

Japanese Firms' Response to CSR

By *Yoshihiro FUJII*

Over the past several years, how to fulfill corporate social responsibility (CSR) has become a major challenge in respect to the management of Japanese corporations. Since the Japanese Association of Corporate Executives (Keizai Doyukai) proposed declaring the “First Year of CSR” for Japanese businesses in its 15th White Paper on Corporations in 2003, CSR has become not only a catchword, but also a stimulus for a change in the management of Japanese companies. Let us see what will change in corporate management and what will not under the watchword of CSR.

Background of CSR Policy in Japan

The main theme of the said white paper in March 2003 was “Evolving Market and Socially Responsible Management.” Yotaro Kobayashi, then head of the association and then chairman of Fuji Xerox Co., summarized CSR as follows in the white paper: “Corporations have not only ‘economic responsibility’ for the production and supply of goods and services, but also ‘social responsibility’ for a broad range of

human activities in society. CSR is a concept encompassing these two responsibilities – neither one above the other. Corporations need to harmonize the two responsibilities in a higher dimension, based on the social needs of the times, while taking all stakeholders surrounding them into consideration. The ‘evolution of the market’ aims at the autonomous realization of such harmony through the dynamism of the market.”

The positioning and definition of CSR have become necessary owing to changes confronting Japanese corporations in their environments both at home and abroad. In Japan, the collapse of the bubble economy in the second half of the 1980s was followed by the dissolution of the Japanese-type model of capitalism as symbolized by three elements – lifetime employment, seniority-based promotions and in-company labor unions.

Externally, the globalization of corporate activities has confronted Japanese firms with various problems concerning the environment, employment and compliance with laws in connection with their operations in foreign countries.

Japanese corporations could not afford to ignore those problems any longer. With the weakening of their internal order supporting management-labor unity, they were forced to face diverse senses of value abroad, unlike in the narrow Japanese market. They were no longer able to maintain their corporate value without squarely facing such diversity. Turning their attention from the “inside” to the “outside,” it may be said, has resulted in elevating Japanese corporate awareness of social responsibility.

Now almost five years after that, how has the stance on CSR changed in Japan?

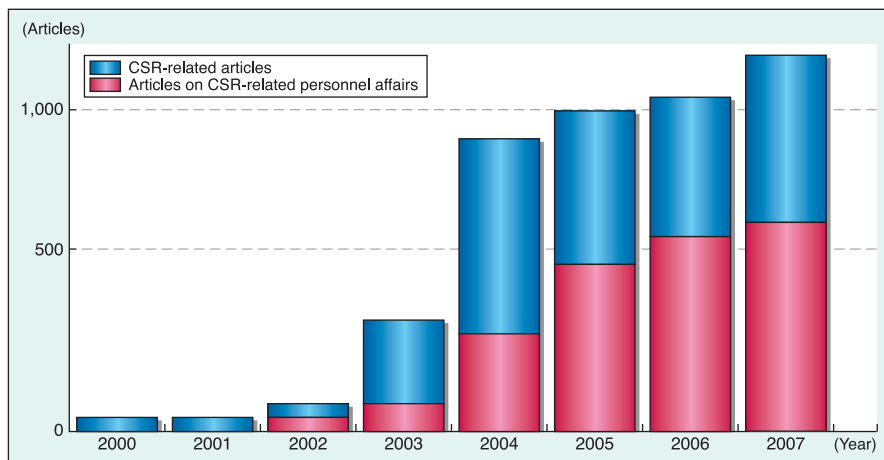
From Enlightenment to Practice

Chart 1, based on the Nikkei Telecom database of the Nihon Keizai Shimbun, Japan’s leading economic newspaper, indicates how often the word CSR appeared in articles stored in the database each year. From 2000 to 2002, articles including CSR numbered about 50 a year. But their number jumped fourfold in 2003 and went on to increase sharply after that. Of late, it has exceeded 1,000.

Among these articles were reports on corporate personnel affairs. They mainly concerned the appointment of persons in charge of CSR and the establishment of CSR sections. The number of such articles was limited until 2003, but increased to 183 in 2004, followed by an uptrend since then. Excluding these articles, those reporting corporate CSR activities were seen most often in 2004 (681 articles), followed by the constant annual pace of 500 or so after that.

