Japanese Companies Launch New Era of CSR Management in 2003

by Masahiko Kawamura
Social Development Research Group
kawam@nli-research.co.jp

Entering 2003, corporate social responsibility (CSR) has begun to flourish in Japan. In particular, many companies have converted to CSR management by setting up a special CSR structure directly linked to top management and overseen by top executives.

In this paper, based on the recognition of 2003 as the inaugural year of CSR management in Japan, we describe this year's conspicuous developments related to CSR. After explaining the characteristics of activities of both companies and stakeholders, we examine the key requirements of CSR management as they apply to Japanese companies.

1. The New CSR Era

(1) CSR Grows Rapidly in Japan

CSR has spread rapidly in Japan over the past two years. Socially responsible investment (SRI), the investment and financing facet of CSR, was already in use when eco-funds (investment funds that invest in environment friendly companies) first appeared in 1999.

We counted the number of articles pertaining to CSR and SRI that have appeared in the four major Nikkei business newspapers each year since 1980 (Figure 1). The number of eco-fund articles increased sharply in 1999 when eco-funds entered the market, but decreased from 2001 as the name became commonplace. By comparison, SRI articles began appearing in the 1990s, while CSR articles did not appear at all until 1998.

However, the concept that companies need to be socially responsible actually started appearing regularly in the 1980s, and became widely discussed in the early 1990s following the string of high-profile bankruptcies such as Yamaichi Securities and Hokkaido Takushoku Bank. Thus although slightly different from today's CSR concept, the concept of corporate social responsibility itself had existed in Japan prior to the recent introduction from abroad.

Figure 1　Number of CSR Articles in Four Major Nikkei Newspapers

Year	Eco-fund	SRI	CSR	Concept of corporate social responsibility
2003	9	31	25	32
2002	17	45	20	38
2001	43	25	17	22
2000	85	6	8	20
1999	82	10	3	18
1998	3	2	0	13
1997	0	1	0	32
1996	0	0	0	21
1990～95	0	10	0	269
～1989	0	0	0	193

Note: For 2003, shows count through May.
Source: Compiled from *Nikkei Telecom 21* database.

Recently, a wide variety of entities have been organizing study groups, seminars, and symposiums on the CSR theme. For example, the Japan Management Association recently conducted its 60th anniversary symposium on environmental management and CSR, and the Network for Environmental Reporting (NER) focused on CSR at its fifth anniversary symposium. Moreover, the Global Reporting Initiative Forum Japan (GRI) has set up a study group on CSR. Last fiscal year, the Sustainable Management Rating Institute, affiliated with an NPO called the Sustainable Management Forum of Japan, implemented an environmental management rating system based on CSR.

(2)　CSR Enhances Corporate Value

In its narrow sense, the CSR concept, which is already well developed in the U.S. and Europe, emphasizes ethical and social stance of companies regarding legal compliance, prevention of corruption and impropriety, equal opportunity employment, protection of human rights, labor health and safety, consumer protection, community contribution, procurement standards, and overseas operations. CSR first gained recognition in Japan when eco-funds emerged, particularly because of SRI surveys conducted by U.S. and European groups to screen Japanese companies. For better or worse, the survey period coincided with a series of business scandals widely reported in the media.

As CSR takes root in Japan, it is firmly expected to enhance the value of companies over the medium to long term. The implementation of CSR implies risk management and control of information, as well as the enhancement of social credibility and market competitiveness, and creation of corporate brands in the 21st century. As such, interest in CSR is expected to continue growing strongly in Japan.

2. CSR Spreads Among Financial Institutions and Institutional Investors

(1) Financial Institutions Adopt SRI

The first eco-fund specifically targeting the environment as a concern of finance first appeared in Japan in the summer of 1999. After four years of growing social awareness, almost ten SRI funds exist today that evaluate companies based not only on the environment but on consumer relations, employment, social contribution, and even sustainability. While their 120 billion yen in assets is not large, there is no question that financial institutions are increasingly screening investments based not only on financial factors but non-financial ones.

During this period, SRI funds have been sustained by various financial institutions—securities firms, banks, and life and nonlife insurance companies. This year, a new development has occurred among financial institutions. For example, Sumitomo Trust and Banking Co. has been preparing an SRI fund that caters to corporate pension plans, and started managing a 2.5 billion yen fund in July. The Japan Research Institute will start issuing CSR ratings of companies that evaluates their environmental, legal, and social responsibilities. Nissay Asset Management Co. plans to begin selling a corporate governance fund for overseas pension funds.

