

# Determinants of Corporate Social Responsibility in Japanese Companies

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## Abstract

**Purpose:** The aim of this study was to analyze the factors that determine the Japanese approach to corporate social responsibility (CSR) to facilitate future empirical research in the Polish conditions.

**Methodology:** To conduct the research, the available literature concerning CSR, managerial behaviour and stakeholder relations in Japan was studied. The research was conducted onsite in Japan after consultation with local experts, both Japanese and foreigners, specialized in Japanese management and the economy.

**Findings:** The Japanese approach to CSR is strongly determined by their religious, philosophical, cultural, historical, economic and legal factors. It is proof of the concept of CSR contextuality, which provokes questions about the nature of the business relations of Japanese companies with their foreign counterparts and their style of management while investing abroad.

**Research limitations:** The methodology was only supposed to gain a general view of the factors influencing CSR in Japan. Studying more detailed issues with the use of empirical data was complicated because of the short time available for the research (6 weeks) and the relatively low level of transparency of the Japanese companies.

**Value:** The study helped in understanding managerial decisions and Japanese business behaviour in the context of corporate responsibility and the ethics of its everyday operations. It was the first research thoroughly analyzing many of the determinants of CSR in Japan, which may be valuable for any counterparts cooperating with the Japanese companies and foreign researchers analyzing Japanese management systems.

**Keywords:** corporate social responsibility (CSR), determinants of CSR, contextuality of CSR, CSR in Japan

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## | Introduction

Economic events of recent years have highlighted the importance of corporate social responsibility (CSR) for the proper functioning of a market economy. CSR has become an important issue and it has already been applied and adapted to a variety of business contexts. These include relations with customers, suppliers, workers, competitors and government as well as management processes, supply chain management and even product and services orientation. Nevertheless, the definition and development of the concept has arguably been based upon a predominantly Western-led discourse, whereas the recent interest in CSR as a tool to help capitalism maintain its social compass, has not only been a feature of Western companies. The voices of Asian countries, including Japan, have largely been ignored in debates about the global economy and social responsibility (Fukukawa, 2010). Asia has generally been examined for its importation of CSR practices and not considered for yielding any independent contribution to the discourse (Rupp et al., 2006).

Meanwhile, there are national variations in the nature and outcomes of CSR activities. There is also an argument and evidence that these variations are partially driven by underlying cross-societal institutional differences (Witt and Redding, 2012). There are options calling for business models to be divided into an Anglo-Saxon and a Japanese style (Aoki, 2001). Asian business systems, in general, have a variety of their own norms and practices for CSR. They also yield very different CSR contexts and challenges, such as poverty and wealth distribution, labour rates and standards, educational disparities, civil society organizations, bases of governmental power and legitimacy, corporate governance challenges or vulnerability to natural disasters (Chapple and Moon, 2007). This is consistent with the idea of contextuality of the corporate responsibility concept, according to which there should be no universal, international tool with predetermined indicators for the analysis of social responsibility or sustainability (Krukowska, 2012). Especially, the model of Japan is perceived as highly coordinated capitalism (Witt and Redding 2012) due to the specific nature of interactions between corporations and their various stakeholders, which tend to be particularly different than Western models.

Therefore, it has become essential to analyze issues concerning Japanese CSR in a separate context, taking into account the contextuality of the corporate responsibility concept in general and the Japanese specifics in particular. Understanding the Japanese approach to CSR is also important as their companies are getting increased attention from the socially responsible investment (SRI) managers of the USA and Europe as well as becoming significant investors abroad. In Poland, there are already nearly 300 Japanese companies operating with a total value of \$2 billion in investments, with the strongest growth in the last few years<sup>2</sup>. According to the “Japan Revitalization Strategy: Japan is Back” introduced last year by Japanese Prime Minister Shinzo

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<sup>2</sup> See: *Strategy for Promotion of Polish regions in the priority areas for cooperation with Japan*, The Ministry of Foreign Affairs in Poland, Warsaw, November 2013, <http://technopark.elk.pl/wp-content/uploads/2014/01/EKSPERTYZA-wspolpraca-z-Japonia.pdf>.

Abe, Japanese companies must become more global, which means conducting even more trading and investment activities abroad. Poland is used by many Asian companies as a “bridge” to the European Union, which may mean that these global ambitions may further materialize in Poland.

In that sense, CSR is becoming an important issue in Polish – Japanese relations. This study explained the basic factors influencing corporate responsibility of the Japanese companies to facilitate possible future empirical research in the Polish conditions. It was conducted within the work of the Koźminski University Asia Research Centre, set up in the University with the mission of performing scientific research activities in the fields of Asian management, economics, political science, sociology, history and culture. The Centre will strive to become a bridge between Asia and Europe through development of cooperation with this region and support Polish entrepreneurs in the process of globalization.

## | Methodology

To answer the research questions, the available literature concerning CSR, managerial behaviour and stakeholder relations in Japan was studied. This review was conducted onsite in Japan. The literature was chosen after consultation with local experts, both Japanese and foreigners specialized in the Japanese management and economy issues, to find the best sources for answering these main questions:

- What are the main determinants of responsibility in the Japanese axio-normative system?
- What are the attitudes of the Japanese managers towards CSR on the operational level, their understanding of CSR and the factors influencing their decisions?
- What are the standards for assessing corporate responsibility in Japan and what is the linkage of the effects of such assessment with the corporate performance and “perceived” level of corporate responsibility in Japan (e.g. by investors)?

To gather historical as well as the latest data, the literature review included academic and non-academic books, academic working papers, newspapers and magazines, institutional reports and internet websites.