As far as the data are concerned, it is evident that mass media took up CSR most often in 2004, followed by a stable trend in the subsequent years. In the case of a temporary boom, interest mounts fast, but also wanes fast. As for CSR, however, the stable trend in the number of CSR-related articles from 2005 indicates that specific instances of

Chart 1 Number of newspaper articles including “CSR”



Source : Nihon Keizai Shimbun database Nikkei Telecom

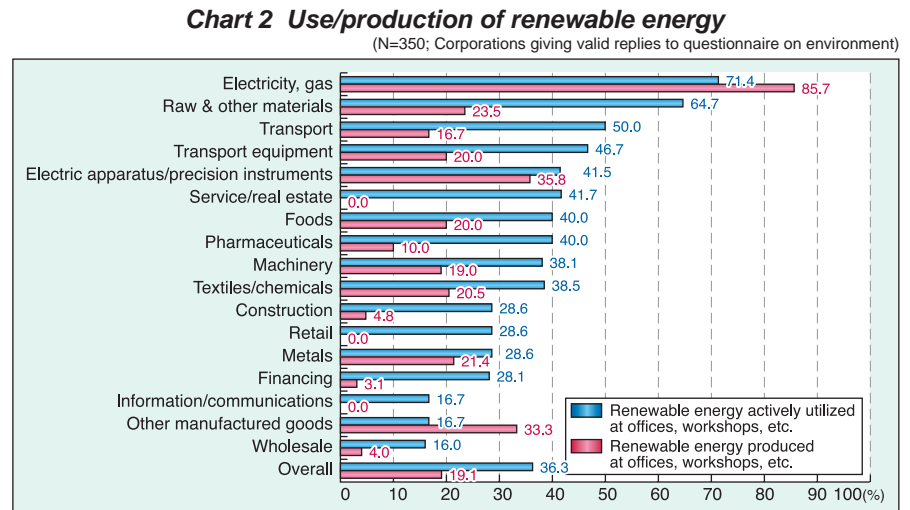
actual corporate CSR activities continued to appear. Also seen were systematic activities accompanied by personnel appointments. Assuming that 2003 and 2004 represented a period of enlightenment, the subsequent years may well be interpreted as shifting to a period of practice.

Then, how is CSR practiced? Let us take a look at the results of an annual survey by the Japan Research Institute based on questionnaires to corporations listed on the First Section of the Tokyo Stock Exchange.

As regards corporate approach to the problem of global warming, 36.3% of the responding companies were making active use of renewable energy, while 19.1% were producing renewable energy on their own. By industry, the proportion of corporations in the former category was high among producers of raw and other materials (64.7%) and transport operators (50.0%), while the proportion in the latter category was high among producers of electric apparatus and precision instruments (35.8%) and other manufactured goods (33.3%) (Chart 2).

With respect to greenhouse gas emissions, 55.9% or slightly more than half replied that their emissions are showing a downtrend in a long-term perspective. However, among corporations marked by a high level of emissions, more than half – 57.1% – of metal producers have achieved cuts of at least 6% compared with 1990 – the target of the Kyoto Protocol. But the proportion of such corporations was lower among producers of raw and other materials (41.2%), textile/chemical manufacturers (31.6%) and electricity/gas suppliers (21.4%). Information/communications service providers, retailers and transport operators registered less than 20%.