(2) Japan's First SRI Pension Fund

This year, the Mutual Aid Association for Tokyo Metropolitan Teachers and Officials (with approximately 110,000 members) committed 2 billion yen of its 84 billion yen in pension reserves to form an independent SRI fund as a special money trust managed by themselves. Since other existing SRI funds in Japan are aimed at individual investors, this marks the first pension fund to commit to SRI, and despite its small size relative to Japan's 250 trillion yen in pension assets, is as groundbreaking an event as the emergence of eco-funds.

Screening advice is provided by an investment advisory that specializes in SRI, Good Banker Co. who introduced Japan's first eco-fund. Screening criteria include environmental preservation, training system, equal opportunity for employees, contribution to society, internship program, percentage of management positions occupied by women, and absence of corporate scandals.

(3) Pension Funds to Exercise Voting Rights

Following the example of CalPERS and other U.S. pension funds, Japanese pension funds have started to exercise their voting rights. In the Pension Fund Association's *Guidelines for*

Shareholders' Voting Rights issued in February, fiduciary duty calls for investment managers to actively exercise voting rights, and stipulated accountability. The Pension Fund Association for Local Government Officials has also issued *Fund Operation Guidelines* which stipulate the exercise of shareholders' rights. These provide a screening checklist that includes the company's allocation of profit and composition of board of directors.

3. CSR and Corporate Auditing

(1) Audit Firms Clamp Down

Newly introduced corporate auditing standards require listed companies to disclose material information on risk pertaining to corporate viability starting in the present fiscal year. According to the *Nihon Keizai Shimbun*, 29 companies disclosed business risk information in their March 2003 financial statements, and the most common risks were excess liabilities, worsening business conditions, and cash flow management.

A typical example is Resona Holdings, whose financial statements revealed that its capital adequacy ratio had dipped below 4%. The auditor had clamped down and refused to count tax credits on expected profits over the next five years as assets on the balance sheet. As a result, Japan's fifth largest banking group was forced to apply for an infusion of public funds. By U.S. and European standards, disclosure pertaining to a company's ability to continue as a going concern is deemed vital and required. But in Japan, prior to the change in disclosure rules, auditors merely expressed an opinion in a footnote of audit reports.

(2) Deteriorating Brand Image Must Also be Disclosed

The new disclosure requirements not only pertain to straightforward financial and business information, but go so far as to include the conspicuous deterioration of brand image. This is because if a company's impropriety affects CSR, the company faces the risk of not only legal sanctions, but of sanctions from the market and society—that is, of an adverse reaction from business partners and consumers.

As evidenced by numerous cases of corporate dissolution and extinction, such improprieties pose the risk of causing financial damage, and of even threatening the company's viability as a going concern.

4. Economic Organizations Advocate CSR

(1) Keizai Doyukai Announces Corporate Evaluation Standards

In response to the recent series of corporate improprieties, economic organizations have also begun addressing CSR. In its annual *Corporate White Paper* released in March, Keizai Doyukai (Japan Association of Corporate Executives) issued corporate evaluation standards for CSR and corporate governance. As seen in the report's subtitle, "Practical Tools for Evaluating the Current Situation and Setting Goals to Enhance Comprehensive Corporate Value," the aim is to enable CEOs to assess themselves using management indicators comprised of 110 items.

The CSR evaluation looks at programs and performance in four areas—market, environment, people, and society. Corporate governance goes beyond the conventional sense of maximizing shareholder value, and evaluates the present status of principles and leadership, management system, compliance, and disclosure and communication. Keizai Doyukai plans to compile and release the evaluation results next spring.

Keizai Doyukai conducted a CSR survey of member companies at the end of last year. The results show a strong awareness of CSR among top management, with the majority seeing it as a "necessary cost of functioning in society," and a "critical issue that is central to management." However, less than 10% have actually planned or implemented strategies tying CSR to earnings.

(2) Nippon Keidanren Revises Charter of Corporate Behavior

To curtail the recent spate of corporate scandals—including food poisoning and deceptive labeling by food makers, concealment of product recalls by automakers, improper bidding practices by general trading companies, and falsification of data on nuclear power plants by electric power companies—Nippon Keidanren, under the chairman's leadership, revised its Charter of Corporate Behavior last October. Unlike past revisions, the latest one goes as far as to stipulate corporate inspection and evaluation.

Specifically, the new charter requires members to disclose management's stance and initiatives in a social report, calls for an annual follow-up survey on the status of initiatives and the release of results, and provides for stiff penalties such as suspension, expulsion, or withdrawal of membership. However, enforcement measures are limited, and compliance is voluntary at present. For its part, Keidanren has prepared support measures by setting up a corporate ethics unit and offering consultation services.

