misguided overemphasis on building up the strength of the military brought about the tragedy of World War II.

At the time of the Meiji Restoration, the government's focus on industrialization and productivity was appropriate because Japan was poor and lagged very far behind Western industrialized countries. The promotion of industry continued into the post-war era and has enabled Japan to transform itself into an affluent, industrialized nation.

I believe that 1968, exactly 100 years after the Meiji Restoration, was a symbolic year in which Japan achieved its goal of catching up with the West in industrialization. In that year, Japan's gross national product ranked second in the world and the balance of international payments turned in Japan's favor.

I believe it is now time for newly affluent Japan to change its focus from concern with national prosperity to Japan's role in the world. It is time to give more attention to international problems rather than national development.

For many years now I have said that Japan, as a developed nation, has outgrown its "one-nation prosperity" policy. Some years ago I also warned that Japan would be criticized if it continued to follow this policy and allowed its trade surplus to grow, without assuming a more active role in addressing world problems. I thought that the affluence Japan had achieved would ironically lead to its downfall and a "national crisis" if it did not change its ways and exist harmoniously with other nations. Unfortunately, what I predicted came true.

The enormous international trade surplus itself triggered a "bubble economy" marked by unprecedented financial speculation. This caused immense strain throughout the Japanese economy and its after-effects continue to be felt by the nation's largest financial institutions today.

The rising yen is also a consequence of having neglected the accumulating trade surplus. Small- to medium-sized corporations in Japan will soon run out of measures for coping with the rising yen. Although large corporations may be able to adapt by transferring some production to overseas bases, this may seriously undermine employment stability in the country. In the end, it is Japan that will suffer.

National crisis

I think that the "national crisis" is not only economic in nature, but also social. For example, recently many young Japanese people, including some with excellent academic results, have been attracted to questionable cults. How could seemingly dangerous groups gather so many followers? I think that one of the main reasons is that the national government has not provided a guiding vision of how Japan should ideally be. A society that lacks a positive ideology leaves room for false and destructive beliefs to take hold.

I think that Japan's politicians have invested too much energy in petty internal battles and have been negligent in developing a new aim for the country. A vision has not been created to replace the goal of rapid industrialization to catch up with the West.

However, it is not too late for Japan to change. I believe it must immediately abandon its national objective of achieving prosperity for Japan alone and must adopt a national creed of contributing to "*kyosei* with humankind."

Recently, the phrase "A Japan that will contribute to the world" is being widely used by politicians as a campaign slogan. To actually

contribute to the world, however, strategies to achieve that objective must be devised.

A call for reform in Japan

In my opinion, Japan needs four fundamental reforms — a reduction in government regulation; priority given to consumers' needs; a devolution of power to local authorities; and a drastic change in the education system to emphasize creativity.

First of all, Japan's government-led corporate development system is not appropriate for a developed nation. This system must be transformed and government regulations and intervention reduced.

Second, the "industry and manufacturers come first" doctrine, which suited the goal of industrialization and catching up with the West, should be changed into a "citizens and consumers come first" doctrine.

Third, though the centralized power systems of government and administration were effective while Japan was a developing country, they should now be transformed into decentralized systems and more power transferred to local governments.

Finally, education in Japan needs drastic reform. When Japan was undergoing industrial development, a content-based education system was effective for assimilating information from advanced countries. From now on, however, it is necessary to switch to an education system that places more emphasis on creativity, appreciation of nature and cultures, dignity, and morality. I discussed my ideas in relation to this in more detail in my book entitled "Plan for Building a New Country: Toward an Ethical Nation," published in 1992 by Toyo Keizai Inc.

If Japan successfully implements these reforms, I think it can establish a true partnership with the US and the EU and become a

country that displays global leadership throughout the 21st century.

Even if Japan joins other world nations in addressing global problems, the subject of cultural differences will remain. If common objectives are shared while respecting cultural differences, however, it should be possible to combine efforts to live and work together for the common good. We must recognize the fact that we have no time to waste in resolving the major problems that the world currently faces, which are overpopulation, depletion of resources and deterioration in the quality of the environment.

***Kyosei* — the guide for a new world order**

I have described *kyosei* as a corporate creed and as a philosophy for a new Japan. However, I believe that *kyosei* also encompasses a much wider scope, that is, it is also appropriate as a guiding principle for forming a new world order.

Not long after the end of both the Cold War and the ideological conflict between capitalism and communism, there has been an outbreak of disputes between ethnic groups and religions as well as clashes between nationalistic groups. The entire world is now concerned about the problem of how to form a new world order.

There are many very sound principles guiding the world today. For example, the ideals expressed in such documents as the American Declaration of Independence and the French Revolution's Declaration of Human Rights clearly express the need for human rights, equality, liberty, democracy and peace, each of which is truly wonderful. However, I think that these ideals alone will be insufficient for resolving the problems emerging on this planet.

To create the new world order that encompasses all people on earth, I think that a comprehensive yet fundamental guiding principle is needed. In my opinion, the philosophy of *kyosei* fits this description.

It is difficult to find universal concepts that all people, despite their cultural backgrounds, can relate to. Often what are considered universal principles are interpreted differently in different cultures.

For example, the concept of justice, which seems to be a universal principle, is interpreted in different ways by various cultures. Muslims hold up what is known as Islamic justice; whereas other concepts of justice exist in the world, none of which have been globally accepted.