The purpose of the review was to answer those questions both from the point of view of the Japanese professionals and of the foreign professionals specialized in the Japanese management and economy. The major limitation was the language: only the literature available in English could be revised. The methodology was only supposed to gain a general view of the factors influencing CSR in Japan. Studying more detailed issues with the use of empirical data was complicated because of the short time available for the research (6 weeks) and the relatively low level of transparency of the Japanese companies.

The results of the review identified what are the roots of a *socially responsible* approach in Japan as well as how managers operating in the Japanese business culture understand and implement corporate responsibility; what are the impacts on corporate performance; and in a contrary way, why certain determinants of responsibility simultaneously have led to *irresponsible* behaviour from a general perspective.

## | Determinants of CSR in Japan

Lack of a common consensus on the definition and meaning of CSR contributed to the bias in perceiving and assessing business responsibility in different countries, cultures and axionormative systems (Gasparski, 2004). The World Business Council for Sustainable Development defines CSR as “the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large” (WBCSD, 1998). The European Commission defines it simply as “the responsibility of enterprises for their impacts on society”. To fully meet their social responsibility, enterprises “should have in place a process to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders” (European Commission 2011). In the ISO 26000 (TÜV Rheinland 2012) standard, CSR is defined as “the responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparency and ethical behaviour that:

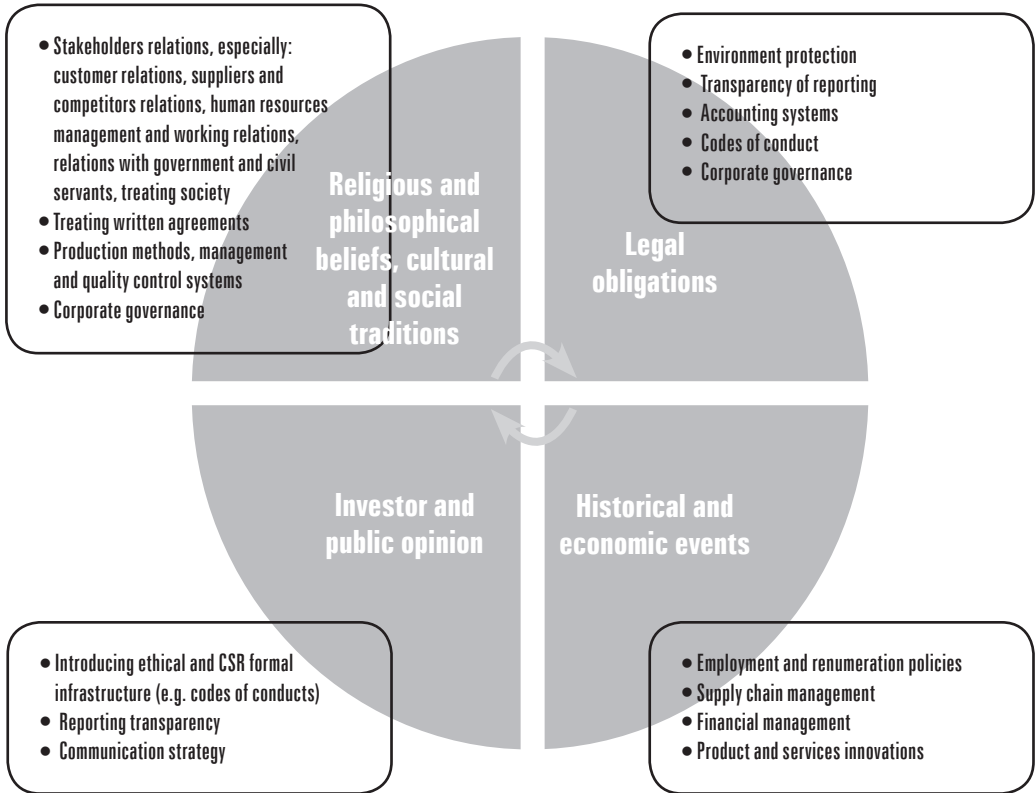
- Contribute to sustainable development, including health and welfare of society;
- Takes into account the expectation of stakeholders;
- Is in compliance with applicable law and consistent with international norms of behaviour;
- Is integrated throughout the organization and practices in its relationship.”

A necessary condition for the recognition of socially responsible companies is that they fulfil the main objective (to maximize the value of ownership) for compliance with all applicable laws and regulations relating to all aspects of the company (such as workforce, environmental protection, competition, consumer protection, relations with local community, etc.). Many of those issues may be regulated by law or international conventions but it is not possible to provide all the rules, especially concerning moral rules. That is why the *responsibility* issues are so difficult to assess regardless of the specific local context (Krukowska, 2012). In forcing external, generally Western-led approaches to CSR, Japan has already gone through the process of interpreting and co-shaping with the thoughts and practices of social responsibility in the Japanese business context, which Fukukawa and Teramoto called *glocalization* of CSR (2009).

In the process of elaborating this research, the following determinants of CSR were distinguished within the Japanese axio-normative system: religious and philosophical, cultural, historical and

economic, and legal (Figure 1). They are depicted alongside examples within the key areas of integrating CSR issues in the Japanese business activity. Investor and public opinion impact has been discussed separately as an additional factor as it influences more the reporting and communication processes than the management or operational patterns themselves.

Figure 1 | Determinants of CSR in Japan and main areas of their practical implications



Source: author's elaboration.