The revised charter does not directly call for strengthening of environmental measures.

However, based on voluntary initiative plans for global warming and industrial waste disposal, the fourth of ten principles states, "we recognize that addressing environmental problems is essential to corporate existence and activity, and that companies should take voluntary and aggressive action." Thus the charter explicitly recognizes environmental issues as a component of CSR.

(3) Council for Better Corporate Citizenship (CBCC)

The Council for Better Corporate Citizenship, an affiliate of Nippon Keidanren, set up a research group on social responsibility of multinational corporations, which released a report in May 2002 entitled, "Present International Standards and Criteria, and Future Responses to CSR." In the report, CSR is defined as "conducting business in a way that meets or exceeds society's ethical, legal, commercial, and public expectations toward companies."

(4) Independent Initiatives by Industry Associations

In response to Keidanren's charter revision, several industry associations have taken measures independently to prevent corporate scandals from recurring within their ranks. The Japan Ham and Sausage Processors Cooperative Association, Japan Foreign Trade Council, Federation of Electric Power Companies of Japan have set up special compliance committees, and decided on measures late last year to prevent the recurrence of scandals. In addition, the Japan Iron and Steel Federation, Japan Automobile Manufacturers Association, and Japan Electrical Manufacturers' Association are also studying independent initiatives.

5. Government Takes Active Role in CSR

(1) METI's CSR Standards Committee

The national government has also beefed up measures to deal with the wave of corporate scandals. In response to the ISO's move to standardize CSR management, the Ministry of Economy, Trade and Industry set up a CSR Standards Committee late last year, which began operating this year. The committee's aim is to coordinate Japan's stance at the ISO high-level advisory group, and to study the future direction of CSR in Japan.

Ultimately, the committee's aim is to establish and spread CSR among Japanese companies. For the time being, however, the aim is to work toward a framework for ISO standards that accurately reflects each country's cultural and social differences.

Participants in the committee include economic organizations such as Nippon Keidanren, Kankeiren (Kansai Economic Federation), Tokyo Chamber of Commerce and Industry, as well as companies such as Ito Yokado, Shiseido, Ricoh, NEC, and Sompo Japan Insurance. The committee's office is at the Japan Standards Association, and a working group has also begun operation. Separate from the CSR Standards Committee, METI is also studying corporate systems for internal control.

(2) Cabinet Office's Quality of Life Policy Council

The Consumer Policy Committee of the Quality of Life Policy Council, an advisory group to the prime minister, released a report in May on a system to protect corporate whistleblowers. The range of protection—a contentious issue between consumer and industry groups—was defined as any illegal activity that violates consumer interests (including life, limb, and property). Furthermore, the report also recommended including facility accidents endangering the health and safety of persons, and waste disposal adversely affecting the environment.

To bolster consumer confidence following the implementation of the Consumer Contract Act in April 2001, the committee formulated a guideline for voluntary initiatives in April 2002. The guideline has two aims: (1) to encourage companies and industry groups to adopt voluntary initiative standards, thereby giving substance to and enhancing and effectiveness of the Consumer Contract Act, and (2) to promote compliance management and ensure that companies respond effectively to consumers by meeting both legal standards and voluntary initiative standards.

(3) G8 Evian Summit Addresses CSR

CSR was also discussed at the G8 Evian Summit (France) in June. Although the agenda was overshadowed by the Iraq situation, the summit released a declaration ("Fostering Growth and Promoting a Responsible Market Economy") that explicitly refers to corporate social responsibility.

Regarding future economic growth and globalization, the declaration stressed that companies must play a key role in local employment and environmental issues, and called for compliance with the OECD's corporate governance principles and guidelines for multinational enterprises. It also pointed out the negative effects of economic globalization on industrialized economies, such as deindustrialization and the loss of jobs, and "environmental dumping," wherein companies improve price competitiveness by transferring production to developing economies with low environmental standards.

To correct these problems, the declaration seeks to alter the conventional concept of corporate governance, which focuses on maximizing the interests of shareholders. The chair's summary reaffirmed the group's commitment to "strengthen investor confidence by improving corporate governance, enhancing market discipline and increasing transparency."

6. The New CSR Era for Japanese Companies

(1) Japanese Companies Shift to CSR Management

The year 2003 has been dubbed the start of the new CSR era. Companies such as Ricoh, J-Phone, Teijin, Sony, Matsushita Electric Industrial, Unicharm, Toshiba and Canon have already decided to implement CSR management at the highest level, and have installed their own corporate units and board members this year to deal specifically with CSR. Such activity, which was not visible until last year, is expected to grow rapidly in the future.

