

# CSR in Japan

## A Tradition of Mutual Benefit

By Patricia BADER-JOHNSTON

*Treat the Earth well...*

*It is not inherited from your parents - it is borrowed from your children.* – Ancient Kenyan proverb

As societal values shift with the waves of globalization and we grow more aware of the imbalances that exist around us, there is a sense of collective responsibility on the part of concerned global citizens to do something about it. Underlying this is a growing certainty that business should play a leading role. In fact, legislation is very likely on the way in many nations to require corporations to pay for the harm they cause.

Environmental concerns were probably the first drivers of corporate social responsibility in most countries, but the scope of the term “CSR” has broadened. It has come to stand for a vast range of topics falling under the umbrella of “core corporate behaviors” that impact society. “How” business is

conducted amid an increasingly intricate mesh of global value chains, and how society will define “value” in the future is at the heart of any discussion around corporate social responsibility.

**Chart 1 Engaging with stakeholders : Accountability for both positive & negative impacts of core behavior of companies**



Source : Amnesty International

### Japan As a Global Player

Japan has come to play an important role in global CSR as a major investor and economic power, and is looking critically at how trading behavior must change over the next five to 10 years to ensure its competitiveness. As outlined in the recent Japan Foreign Trade Council's report “Toward a New Foreign Trade Country,” Japan intends to remodel itself from a trading nation in the traditional sense, “from one heavily dependent on the export of goods into a new trading nation supported by foreign investment and the mutual exchange of people, goods, money and information.” In effect, to address declining competitiveness, Japan is

embracing the notion of being a more active player in the “global value net” and CSR will be an important element. As noted by the JFTC, their “Action For a Better International Community” committee was established more than eight years ago and has carried out 4,000 different projects to promote economic and cultural exchange both in Japan and abroad. The 1% Club and other CSR activities carried out by Keizai Doyukai, and Keidanren's Council for Better Corporate Citizenship (CBCC) are other good examples of CSR momentum in Japan. Prime Minister Yasuo Fukuda recently stated that Asia in particular, where Japan is behind almost half the foreign direct investment, has expressed an expectation for Japan to

show leadership, particularly in the areas of environment and corporate responsibility. As the G-8 Summit 2008 approaches, he will have an opportunity to demonstrate how Japan intends to comply. By identifying Africa as another priority area of focus for the summit, Japan's intention to participate fully in promoting development is also clear. How Japan's corporate community responds to these initiatives will have a profound impact on many levels.

### CSR & Globalization

If CSR is simply about companies “doing the right things the right way,” then one might ask, who decides what the “right thing” is? If we factor in vari-

ous cultural perspectives across blurred geographic boundaries, it gets a bit difficult to agree on what the “right way” might actually be. If we assume that it is broadly “society” which has the right to judge whether a business is behaving in the “right way,” then we are talking about “stakeholders.” In a global context, stakeholder groups take on many shapes, and their respective values may differ substantially given different stages of development. Clearly the developing world might look upon issues such as steadily increasing carbon emissions and water usage as “rites of passage” that are necessary evils that lead to equity of lifestyle with the developed world. The pattern of “develop first and clean up later” has worked well for other countries, including Japan. Nations such as India and China may feel justified in demanding a similar chance to improve standards of living that development promises, regardless of the negative impacts that we know from experience will go along with it. However, the critical stage of global warming that we find ourselves facing has created the necessity for a new paradigm for development. Fundamentally, it comes down to a matter of aligning economic growth (and the inherent promise of improved living standards it will bring) with long-term sustainability.

### The Role of Corporations

Many companies operate in dozens or even scores of different countries. It can be argued that a powerful global corporation can potentially exert more influence over universal social, economic and environmental issues than any single government ever could. More than 50 of the largest economies in the world are actually corporations. Toyota alone has a budget bigger than Norway. A global corporation that applies consistent standards of conduct across all of its operations can clearly have a very positive impact. At the same time an extensive global value net can mean increased reputation risk, as control of the actions of strategic partners requires a strong sense of shared values and standards, and therefore a process to embed and communicate them. It will also require the capability to embrace and leverage

diversity, which remains a challenge for many Japanese organizations. Since local regulatory environments vary considerably in terms of their effectiveness and strictness of standards, there is a heavy onus on corporations to self-regulate for consistency across their global operations.

### Impact of Technology & Communications

Through social networking and blogging, there is an increased level of information sharing and resulting scrutiny as shoppers compare notes and individuals express very specific and critical opinions about not only products and services, but about corporate behavior as well. With this increased transparency is a corresponding need for accountability on the part of corporate leaders. Numerous scandals involving senior corporate executives have driven not only CSR initiatives, but also new regulation and expectations on the part of society. A rising sense of social consciousness and an ability for like-minded people to connect easily is a wake-up call for companies that may have never dreamed consumers would care about anything but price and efficiency.