## | Philosophical and religious determinants

Asian countries including Japan have been influenced historically in one way or another by Confucianism and its form and style of leadership. The teachings and philosophy of Confucius (551–479 BC) have deeply influenced their way of thinking, living, leadership and organizational culture. From Confucian leadership comes the emphasis on positive business dealings and harmonious relationships, which brings benefits and good practices including good business management and CSR (Low Kim Cheng and Sik Liang, 2012). In Confucius' mind, leaders had an obligation to cultivate themselves morally and to demonstrate filial piety and loyalty. Confucian leadership underscored the importance of social relationships, justice and sincerity. It was

aimed at creating peace and harmony in a society with social responsibility. Low Kim Cheng and Sik Liong remind of the Confucian values that may still be found in the Japanese way of thinking about social relations. They include the value of gentleman, prudence, resilience (including continuous improvement, “*Kaizen*”); the value of personal commitment in taking responsibility, sincerity and integrity; practicing virtue, ethics, benevolence; continuous learning, teamwork and team spirit; good governance, talent, peace and unity as well as caring towards all others and also for the environment. Upholding Confucian values enables leaders to self-cultivate themselves via continuous learning towards positive business dealings and harmonious relationships. These bring advantages, usefulness and good practices including good business management in supporting CSR (Low Kim Cheng and Sik Liong, 2012).

Confucian leadership assumes helping an individual to develop and self-cultivating oneself through relationships and continuous learning to be a better person so that one can lead more people to help themselves and contribute to the society. This coincides well with the concept of CSR in which business leaders are committed to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life (WBCSD 1998 as cited in Low Kim Cheng and Sik Liong, 2012).

Another important philosophical source of Japanese CSR may be found in the Shintoist “*Kami Way*”<sup>3</sup>, which as the basic layer of culture forms the deepest level of corporate culture (Yamashita, 2000). The *Kami Way* dates back to the Jōmon period<sup>4</sup> and is the wisdom and knowledge with which the Japanese have long lived. In short, the *Kami Way* is to practice the principles of life to learn and adapt to nature and to learn human nature from the principles of nature. The *Kami Way* has only one criterion in judging things: if they are healthy or unhealthy (Yamashita, 2000). As Yamashita claims, such principles of enterprise competitiveness and corporate responsibility as creativity, fairness, sharing, equality or righteousness are respectively the *Kami Way* attributes (to create life, purification-making, to work with nature, and a sincere and honest mind to appreciate nature for its benefit).

Turner and Trompenaars (2003) also found *Kami Way* roots in the attitude of Japanese who claim it is not reasonable to bring the company just to the numbers showing its profit, in the belief that this would unerringly estimate its value. It also affects relations in the CSR context of “consensus among stakeholders”. Share price as the critical measure of performance, as well as the use of stock options as incentive for management to boost share prices, were not accepted in Japan as the purpose of corporate governance. The shareholder was entitled to a fair return on investment but had no further claim as other benefits should accrue instead to employees and such stakeholders as customers and suppliers. Abegglen (2006) stated it in opposition to the U.S. governance built in a system for full realization of the greed of the top few. This led to the collapse

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<sup>3</sup> Japanese word for a god, deity, divinity, or spirit.

<sup>4</sup> Time in prehistoric Japan from about 12,000 BC, when Japan was inhabited by a hunter-gatherer culture that reached a considerable degree of cultural complexity.

of the credibility of the U.S. governance system signalled by such appalling cases as Enron, WorldCom, Lehman Brothers and others that fostered global crisis.

The Turner and Trompenaar (2003) research found that in the opinion of the Japanese managers, it is much easier to get merchandise and profit than reliable people to set up contacts and to exchange complicated information with. In Japan, the American ideal of the individual guided by inner conviction did not meet with full support. Japanese managers, as well as those from other Asian countries, believe that they are ruled by outside forces, often not amenable to control. They see themselves in the vortex of further major events. Japanese adhere to Shinto, which meaning is the "way of the gods". Divine powers ("*kami*") exist in nature, in streams, wind and tides, in the fields, as well as in the market and the flow of information. The art of life is to go with the flow. Their work is often random and unpredictable, but the unit must adapt. Even in competition, the best way is to adapt to the forces of the enemy, changing the direction and effect so as to prove one's own superiority. Such attitudes are strongly familiar with the CSR concept that assumes thinking of a corporate value in a more complex way than just financial profits (Krukowska, 2012). By not using unfair catches in the relations with competitors, winning is thanks only to one's own creativity and filling the gaps left by the competitors or even cooperating with them in certain circumstances for the common good.

Sheridan Tatsuno (1990), a Japanese-American advisor, found the philosophical roots of Japanese creativity and improvement. He linked concepts of circles with the mandala symbol, which historically has played a central (though understated) role in Japanese society. The mandala is a symmetrical symbolic diagram used in Hinduism and esoteric Buddhism to express fundamental religious doctrines. It is a symbol of circle, group and association. Japanese companies state that the stimulation of creativity through the structure of the mandala is a dynamic process. i.e., a vortex. They used to organize traditional "*gonin-gumi*" (teams of five people) to work together on the development and improvement of new ideas. The idea of circles is reflected in every Japanese factory with many back loops, where every activity is controlled and all the wastes are reused and recycled. This simultaneously determines the area of CSR concerning environmental protection.

The concept of circles and simultaneous interactions has crucial implications for making profits by gathering a number of specific values, often gained during conversations with customers, and combining them in a harmonious and therefore more valuable way. Also, the Japanese system of hiring employees for life in some of the largest companies was not legally or morally justified. Lifetime employment was considered to be an act of generosity and grace that raises in the employee a feeling of gratitude and willingness to reciprocate with hard work (Turner and Trompenaars, 2003).