In addition to the above companies, Mitsubishi Electric, Fuji Zerox, NEC, Fujitsu and Asahi Beer have begun studying the implementation of CSR systems. Ito Yokado began looking at CSR several years ago with its Corporate Behavior Committee (chaired by the managing director). Moreover, some companies have already appointed a board member responsible for CSR as a first step. Below we describe the CSR management situation at some leading companies.

(2) Japan's Leading Companies in CSR

Ricoh set up a CSR office in January that reports directly to the president. Headed by the managing director, the office has six other members: the chief of personnel and planning, two members each for the environment and legal affairs, and one for general affairs. In September, Ricoh plans to draw up a code of CSR conduct. While this will eventually encompass labor, work environment and human rights, for the time being the focus will be on legal compliance and environmental measures. Through a CSR committee, requests will also be sent out to group companies and major suppliers.

J-Phone established a "CSR Group" within its general affairs division, which is headed by managing director. In the backdrop is its parent company, Vodaphone, who announced in 2001 that it would pursue CSR by contributing to the environment, society and economy. The company, which has four core values—customers, employees, performance, and global society—has decided to implement 11 action guidelines. The Vodaphone Group aims to become one of the top 10 CSR companies globally by 2006.

Teijin, when it adopted a new logo, also decided to implement CSR management throughout the group, and set up a “Compliance Risk Management Office” this year. The promotion of Responsible Care activities, in which global chemical companies participate, has heightened the company’s awareness of issues such as the environment, safety, health, and disaster prevention. In the textile & footwear category of the Dow Jones Sustainability Global Indexes, the company has been recognized as a leading company for two straight years.

Matsushita Electric Industrial set up a “CSR Information Liaison Committee” at its headquarters in April. The aim is to establish a shared awareness of CSR throughout the company and among suppliers, and to formulate rules along with regional headquarters in Europe and the U.S. Interestingly, the company’s success in non-freon refrigerators is partly attributed to a push from the global environment NPO Greenpeace to quickly commercialize such a product. The company is characterized by its active stance to listen to the opinions of NPOs and consumers.

Unicharm has designated CSR as a major component of policy this fiscal year. In April, it set up a “CSR Department” integrating the environment, quality, product safety, and pharmaceutical divisions. Led by the operating officer, the unit has 25 specialists recruited from throughout the company. Environment, product quality, safety, and pharmaceutical issues, which had been delegated to the respective divisions, has been entrusted to internal third-party auditing. The company aims to conduct CSR management with cost awareness.

At Sony, the social environment division, which had been in charge of environmental issues, was divided into four functional units in March. The “Environment and CSR Strategy Group” is now in charge of CSR, and is located in the Compliance Office, which is in the Global Hub of the general affairs division, the division mandated with devising overall strategy. The restructuring is characterized by the separation of strategy formulation, execution and supervision, and attempts to enhance governance functions.

(3) CSR in Procurement Standards

Companies conducting CSR management are not only assessing themselves, but seeking similar CSR standards from suppliers of components and materials. Such corporate behavior, which might be called CSR procurement, is inevitable in the development of CSR and similar to green procurement activities, in which companies implement environmental management to reduce environmental load. Building a system to prevent misconduct at suppliers and customers not only averts or reduces business risk, but is indispensable for maintaining and improving a company’s brand image. From this perspective, many SRI rating agencies in the U.S. and Europe have adopted supply chain management (SCM) as an evaluation category.

Japan’s electrical manufacturers intend to adopt the CSR standards being formulated by

Ricoh for group companies and major suppliers. At Sony, in addition to the environment, evaluation standards for opening new suppliers' settlement accounts will include human rights protection and legal compliance. Matsushita Electric will formulate CSR standards for local procurement (in transferring production to China and elsewhere) and for the sharp growth in new suppliers.

Asahi Beer, who is participating in the U.N. Global Compact (nine principles in the fields of human rights, labor standards and the environment for multinational companies), conducts CSR surveys of local raw material suppliers. The results are reflected in the selection and evaluation of suppliers. Several food manufacturers have introduced “traceability” to check the origin of raw materials and ingredients.

7. Implications of CSR Management

(1) Disclosure is Not Necessarily the First Priority

Most major companies in Japan have introduced environmental management systems and enhanced their environmental disclosure. However, companies have failed to address the diverse areas of social and ethical disclosure in an integrated manner. Indeed, the very concept of social disclosure is really new to them.