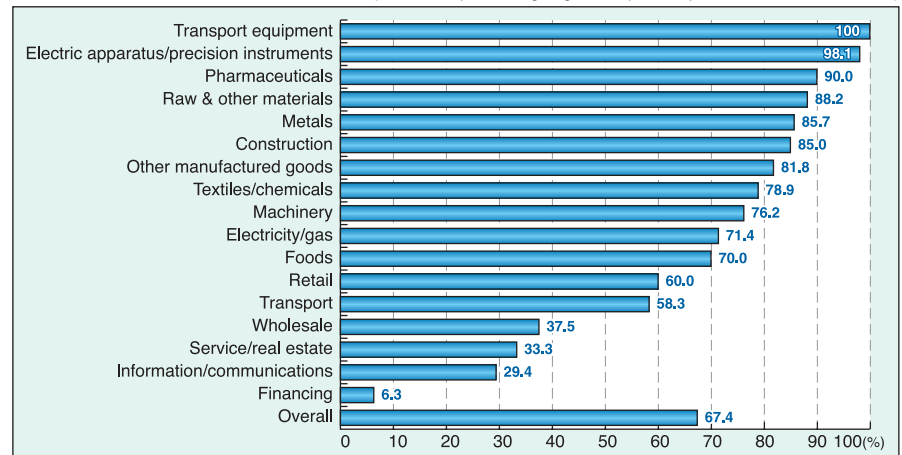
Corporations practicing “green purchasing” of environment-friendly goods (Chart 3) accounted for 67.4% of the respondents. By industry, the proportion was 100% among transport equipment makers, while high proportions were also seen among electric apparatus/precision instrument makers (98.1%), pharmaceutical producers (90.0%) and manufacturers of raw and other materials (88.2%). Industries with ratios of 50% or less were wholesale



Source: “CSR Management Trends of Japanese Corporations 2007,” Japan Research Institute, February 2008

Chart 3 “Green purchasing” of raw materials

(N=350; Corporations giving valid replies to questionnaire on environment)



Source: “CSR Management Trends of Japanese Corporations 2007,” Japan Research Institute, February 2008

trade (37.5%), service/real estate (33.3%), information/communications providers (29.4%) and financial institutions (6.3%). On the whole, these results made it plain that manufacturing industries, which tend to greatly affect the environment, are relatively eager to take steps for environmental protection whereas service trades are rather late in this respect.

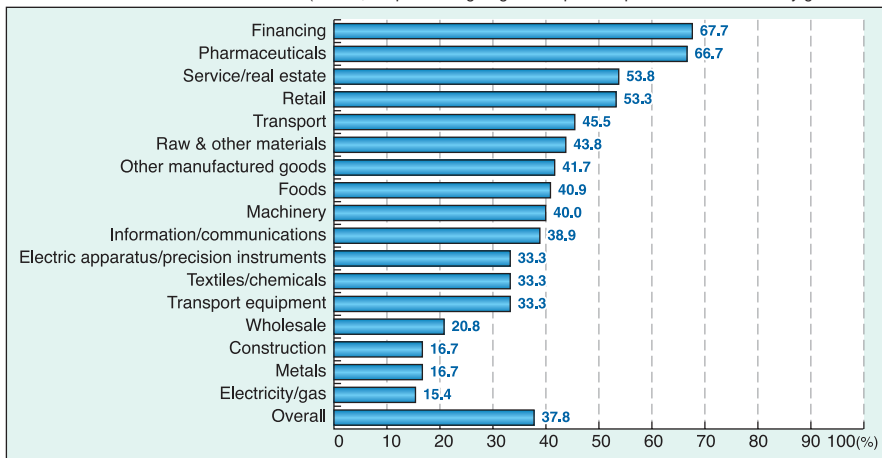
As for social activities, corporations have been strongly criticized for widening social disparities centering on younger generations and deepening social unrest by increasingly replacing their employees with part-time/temp workers in the interests of raising labor productivity. As a result, they are now called upon to establish a system of

incorporating nonregular workers into the regular workforce. In the aforementioned survey, corporations that have set up such a system accounted for 37.8% of the responding companies. The proportion was high among financial institutions (67.7%) and pharmaceutical makers (66.7%), but conspicuously low among construction firms (16.7%), metal producers (16.7%) and electricity/gas firms (15.4%) (Chart 4).

Measures to cope with the environmental impact of production activities are implemented primarily by manufacturing industries. By contrast, response to social aspects such as employment is making progress among service trades engaged in face-to-face business with customers.

Chart 4 Industry-wise establishment of system for converting nonregular employees into regular workforce

(N=336; Corporations giving valid replies to questionnaires on society/governance)



Source: "CSR Management Trends of Japanese Corporations 2007," Japan Research Institute, February 2008

Too Much Stress on Environmental Response

When it comes to ESG – environment, society and (corporate) governance – it is obvious from the above data that Japanese corporations' approach to CSR is structurally characterized by a positive stance on E, whereas they tend to lag behind in S and G. This is especially notable in manufacturing industries. Japanese businesses have made relatively rapid headway concerning CSR-related institutional improvements, such as the creation of sections devoted to CSR and the appointment of persons in charge of CSR. Apparently, however, they are not paying sufficient heed to how their own activities should be evaluated. In the above survey, for instance, only 40.2% of the responding corporations said that they are taking steps to verify the effects of their activities for the sake of society.