## | Cultural and social determinants

Many cultural and social determinants of the Japanese way of management, which also relates to CSR, still derive from the philosophical roots. They also interfere with each other as well as with

other determinants, but for the purpose of this analysis, it is valuable to mention patterns that are commonly perceived as Japanese management style (Abegglen, 2006) and are being explained further in this study<sup>5</sup>. These patterns are determined by the sense of time among others. According to Hofstede's cultural dimensions theory, "Confucian dynamism" refers to long-term instead of short-term orientation in life (1988). The vision of time has a significant impact on the overall level of morale. Due to the cyclical conception of time, Japanese and other cultures respect age and position, where the time is conceived as condensed. As in the sequential vision of the company (e.g. typical for the Americans), employees are often considered expensive and unnecessary as the parts of highly efficient engines, whereas in the synchronous organization an employee is the source of rational information (Turner and Trompenaars, 2003). Managers are accustomed to simultaneous and lasting relationships, shaped throughout life and periodically renewable. This is a basic assumption of the CSR concept as an argument that can justify retention and development of staff. The effect of long-term orientation has also implications for the relations with suppliers that are seen more like partners and are chosen on a basis of quality rather than price (Kono, 1984). Theoretically, this type of relations should be more open to ethical (sustainable, responsible) supply chain management.

Long-term relationships have also implied corporate governance in Japan (Aoki et al., 2008). A Japanese corporation has a long-term relationship with a bank, which is typically the largest lender, holds a substantial amount of shares and sometimes sends its former employees as board members of the corporation. In addition to this main bank relationship, the corporation also typically has a long-term relationship with other shareholders, who are most likely other corporations, and the corporation often holds shares of those corporations through cross-shareholding arrangements.

Another determinant is the social role as Japanese perceive capitalism as a system in which it is not the unit to bring profits but the community that serves customers. When Turner and Trompenaars (2003) asked the study group managers how they value the community, it occurred that the Japanese are advocates of communitarianism. That somehow explains why an employer has not only to be responsible towards the employees, but also encourage them to be responsible towards others including the families. It is empirically proven though that the relationships between the employee and the client reflect the relationships between the employer and the employee (Turner and Trompenaars, 2003), which naturally reflects the elements of stakeholder theory standing in the roots of CSR (see: Freeman, 1984). 71% of Japanese executives asked by Turner and Trompenaars believed that the company is "a group of people working together, connected by social bonds." However, it also has a negative aspect from the Western-oriented CSR point of view. The cultivation of "*amae*" (indulgent dependency), enforcing social ties going beyond formal agreements and provoking mutual courtesy, then also dominates among employees and clients. For

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<sup>5</sup> It mainly concerns relations at work based on secured employment, desire of harmony among people, long-term relations, frequent reporting, touching base and discussing as well as strong leadership respect.



such a culture that recognizes the harmony and complementarity between values, personal relationships are a miniature of the general social order. Treatment of others should be such that this bilateral relationship could become a source of universal laws. This attitude is more flexible but foreigners consider it a sign of hypocrisy. The Japanese call it “*tsukaiwake*” (proper use), or situational ethics (Turner and Trompenaars, 2003). Japanese scandals often derive from exaggerating this habit. However, the tendency to treat each client in a particular way may lead to a scandal, for example, when a company compensates the loss to privileged customers with the money of other less valuable consumers. Corruption invariably takes the form of excessive helpfulness towards some people.

It might also have been one of the reasons for a recent scandal with the consumer arm of Mizuho Financial Group, Japan’s second-biggest lender by assets, that turned a blind eye to the loans for the clients with Yakuza connections (Economist, 02.11.2013)<sup>6</sup>. The scandal over mob loans highlighted widespread problems with corporate governance in Japan due in part to the common practice of having industry officials move into regulatory jobs (Kurtenbach 2013).

Another characteristic of the Japanese value system is organization orientation. Devotion to the organization is a fundamental value of Japanese people (Kono, 1984) and “the organization is treated more like an organism than a machine.” According to Aoki, “the Japanese firm should be regarded as a coalition of the body of employees and the body of stockholders rather than the sole property of stockholders, as postulated in the neoclassical paradigm” (Aoki 2008). What distinguish “*kaisha*” (business corporations under the Japanese law) from other systems are social organizations. The people that make them up are at the centre of the system as the main stakeholders (Abegglen, 2006). This is consistent with the stakeholder theory, although in that theory the strength of the employees position would not be emphasized compared to other stakeholders. It would be more a consensus by the main groups of stakeholders as to the scope of their mutual responsibility (Krukowska 2012). Especially, this strength of the employees seems to activate only in the group, which also has implications concerning CSR. Where the priority is given to a group, it takes responsibility for the mistake of one of its members. It has materialized in the cases of the Fukushima nuclear disaster or the Olympus corruption scandals. As Tanimoto (2010) explains:

“When Japanese businessmen face dealing with an accident or an illegal trading activity, they tend to attempt to conceal it systematically. It comes from the strong desire of the employees to protect the company. This must mean there are certain values shared by the employees in the company. Although a person facing a certain compliance problem might judge that such an approach would not be appropriate from their own personal point of view, he or she might

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<sup>6</sup> It was around 2010 that Mizuho discovered some 230 gangster-linked loans, worth more than ¥200m, on the books of a small subsidiary, Orient Corporation. It said nothing to the authorities. Since the scandal became public in September 2013, the firm has admitted that the loans came to the attention of senior staff.

still seek to conceal or secretly deal with the problem in terms of his or her personal role within the organization. It can be said this is a dysfunction of collective culture in Japanese corporate organization.”