Another example is the principle of human rights. In the United States there has been talk of tying the human rights issue with the Most-Favored Nation status for China. But China's Council Premier Li Peng has said to Americans: "Your concept of human rights is different to ours. What we mean by human rights is to feed, clothe, house and give jobs to 1.2 billion people." The Chinese perception of human rights, as well as democracy, is not quite the same as the concept talked about in America.

Because of the problem of the various interpretations associated with existing guiding principles, what is needed is a new concept and philosophy that can draw all people on the earth together and guide them to live and work for the common good. In my opinion *kyosei* is such a suitable new concept.

The ultimate goal

My vision of *kyosei* can be seen as an ultimate goal and there are many steps that must be taken to achieve this. For example, I believe that the attainment of peace throughout the world, something which, sadly, has been extremely rare, is essential to achieve the ultimate goal of *kyosei* — a state in which all people live and work together happily for many years to come, regardless of race, religion, or culture.

In order to live and work together for the common good it is also of vital importance that we respect human rights, freedom and

democracy. These values are central to the concept of the common good.

The relationship between the common good and *kyosei* can be thought of using the mathematical terms — necessary and sufficient conditions. For example, peace and democracy are necessary conditions of "living and working together," but these two alone are insufficient. The attainment of *kyosei* also involves other necessary factors, such as concern for the global environment and imbalances in development, that must be combined before they become sufficient conditions to achieve the goal.

Because many values such as peace, freedom, human rights, and care for the environment are essential to achieve the ultimate goal of *kyosei*, I believe it is a suitable overarching guiding principle for building a new world order for the 21st century and beyond.

I sincerely hope that the people of the world will come to understand *kyosei*.

***Kyosei* in action**

History provides many examples of great individuals and organizations who have practiced *kyosei*.

One example, which is not widely known, is Dr. Frank Buchman, an American who advocated moral re-armament (MRA) in 1938. At the time, just before the outbreak of World War II, many nations were engaged in rapid military expansion. Dr. Buchman advocated that peace would not be gained by armament using weapons and that what was required was a re-armament of morals, not arms.

The movement upheld the four values common to every religion and ethnic group: absolute moral standards of honesty, purity, unselfishness and love. The movement encouraged people from all corners of the world to converse face-to-face, exchange ideas, and discuss solutions to problems as individual human beings that share these four values.

Even now, MRA meetings are held annually at a small village called Caux on the hillside of the Lake of Geneva in Switzerland. The meetings, which encourage mutual acceptance of differences, are attended by respected individuals of various religious beliefs and from various ethnic groups from around the world. It is a moving sight to see people, who have come from regions experiencing fierce conflict, holding serious dialogues within the relaxed and spiritual atmosphere of the meetings.

Another belief of the MRA movement is that individuals must first undergo self-transformation in order to be able to change the world. I wholly agree. I believe that our planetary crisis must be confronted by applying *kyosei* to individual behavior as well as by employing the philosophy at the national and corporate levels.

The Caux Round Table Conference is a venue where business executives from the U. S., Europe and Japan hold talks in the spirit of MRA. Based on discussions conducted by the group, "The Caux Round Table Principles for Business" was adopted and announced in 1994.

It was the first attempt by business executives from various countries to jointly define the ethics of corporate activities. The concept of *kyosei* was incorporated into the definition, which was finalized as: "To strive for mutual cooperation and mutual prosperity in conjunction with healthy and fair competition." It was also agreed that ethical values must be considered in the corporate decision-making process. The group supported the notion that the simple compliance with laws and the meeting of market demands are inadequate as a guide for responsible business. I find this very encouraging as it seems more people around the world are beginning to understand *kyosei*.

Another example concerns a Japanese document about shipboard regulations, called *Shūchū Kiyaku*. It was written at the beginning of the 17th century by an international trader, Soan Suminokura, with the assistance of Seika Fujiwara, who was then a leading Confucian scholar, and describes ethics and regulations for crew on trading ships.

As a basic principle it states that trade that can be considered moral must be profitable for both parties in the transaction. It also says that all people of the world deserve respect as human beings, regardless of nationality or race and that mutual respect must be shown for different cultures and customs.

Shūchū Kiyaku discusses such concepts as human rights and equality and also expresses the sentiment of that I call "*kyosei* with the world."

Around the time that *Shūchū Kiyaku* was written, Great Britain, Holland and France commenced international trade, focusing on the East Indies. It was at this time that thinkers in Japan developed a conceptual approach capable of leading the world.

The challenge lies ahead to increase understanding of *kyosei* and to achieve it at the individual, corporate, national and international level.

Finally, I would like to acknowledge that my thoughts about *kyosei* have been shaped and inspired by the great and far-sighted ideas of many leaders and philosophers.

I am both humbled and encouraged by the achievements of great thinkers and those who have spearheaded change. Like them, in articulating my thoughts, I would like to make a sincere contribution, no matter how small, to a better world for all.



Ryuzaburo Kaku

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| 1926 | Born in Aichi, Japan |
| 1954 | Graduated from Kyushu University in Economics
Joined Canon Camera Co. Inc. (Presently Canon Inc.) |
| 1972 | Appointed as Director |
| 1974 | Appointed as Managing Director |
| 1977 | Appointed as President and Representative Director |
| 1989 | Appointed as Chairman and Representative Director |
| 1989 | Vice Chairman of Japan Association of Corporate
Executives (April,1989-April,1995) |

Awards

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|------|--|
| 1985 | Officier de la Legion d'Honneur (France) |
| 1985 | Medal of Honor with Blue Ribbon (Japan) |
| 1993 | Honorary citizenship of Dalian (China) |