### Managing Risk through CSR

The often-used terms “Triple Bottom Line” and “People, Planet, Profit” refer to the core behavior of companies in terms of the positive and negative societal, environmental and economic impacts that the respective businesses create. It could be argued that a company that is not “profitable” cannot really be called “responsible.” At the same time, many companies create products that have uses to society and are therefore tolerated, even though they may be actually harmful to the environment or to society itself.

For example, if one compares society’s attitudes to the totally unrelated industries of tobacco and automotives, it becomes clear that in society’s view there are acceptable levels of “harm.” To demonstrate: If most individuals were given a choice about being confined in a sealed room for a day or even an hour, with a running motor vehicle, or a “chain smoker,” one might be able to guess which they would choose – assuming a common understanding of short-term health risks involved with each of the two scenarios. Yet many societies consider tobacco harmful enough to ban, while cars are tolerated without

Chart 2 Managing reputation risk



Source : Author

social restriction. What these industries have in common is that carmakers have now faced class action lawsuits in the United States reminiscent of the early push back against tobacco, and regulation around emissions control is gaining momentum and strong public support. Listening to and understanding clearly the expectations and values of society is a challenging goal that is central to any discussion of CSR, and these shifts in values are clearly moving targets around which companies must remain vigilant.

### CSR in Japan

The concepts behind CSR have been embedded into the fabric of this society throughout Japanese history. The oldest corporation in existence, Kongo-gumi K.K., was established in Japan 1,430 years ago in 578 A.D. to construct a temple. There are more than 8,000 companies that have existed for more than 300 years in Japan. Confucian principles such as *kyosei* (living and working together) have shaped corporate culture since then, and are all very much aligned with the concepts of the triple bottom line of today. Business has always been conducted within a trust-based system, not requiring written contracts or lawyers, driven by relationships and a concept of mutual benefit and sustainability.

The current Western concept of CSR came to Japan around the time of the oil shocks of the 1970s and as the phenomenon known as “Japan bashing” arose in reaction to Japanese corporate behavior abroad. The oil shock period was a time of unprecedented challenge but also was a time of unique cooperation between the private and public sectors in Japan. Change at that time was driven by a need to make Japan more independent in terms of energy supply, and the imperative to deal with harmful pollution and environmental problems that were the result of rapid development. Manufacturing scandals such as that surrounding Minamata disease (mercury poisoning) drew a heavy focus to environmental issues and the impact of business development on public health that saw the rise of corporate environmental reporting activities. Worries over “Japan bashing” led to the adoption of OECD

guidelines and corporate Japan rethought its global image.

As Japanese foreign investment expanded during the bubble years, there was growing criticism abroad of the conduct of Japan Inc. In particular, the purchase of culturally iconic properties in the United States among other actions – led to a loss of respect and a certain level of fear of Japanese investment. This shocked Japan, which traditionally placed relationships and reputation above all else, as it realized that Japan’s image was being tarnished through the perception of culturally insensitive behavior.

With the burst of the bubble, domestic scandals emerged from every direction, in the form of government corruption, bid-rigging, issues around consumer product safety and manufacturing disasters, sexual harassment and breakdowns in the financial services sector as a result of bad loans etc. Many of the problems were widely attributed to poor internal controls and weak corporate governance, as the “trust-based” system seemed to be breaking down.

This was a very different set of drivers for CSR than those seen in the United States where the wrongdoings of senior executives (as represented by the debacles of Enron and Worldcom) were at the forefront. Japanese corporate scandals revolved more about bad decisions made by middle management that were not communicated to senior management in a transparent manner, as seen in the Snow Brand tainted milk case. Other scandals involving faulty supply chain management such as the discovery of children’s bicycle chains made with asbestos for Bridgestone also highlighted transparency and accountability problems and a general lack of process around responsibility issues.

Scandals involving financial services in particular were becoming more global in nature, and Sarbanes Oxley, adopted in the United States in response to a series of governance-related scandals there, became increasingly applied anywhere US companies did business, including Japan, and was required of Japanese companies doing business in the United States. Fears in Japan that a more “American” style of doing business (as opposed to Japan’s trust-based system)

was to blame for some of these problems came to a head when Livedoor’s Takafumi Horie became a poster-child for this sentiment. His style became linked with the US approach to doing business and prompted more calls for external controls on corporate behavior, speeding the adoption of a Japan-specific form of Sarbanes Oxley known as J-SOX and other regulatory changes.