Magorah Maruyama (1982), a Japanese American professor, argues that Japanese culture is the culture of points of view. The Japanese believe that all phenomena can be evaluated from various points of view, and the variable perspective makes reality become fuller and more intelligible. Each member of the staff has an important point of view on the issue and sees another aspect. Observation of processes such as creative circles, where everyone jots down ideas to combine them later into a harmonious whole, leads to the conclusion that inductive thinking is typical for Japanese. Information and influence migrate from workers to those who are responsible for the whole system. Senior managers act as an advisory body, adopting proposals of managers at lower levels. Despite a strong hierarchy, a lot of power is transmitted to the lower levels, which is consistent with the CSR rule of letting employees be an important part of the decision process in the company. The multiplicity of points of view also explains the “apparent indifference that the Japanese express to written agreements and strict legal terms of these agreements.” Japanese suppliers provide assistance to their clients, acting in accordance with the spirit of the law. This is often a derogation of the letter of the law, which in other countries may be regarded as breaking of the agreement, unacceptable from the Western CSR perspective that demands strict obedience of the law (Fukukawa 2009).

## | Historical and economic determinants

As the Witt and Redding (2012) research showed, Japanese senior executives are most emphatic (comparing to German, Hong Kong, South Korean and American ones) about the need of firms to contribute to and be accepted by society. Such an emphasis on the societal usefulness is supposed to be reminiscent of the Tokugawa shogunate era (Edo period) management thought among Japanese merchant houses. Merchants were under pressure to justify the value of their activities to society and merchant house constitutions consequently underscored the importance of working for the public good (as cited in Witt and Redding 2012). This concept, known as "*Sampo-yoshi*" (three-way virtues), practiced during the Edo period (1603–1867), refers to assurance of benefits for sellers, buyers and the community and society through business. This is a reflection of the "*kyosei*" (symbiosis)<sup>7</sup> influenced by the Confucianism (Matsumoto, 2012). As many of today's leading businesses descended from these merchant houses, it is likely that some of this society orientation has survived. Historically speaking, however, the concern for people was strengthened only after World War II. During nearly 300 years of feudalism until 1868, the devotion to organization was encouraged but respect for people was not a popular value. During the rapid industrialization after 1900, labour was not considered a key resource. With a growth

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<sup>7</sup> Japanese word that means living and working together for the common good.

of heavy industry, skilled workers became important resources, and to protect the company from the active labour movement, the family concept was introduced into company thinking to encourage cooperation between management and workers, and thus respect for people became an important goal (Kono, 1984).

In this era of a stagnating economy and globalization, however, this system has not been economically rational. Lifetime employment and a seniority-oriented wage system can no longer be maintained under severe economic conditions in the post-bubble stagnation. Employment is more fluid as well as the closed nature of subcontracting in the keiretsu<sup>8</sup> system should be replaced by global procurement (Nomura and Kamii, 2004). This also brings new challenges, from the CSR perspective, concerning the role of women in employment. They have always been a discriminated group of workers, but the shrinking working force in Japan will give them more opportunities<sup>9</sup>. The projected fall in the working-age population and Japan's high elderly dependency ratio call for measures to raise labour force participation. (OECD 2013)<sup>10</sup>. There are also other problems concerning responsibility and ethics towards employees. The present Japanese system of employing some workers, especially blue collar workers, through outsourcing agencies without any long-term agreements and with very low salaries is a challenge for the companies that want to be socially responsible. While Western companies care, or claim to care, within their CSR strategies for work life balance or mobile work, Japanese managers still used to exploit workers until late night hours with only a one week holiday per year<sup>11</sup>.

There are also historical roots in the cross-shareholding, which is also under pressure from the CSR perspective, especially concerning corporate governance. As corporations got bigger in the post-WWII period, continuation of family control over them became unsustainable (Sase, 2003). Under the direction of the Supreme Commander for the Allied Powers, the Japanese government designated 83 enterprises as holding companies and ten families designated as Zaibatsu<sup>12</sup> families that gained control of them. The core members of a corporation's main stakeholders, core labourers and main suppliers were internalized within a "closed network of corporate society" (Tanimoto, 2010). Inter-corporate shareholding between them was extensive and had become well established by the late 1960s, mainly because top managers considered it to be effective in warding off hostile takeover threats. It was also the patterns of stable shareholding that allowed managers to adopt steady dividend policies that were insensitive to profit, with important implications for governance (Aoki et al., 2008). However, the bubble economy of the 1980s was also

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<sup>8</sup> Literally, system, series, grouping of enterprises, order of succession.

<sup>9</sup> An initiative of Tokyo Stock Exchange, "Nadeshiko Brand," to recognize extensive support to female employees (commitment to promoting female employees to important positions and contributions to work-life balance as well as return on equity) is supposed to encourage companies to employ more women.

<sup>10</sup> For Japan, as OECD data shows, 92 percent of "prime-age" men, or those between the ages of 25 and 54, have jobs. This is the second-highest rate among OECD members after Switzerland, while the rate of similar women with jobs stands at 69 percent, lower than the 80 percent and above levels in countries that include Austria, Iceland, Switzerland and Norway.

<sup>11</sup> See, for example, <http://www.japantimes.co.jp/news/2013/11/23/national/media-national/black-firms-exploit-staff-black-state-taxes-them/>.