Manufacturers of transport equipment (automobiles) and electric apparatus/precision instruments, which compete in the global market, have so far taken the lead in taking measures to protect the environment. By contrast, a relative delay in this regard is noticeable among service, wholesale and retail trades, financial institutions and transport operators, which rely on the domestic market. That is, the tendency to prioritize environmental protection differs according to whether the main market is within or outside Japan. This may be termed one

of the structural characteristics of Japanese corporate CSR.

Another structural characteristic is what may be called "CSR disparity" between big businesses and smaller firms. Global corporations such as automobile and electric appliance makers and foodstuff producers, for example, maintain footholds for production and procurement in developing countries as well. Employment problems and the quality of procured machinery parts in these countries constitute the so-called "supply chain risks." Therefore, those corporations are taking positive steps for the unification of procurement standards and the transparency of employment conditions.

By contrast, medium- and small-sized businesses operating in Japan have mostly failed to take adequate steps for CSR. This is partly due to a low awareness of CSR among managers of these businesses. But there is more to it than that. Even though a deflationary crisis has been avoided, business-to-business transactions are strongly affected by eagerness to reduce costs. Accordingly, there is no neglecting that generally, smaller companies are forced to accept unfavorable conditions in their transactions with big businesses.

Smaller businesses, which cannot secure enough profits, have no choice but to rely on nonregular and foreign workers to pare down costs. Essentially, this vicious circle also ought to be a supply chain risk for big businesses that deal

with them. Apparently, however, this is not fully acknowledged in the traditional subcontracting relationship between the two parties. Thus, the recognition of supply chain risks differs, depending on whether the main market is inside or outside Japan.

Shareholders' Discontent Remains

There is one question that is posed to corporations, whether in the Orient or in the Occident – "Whom does a corporation belong to?" Corporations are surrounded by diverse stakeholders – customers, employees, regional communities, shareholders, creditors, business partners, the government, the environment, the international community and so forth.

The most powerful of these stakeholders are shareholders (investors). The US-style concept of shareholder sovereignty explicitly defines corporations as "belonging to shareholders." Nonetheless, CSR calls for corporations to attach importance to the presence of diverse stakeholders that have interests in corporate activities, including shareholders (investors), and to base corporate management on various responsibilities to all stakeholders.

Even so, there is no gainsaying that thus far, Japanese shareholders have in a way been overly neglected compared with other stakeholders, such as employees, business partners and customers. According to a questionnaire-based survey of investors announced by the Life Insurance Association of Japan in January 2008, 58% of the responding investors regarded the level of dividend payments as "insufficient."

In fiscal 2006, the payout ratio (ratio of dividend to net profit) of listed Japanese corporations rose to 23.8% from 18% fiscal 2004, but still fell short of 29.1% for US companies. Their dividend yield (ratio of dividend to investment), meanwhile, lingered low in the first half of the 1% level for a long time. But with the advent of 2008, it rose to the 1.7% level – the highest since 1977 (1.78%) – and temporarily surpassed long-term interest rates, thus causing a reversal in the relationship between the two figures.

To calculate the dividend yield, an

anticipated annual dividend is divided by the stock price. The recent improvement of the dividend yield was due to a yield rise stemming from a fall in stock prices. In fact, it was, if anything, a “feigned improvement.” The total of dividend payments is expected to surpass ¥5 trillion in fiscal 2007, ended in March 2008, registering a record sum for the fourth consecutive year. Even so, the yield is still low compared with European and US corporations.

The problem is not limited to the insufficient passing-on of profits to shareholders. It is open to question in no few cases whether or not shareholder interests are fully taken into consideration when it comes to securing their rights and introducing measures for defense against hostile takeover bids, for instance, at shareholders’ general meetings. The aforementioned survey by the Life Insurance Association of Japan also found that a majority – 53% – of the responding investors said “not many corporations give them satisfactory explanations” in regard to the introduction of defense measures against hostile takeovers.