Operating in a trust-based environment served Japan well in the age of the *keiretsu*, but now that Japanese corporations face pressure to become truly global, there is a realization that the traditional attitudes toward “how” business should behave will not make Japan competitive in the new global marketplace. Relying too much on the assumption of shared values, and motivations that are unique to one culture do not translate well to the global value net. The adoption of more externally measured global CSR processes, increased transparency, the publication of social reports, the adoption of external board directorships and many other changes in terms of corporate responsibility are evidence that corporate Japan is adapting quickly.

### Different Approaches

Japanese companies traditionally existed to create mutual benefit and support relationships over the long term. This “stakeholder”-focused approach was fundamentally different from the West where a company traditionally existed to create profit for its shareholders. The Japanese mindset fundamentally remains very much in step with best-practice CSR principles, with profit being fused with the idea of “mutual benefit” as a critical element of sustainable business.

The Japanese approach to the community has always been somewhat paternalistic, focused on taking care of those to which you owed responsibility through a wide net of relationships. In the West, philanthropy has a long tradition and was born through a mainly Judeo-Christian tradition of charitable giving. Centuries-old traditions of obligations to provide tithes and donations to various churches existed, and to this day many NGOs have religious affiliations. Churches often provided the platform for social remedies where

the public sector could not cover completely and trust in government was relatively low. The “third sector” has been well developed as a result and many partnerships have long existed between the private and public sectors.

The Japanese have a high level of trust in government, and with that comes a high expectation that social aid programs will be handled by the government. The “third sector” is not well established in Japan, nor is there a history of religious groups taking on a social role in a manner resembling the West. There is no tradition of cash donations to charitable causes outside established relationships. There is also something of a social stigma attached to giving cash directly, and even in daily life it is almost always handed over via a tray or in an envelope. Tipping is not an accepted practice, and begging on the street is extremely rare. CSR rooted in philanthropy is therefore not an established mindset in Japan.

Since the Japanese tend to view social welfare issues as the responsibility of government, and the social fabric is woven around relationship networks so that few remain left out, the concept of voluntarism is also different than in the West. In Japan, it too is predominantly based on pre-existing relationships, unlike Western voluntarism, which extends charity to often-unknown recipients. This explains why in Japan community engagement is generally linked to local and tangible causes that fall within the existing networks of the volunteers. It remains difficult to engage local individuals with global CSR programs, posing a challenge to Japan as it fully embraces its role as a good corporate citizen in the new global marketplace. Awareness of global issues and interest in challenges faced by the developing world is relatively low.

In Europe, the mindset surrounding CSR is much more global. In addition to the charitable giving traditions, the green movement gained a great deal of momentum in the 1970s and has driven many of the processes behind measurements of CSR performance as we recognize them today. Environmental reporting tools such as the Global Reporting Initiative (GRI), socially responsible investment (SRI) measures such as the

Chart 3 Blueprint for responsibility



Source : British American Tobacco

FTSE 4 Good and Dow Jones Sustainability Index, as well as audit type measurements such as AA1000 and ISO standards have emerged. There is a drive to create global standards that has greatly influenced thinking around CSR best practice.

Japan, in keeping with its own traditional approach to CSR, has often tied overseas development aid to the concept of “mutual benefit.” And it was strongly criticized in past decades for “tied aid” practices which were sometimes construed as self-serving and monopolistic since Japanese companies were given priority in projects to develop infrastructure in recipient countries. This requirement to provide infrastructure instead of just cash was seen as a means to benefit Japan directly through what should have been from a Western perspective, a charitable activity. It may have also been related to the “Japan bashing” issue, and Japan’s image at the time. It is ironic that the current concept of “sustainability” is closely linked with the idea of mutual benefit and leans toward long-term infrastructure development and solutions for developing economies, as opposed to cash infusions. The idea seems to have come full circle.

### CSR for Sustainability

Companies adopt CSR processes for a number of reasons that stem from the need to create long-term sustainable value for their stakeholders. This is very much in keeping with the traditional Japanese concepts of mutual benefit and *kyosei*. Japan is well placed to play a leading role in shaping the new economy. The traditional foundations of Japanese corporate societal responsibility, based on trust and mutual benefit, if extended beyond the restrictions of this culture and geographic boundaries, align well with the concept of sustainability. By understanding the emerging global values that are shaping market forces of the future and embracing global CSR standards and diversity, Japan could play a major role in defining how business can, in a global context, do “the right things, the right way” to ensure a sustainable future for the world.

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