<sup>12</sup> Literally, financial clique.

the result of the cross-shareholding arrangements because the common stock issued at the current market price under the prevalence of the cross-shareholding had tended to increase too much. From the CSR perspective, cross-shareholding has also brought risks to corporate governance because of lack of transparency and outside voices of independent directors, which led to “*sokaiya*” (corporate extortionists) in the companies (Sase, 2003)<sup>13</sup>.

Japanese companies have received increased attention from foreign investors<sup>14</sup>, including the SRI (socially responsible investment) type, and many Japanese companies are receiving questionnaires from rating organizations (as discussed later). Thus, they have found themselves affected by international codes of conduct and standards where the issue of transparency and governance is more important. The question of who owns corporations and what are the rights of shareholders has become vital with the rise in hostile mergers and acquisitions, which have rarely been seen before in Japan.

## | Legal determinants

Massive industrialization and high economic growth in the post WWII Japan was accompanied by rampant environmental degradation that was frequently neglected by the companies. The terrible effects of environmental pollution were demonstrated by the commonly cited public health problems. Public confidence in the companies was further diminished during the 1980s and 1990s after a series of business scandals relating to unfair financing, illegal payoffs related to mass food poisoning, misrepresentation of annual reports and the failure of financial institutions such as Yamaichi Securities and Hokkaido Takushoku Bank (Kokubu et al., 2013).

This new consciousness in Japanese society “led corporations to need to announce their commitment to “co-habitation with society” (Kokubu et al., 2013). Simultaneously, it encouraged the government to pass the Basic Environment Law, which was enacted in late 1993. This law set forth the responsibility of the central and local governments, corporations and the general public to preserve the environment. This resulted in a 22% increase in pollution abatement expenditures funded by Japanese corporations from 2000 to 2010. The issuance of the Environmental Reporting Guidelines 2000 and the Environmental Accounting Guidelines 2005 by the Ministry of Environment urged businesses to implement environment awareness practices and invest in environmental protection. That has enabled Japan to become a leader in environmental innovations such as the “Reduce, Reuse and Recycle” approach for waste and green technologies

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<sup>13</sup> *Sōkaiya* acquire enough stock from multiple companies to gain entrance to a shareholders’ meeting. There, they disrupt the meeting and embarrass the company until their demands are met. For this, the *sōkaiya* often research the company in detail beforehand to uncover incidents of misconduct or other company secrets, and then blackmail the management so that these issues are not raised in the shareholder meeting or elsewhere. *Sōkaiya* have also been used by companies to drown out questions from legitimate shareholders that company officials do not want presented (Wikipedia, retrieved on: 14.11.2013).

<sup>14</sup> Their ownership of Japanese stocks is already above 26% (Tokyo Stock Exchange Fact Book 2012).

(Nuzula, 2012). Nowadays the test of such common sense of responsibility, not seen in any other country, is Prime Minister Shinzo Abe's calls for higher wages in the face of a sales tax increase<sup>15</sup>.

Concerning corporate governance issues, after the Asian financial crisis in 1997, there was an emergence of the Japan Corporate Governance Forum in 1998. In 2006, J-SOX (Japan's Sarbanes Oxley Act) were passed, which contained provisions of the securities legislation (Financial Instruments and Exchange Law) similar to U.S. SOX (Gupta, 2012). To provide better protection for consumers, supervisory agencies such as the Japan Fair Trade Commission and Financial Services Agency have broadened the exposure of companies with respect to violations of the law in recent years.

During the last two decades, relevant government ministries such as the Ministry of Environment, Ministry of Economy, Trade and Industry and Ministry of Health, Labour and Welfare have issued a number of statutory laws and voluntary guidelines for corporate social and environmental responsibilities. As Japanese society is less legalistic than the Western countries, instead of specific rules and regulations, the government in Japan usually uses voluntary guidelines and suggestions to control the CSR activities that ensure cooperative relationships between the companies and government (as cited in Kokubu et al., 2013). The Japan Federation of Economic Organization (Nippon Keidanren; the most powerful business lobby in Japan) issued the CSR Matrix as translation of the Charter of Corporate Behaviour and the Implementation Guidance for the Charter of Corporate Behaviour. Containing various issues and stakeholders of which the corporations should be aware, the matrix is aimed to enable corporations to promote CSR and practically achieve the betterment of corporate values. From the stakeholder perspective, a firm's adherence to the charters would enhance public confidence in businesses. The Nippon Keidanren ties corporations on a voluntary basis; firms may prioritize their compliance towards some issues and stakeholders that are considered important for suitably maintaining the firm's culture and philosophy. The nature of business, such as to what extent a firm uses natural resources, is under consideration as well. The matrix includes six issues and nine stakeholders that become important elements of the business. The stakeholders include (1) consumers and customers, (2) business partners, (3) shareholders, (4) employees, (5) government, (6) community, (7) non-profit organizations (NPOs) and non-governmental organizations (NGOs), (8) developing countries and (9) basic principles. The issues are comprised of (1) compliance and business ethics, (2) safety and quality, (3) human rights and labour, (4) environment, (5) corporate philanthropy and (6) information. There are encouraging statements written within each square in the matrix linked for each stakeholder and issue<sup>16</sup>.

To provide better protection for consumers, supervisory agencies such as the Japan Fair Trade Commission and Financial Services Agency have broadened the exposure of companies with

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<sup>15</sup> <http://www.project-syndicate.org/commentary/shinzo-abe-unveils-a-concerted-effort-to-raise-japanese-workers--pay->

<sup>16</sup> <http://www.keidanren.or.jp>.

respect to violations of the law in recent years. For example, the stock prices of 50 companies involved in various scandals declined in the days after they were revealed (Tanimoto, 2010).