It follows from the above that Japanese corporations’ approach to CSR, even though presently in the period of practice, is conspicuous by their ill-balanced response to stakeholders. Moreover, it may be said, structural patterns peculiar to them are observable in priority differences between the domestic and overseas markets, and between E and S/G as well as differences in the approach to CSR between big businesses and smaller firms.

Absence of “Workers Okay” Stance

Even so, corporate characteristics also vary between European and US companies. The tendency among Japanese corporations to give priority to environmental protection while somewhat neglecting shareholders is possibly due to the remaining management stance of prioritizing cooperation with employees, which forms the core of Japanese-style capitalism, although institutional fatigue has manifested itself in this model.

In fact, unlike European and US big businesses, there are still few cases of a professional manager being chosen from outside by the board of directors to head their company. Top leaders of many

corporations, including big businesses, are able personnel who have climbed up the ladder of promotions in their corporations. Accordingly, managers tend to pay heed to employees or junior corporate leaders rather than to shareholders with a view to maintaining corporate values. Japanese corporations’ relatively thin relationship with shareholders may be contrasted with the relatively deep relationship between managers and employees. The problem is that the management of Japanese corporations, supported by such “one-family” consciousness, is beginning to function poorly.

At the outset of this article, I noted that 2003 was the first year of CSR for Japanese corporations. Prior to that, however, corporate responsibility to society had already been questioned a number of times – for instance, when environmental pollution became a hot issue in the 1960s; when the oil crisis broke out and triggered a row over a shortage of goods in the 1970s; and when a credit crunch followed the collapse of the bubble economy. In all these cases, the corporations involved were loudly called to account for their roles and social responsibility. It was managers promoted from among employees that dealt with criticisms from society on such occasions and sought to hammer out solutions by changing ways of business management.

The tradition of management-labor collaboration may be traced back to the Edo period (1603-1867). An example is merchants’ stance of coexistence and prosperity as typified by Omi merchants’ spirit of “Sellers okay, buyers okay, society okay.” However, the viewpoint of “workers okay” was lacking. The theory is that if the three parties are okay, managers and their employees will eventually be rewarded. As symbolized by the tradition of “selfless devotion to employers” and “rewarding employees with partial transfer of goodwill for setting them up in business,” Japanese corporations have been operated through the structural unity of employees and managers. Even today, it may be said that such factors as prolonged working hours, unpaid overtime work and the “tacit understanding” that the path to managers is open to only able personnel inside corporations (even though limited

in number) have all along worked as prime movers for Japanese corporations.

Nonetheless, many scandalous affairs involving corporations have surfaced of late, although Japanese companies are said to have entered a period of practicing CSR. Examples in 2007 alone included the sale of Fujiya cakes after sell-by dates; falsification of beef quality by Meat Hope; falsified sell-by dates for confectionery by Shiroy Koibito and Akafuku; and fabrication of data on fire-resistant construction materials by Nichias Corp. With the advent of 2008, other scandals broke out in rapid succession, such as the falsification of recycled paper quality by papermakers and the false description of print ink. Indeed, there are too many to mention them all.

These deplorable events are nothing new. Most of these unlawful acts had been practiced over the years with employees’ knowledge but now brought to light by employees’ whistle-blowing. Looking into their background, another major factor is the strengthening of internal control under the Corporation Law and the inauguration of a whistle-blower protection system.

Inside whistle-blowing is presumed to have been prompted not only by a sense of justice, but also by diverse internal factors such as dissatisfaction with various inhouse disparities, unfair personnel appointments and unrewarding jobs. Probably, however, the biggest reason is the collapse of the tacit understanding of “workers okay,” which has been structurally inherent in Japanese corporations. In this sense, the said events mirror the emergence of a “stakeholder consciousness” among employees as well, and as such, may be called one of the achievements of the prevailing emphasis on CSR.

Japanese corporations, now in the stage of practicing CSR, are repeating competition for the enhancement of corporate values while casting off the old shackles of tradition and exploring new, proper approaches to diverse stakeholders. **JS**

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