Recently, against the backdrop of rampant corporate scandals, a movement has grown to disseminate as much information as possible. However, disclosure is not necessarily the first priority of action. Companies must first establish a proper management concept that recognizes corporate social responsibility and sustainability, and then take the necessary action and releasing results. Unfounded CSR claims should never be used for advertising or image enhancement purposes, because the damage to credibility would be considerable.

(2) Toward a Japanese-Style CSR

Disclosure must not simply follow standards sought by the U.S. and Europe. CSR in Japan must conform to the social environment, while at the same time being new and unique, yet not self-serving. It is critical for top management to embrace a clear vision. From the perspective of CSR, reconstructing Japanese-style management requires three things:

①Top management's commitment to constructive social contribution and intolerance of improprieties.
② Establishment of an integral CSR unit and appointment of executive leader
③ Introduction of third-party perspective (multi-stakeholders)

(3) CSR to Create Corporate Value in the 21st Century

CSR management implies the pursuit of sustainable shareholder value simultaneously with sustainable social value. Thus it is equivalent to pursuing sustainable stakeholder value. This does not conflict with the company's pursuit of profit, but actually creates new corporate value for the 21st century.

CSR management also implies listening with humility to "society's voice." This is clear from the spate of domestic and foreign corporate scandals. In the future, from the perspective of corporate sustainability, CSR will play an important role in business risk and management, and is thus meaningless unless integrated into management strategy at the highest level. In implementing CSR management, top management's commitment and leadership are indispensable; simply setting up a CSR unit inside the company will not cause fundamental change in the company. Moreover, the transparency and accountability sought by CSR management are the most fundamental infrastructure of corporate culture.

(4) Adopting New Perspectives for CSR Management

For companies establishing their own proprietary CSR management, it is critical that main operations, products and services be reexamined by discarding fixed notions and adopting new perspectives. New perspectives should consider the following:

① How do employees see the company's operations, products, and services?
② How does the market see them?
③ How does society see them?
④ How far does the company's influence extend into the global community?
⑤ What are the social benefits and risks?
⑥ Are any stakeholders being overlooked?

(5) CSR and Integrity in Management

Although SRI has been developed in the west, the CSR standards on which it is based vary greatly depending by country and region. While Japanese companies have just begun to implement CSR management, its growth requires a CSR concept that unique to Japan and yet not self-serving. That concept might be described as "management integrity."

According to Mr. Pedersen of E-Square Co., a prototype of Japanese-style CSR exists dating back to the *Ohmi* merchants in the 17th century. They used an expression, *sanpo yoshi*, meaning that transactions are good for sellers, buyers, and society. CSR may be a loanword from the west, but need not be thought of as the gospel. Ultimately, corporate social responsibility is based on one's own insight and judgment.

Figure 2 shows the main CSR evaluation categories used by two organizations in Japan. For each category from A to S, the Sustainable Management Forum of Japan looks at strategy, scheme, and results. Keizai Doyukai examines the present status and goal setting for the scheme and results of CSR, and the present status of corporate governance (CG).

Figure 2 CSR Evaluation Categories

Sustainable Management Forum of Japan (2003 survey, draft)

Ⅰ	**Business health**
A	Management principles
B	Corporate ethics
C	Disclosure and accountability
D	Business risk management
Ⅱ	**Environmental preservation**
E	Global warming; energy saving
F	Resource recycling, waste control
G	Control of chemical substances
H	Soil contamination countermeasures
I	Preservation of natural environment
J	Green purchasing
K	Eco-design
L	Logisitics
M	Environmental accounting
Ⅲ	**Society & culture**
N	Contribution to global community
O	Formation of social stock
P	Consider customers & consumers
Q	Labor safety and hygeine
R	Equal opportunity employment
S	Support women's work & self expression

Keizai Doyukai (Corporate Evaluation Standard, first ed., 2003)

Ⅰ Corporate social responsibility (CSR)	
1. Market	Create sustainable value, new markets
	Provide value to customers
	Provide value to shareholders
	Free, fair & transpar. competit., transact.
	Build credibility
2. Environment	Environmental management system
	Reduce environmental load
	Disclosure and communication
	Build credibility
3. Human resources	Recruit and hire high-quality personnel
	Improve capability of employees
	Family friendly work environment
	Comfortable work environment
4. Society	Promote contribution to society
	Disclosure and partnership
	Relationship of politics and admin.
	Harmony with international community
	Build credibility
Ⅱ Corporate governance (CG)	
1. Concept and leadership	
2. Management system	
3. Compliance	
4. Disclosure and communication	

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