## | Investor and Public Opinion Impact on Japanese CSR

Japanese firms' relationships with their stockholders have changed significantly since the globalization of stock ownership in the 2000s when ownership structures of many Japanese firms changed significantly (Suto and Takehara, 2012). Foreign investors became major players in the Japanese stock market, while cross-shareholdings among business corporations and financial intermediaries were gradually dissolved. This change, among others, led Japanese firms to adjust their attitudes regarding shareholders and ownership as well as their relationships with other stakeholders. Suto and Takehara found that an increase in foreign shareholdings was positively associated with high scores on the CSR indices while an increase in domestic corporate investors' shareholdings demonstrated an opposite relationship. Domestic corporate investors are still less conscious of improving the corporate social performance practices than their foreign counterparts, but it may also mean that they are still influenced by relational investments (Suto and Takehara, 2012). It may imply that the attitude of Japanese companies towards stakeholder management is changing with the change in ownership structure.

Commitment by top management, corporate philosophy and legislation (statutory rules and guidelines) have been considered to be the three most important drivers for implementation of corporate sustainability in Japan but it was mainly the environmental issues that were previously considered as CSR issues in Japan. Now it seems that stakeholders (especially investors) and public opinion are having more impact on the companies' behaviour in the more diversified context of CSR (Kokubu et al., 2013). Ethical scandals like "Japan's menu scandal" about lying about the provenance of ingredients on restaurants and hotels menus<sup>17</sup>, financing of Yakuza dealings by the Mizuho Financial Group or the lack of transparency and ineptitude of Tepco<sup>18</sup> are already considered within the CSR context.

Most promoting the external stakeholders in Japan are communities, consumers (end users), trade associations and rating agencies. In Japan, however, the civil society movement and the power of NGO's have been relatively weak. It is noteworthy that consumers and trade associations that get relatively low ranking in international samples have become influential in Japan (Kokubu et al., 2013). This is also reflected in the tendency of CSR sustainability reporting. In 2011<sup>19</sup>, 1,132 companies submitted their CSR or sustainability reports, of which 1,077 of them

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<sup>17</sup> See "Japan's menu scandal leaves a bitter taste": <http://www.theguardian.com/world/2013/nov/12/japan-menu-scandal-diners-duped>.

<sup>18</sup> Tepco (Tokyo Electric Power Company), the owner of Fukushima nuclear plant that was an object of catastrophic failure on 11 March 2011, has been accused of mismanagement the catastrophe and hiding the information on its consequences (see <http://www.corpwatch.org/article.php?id=15866>).

<sup>19</sup> Data Bank Series 2011.

were listed companies, suggesting that the investor relations were meaningful. However, the characteristics of Japanese CSR reports is that one can find only positive information there, selected by the company without mentioning any ethical or sustainability problems.

Japanese companies initially released environmental reports that provided mainly public relations information. After the Japanese Ministry of the Environment and the Japanese Ministry of Economy, Trade and Industry issued the 2000 and 2001 guidelines on environmental reporting, the amount and quality of environmental reporting have improved. The Environmental Guidelines were revised in 2007 and 2012 and now require firms to disclose information on the social and economic aspects of their operations in addition to environmental information (Saka and Noda, 2013). However, markets in the past have perceived that the involvement of Japanese business societies and institutions in environmental projects was mainly triggered by Japanese environmental laws, not by the firms' own initiatives or needs (Nuzula, 2012). Therefore, the higher level of environmental expenses did not necessarily result in positive market reactions.

However, the situation is changing as the market for sustainable investment (i.e., SRI)<sup>20</sup> in Japan, is growing although it still looks very different in Japan than in other developed countries. The most obvious difference is the small size of the industry, but it is growing and in a unique way. Impact investing, which commands a relatively small share of the market in most countries, represents the largest portion of sustainable assets in Japan with \$7 billion in assets under management (AUM). Much of this represents money invested in community development and economic restoration funds following the March 2011 earthquake. Another intriguing development is the expanding interest in bonds with sustainability impact, such as poverty alleviation or climate change mitigation; \$7 billion of these bonds were sold from 2008 to 2011. In contrast, sustainable equity funds have suffered from the long-term stagnation of Japanese public equities and represented only \$4.2 billion in AUM as of September 2011. Meanwhile, sustainable investment guidelines released in 2010 by RENGO, the Japanese Trade Union Confederation, are beginning to influence pension fiduciaries, who have powered the responsible investment movement in many other parts of the globe (Gladman, 2013).

The research of Nakai, Yamaguchi and Takeuchi (2012) showed the growing interdependence of CSR performance and stock price. By using the data on the Morningstar Socially Responsible Investment Index from 2003 to 2010, they estimated the impact of inclusion on and exclusion from the Index on the stock price. Results showed that the inclusion on the index was evaluated as significantly positively, while the removal from the index did not lead to a significant drop in share prices. It was also found that the average cumulative abnormal returns were negative in the earlier years but positive in later years. This could be due to changes in appreciation of the concept of corporate social responsibility by investors and business partners throughout the years.

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<sup>20</sup> Socially responsible investment (SRI) is a broad term to describe an investment process that takes environmental, social, ethical, and/or governance considerations into account.

## | Understanding and Implementing the CSR Approach

According to Mr. Kawamura, senior researcher of Nissay Laboratory, since 2003, more and more companies, including Ricoh, Sony and Panasonic, have focused on CSR management, including establishment of departments dedicated to CSR and appointment of directors/managers in charge of CSR. However,, it was 50 years ago when the term *corporate social responsibility* appeared for the first time in Japan in a resolution at the Japan Association of Corporate Executives. As Japanese managers have a strong sense of a spirit of compliance, rather than its straightforward prescription, their adoption of CSR is perhaps more concentrated on the spirit of the term rather than in a wholly programmatic sense. They used to suggest that CSR “will only be said when we no longer have to say it is working or name activities specifically as CSR” (Fukukawa and Teramoto, 2009). This is in strong opposition to Western-oriented CSR, where there is a tendency to include more and more activities in the CSR nomenclature or even abusing and manipulating it for the purpose of creating good image.

Similarly, while there is considerable agreement among Japanese executives that contributing to society is important, there was no similar expressed consensus on the ways in which this contribution should materialize. Most have left things at referring to the concept itself without elaborating (Witt and Redding, 2012).

However, due to the increased interest of foreign investors, the SRI movement and stakeholder pressure, there are new trends to measure corporate economic value based on financial data that also evaluate business procedures and outputs in terms of environmental and social impact. In Japan, procurement/purchasing and manufacturing departments are actively involved in measurement of corporate sustainability. However, public relations/ corporate communication and personnel/HR departments, which are seen to be important internationally on the average, are relatively less involved in Japan than in the Western countries. Other important methods include environmental and social-oriented risk management (e.g. health care at the workplace) and producing with more efficient use of resources (e.g. optimizing the methods of sustainability management that are broadly known and applied by Japanese companies).

They are far ahead in utilizing environmental accounting and reporting, green purchasing, community advisory panels, eco-audits and corporate/employee volunteering than is the international sample. Employee-oriented tools like human resource control, incentive systems and further education are less known and used in Japan than in the international sample (Kokubu et al., 2013).

## | Conclusions

In business, it is commonly agreed that in the era of globalization, international understanding is one of the primary concerns. Cross-cultural communication requires being aware of cultural



differences and all the levels in communication and management are affected by cultural dimensions. It also considers corporate social responsibility. Thus to promote and perform good business relations with the Japanese investors and business partners, understanding the Japanese approach to CSR is essential as it influences the majority of business activity aspects. These include relations with customers, suppliers, workers, competitors and government as well as management processes and supply chain management or even product and services orientation.

In the literature review, the following determinants of CRS were distinguished within the Japanese axio-normative system: religious and philosophical, cultural, historical and economic, legal, investor and public opinion impact. They have been presented alongside examples within the key areas of integrating CSR issues in the Japanese business activity. Three factors of the interaction: 1) within-group/out-of-group distinction, 2) Confucian sense of time and duty to those with whom they have specific relationships with, and 3) strong value of loyalty became factors distinguishing Japan's model of CSR (Wokuth and Shepard, 1999). In one sense, the Japanese model could be even perceived as being in the roots of the CSR concept with its Kaizen (continuous improvement) in the ethical sense, which indeed builds and grows moral fibre (Low Kim Cheng and Sik Liang 2012).

Simultaneously, the strong desire of employees to protect the company often results in systematic attempts to conceal its troubles. Japanese corporations are also frequently regarded as being based on a well-balanced model considering the stakeholder' interests rather than simply focusing on the stockholders' value maximization (Fukukawa, 2010). On the other hand, in the collapse of the so-called bubble economy of the late 1980s, the Japanese economy suffered from a long-term economic slump that began to expose weaknesses in the old ethical values. Alongside this, the Japanese firms entered a period of fundamental challenge in its post-WWII corporate governance institutions. Well-known features of the Japanese firms, such as the main bank system, cross-shareholding, boards dominated by insiders, and lifetime employment underwent significant crises (Aoki and Miyajima, 2007). It seems that what tends to be unique about Japanese business (social customs, organizational values, corporate strategies and employee motivations) is potentially at odds with the real demands of global operations (Nakano, 2007).

All of these things have had effects on the approach of Japanese managers towards CSR. The research shows that they are not necessarily (or totally) in agreement with all the Western-led values associated with CSR and the tendency for a universal, one-size-fits-all approach, as evident with the UN Global Compact and the development of ISO26000 (Fukukawa and Teramoto, 2009). On the other hand, they are slowly starting to adopt "Western-oriented" models as they want to be competitive on the global market, where CSR becomes an important part of mainstream strategies, risk mitigation elements, supply chain analysis or even conditions of business partner approvals.

However, the understanding of corporate responsibility still differs a lot. For workers in Western countries, CSR may mean work-life balance or employing the disabled in managerial positions,

whereas for Japanese workers it would mean life-long employment or longer paid holidays. For foreign customers, it might be the product with a fair trade label; for Japanese, it might be top quality and the highest level service. The concept of maximizing *responsible* corporate values may also differ depending on the stockholder structure. Whereas executives may vary in their choices of where to put the company's *responsibility* first, there is rather a common agreement that they are unlikely to break the wider law (although the agreement on width may still vary) or deprive people of rights the society has adopted as essential and commonly accepted.

In the previous research concerning CSR in Poland and more generally in Europe, it has been shown that the level of CSR depends mostly on the compliance of determinants of social responsibility indicated by major stakeholders of companies, according to the following thesis: "The higher the degree of conformity of the determinants of social responsibility indicated by key stakeholders, the higher level of the company's social responsibility" (Krukowska, 2012). It means that if both Japanese and Polish partners want to build responsible, effective and long-term mutual relations, they also have to consider mutual understanding of the CSR determinants.

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