

**Finding an entry point for the promotion of corporate  
social responsibility in small and medium- sized  
enterprises in Japan**

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*PRELIMINARY*

## I. Introduction

Japanese enterprises find themselves in a paradoxical situation. During the “lost decade” of the 1990s, Japanese enterprises were criticized for, *inter alia*, governance structures that sought to balance the interests of various stakeholders, including shareholders, employees, customers, business partners and wider society. As a catalyst for economic recovery, various commentators instead pointed to the corporate model, most evidenced in the United States, where creating value for shareholders triumphed over that of other stakeholders. At the turn of the twenty-first century, in light of the increased importance of corporate social responsibility (CSR) around the world, Japanese enterprises are finding themselves confronted with systematically organizing a concept that they are familiar with but has evolved significantly.<sup>1</sup>

The very understanding of what constitutes as CSR has changed over time and today increasingly includes integrating stakeholder interests at the heart of business strategies, supporting sustainable development and responsible supply chain management. Furthermore, whereas CSR was the initiative of large, multinational enterprises in the past, it now encompasses small and medium sized enterprises (SMEs). Nonetheless, as the European Stakeholder Forum on CSR (2004) has noted however, “relatively little is known about CSR amongst small and medium sized enterprises” (p.3). This is also the case in Japan.

Through a consultative process involving various stakeholders and an analysis of a survey of large Japanese companies and SMEs, this paper aims at adding to the body of knowledge. Section II examines the evolution of CSR in Japan in order to place in context the drivers of CSR in Japan today. What are drivers of CSR in Japan? In what manner are SMEs and large companies responding? These questions are addressed in section III and IV respectively. Finally section V concludes by finding an entry point

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<sup>1</sup> There is no generally accepted definition of corporate social responsibility. The study group on CSR under the Japan’s Ministry of Health, Labour and Welfare defines CSR as “incorporating social fairness and consideration toward the environment, and acting responsibly with accountability to stakeholders such as employees, investors and the local community (MHLW, 2004). The European Commission defines it as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (European Commission, 2002).

for the promotion of CSR in SMEs.

## **II. The Historical context: Evolution of CSR in Japan and at the global level**

An examination of corporate social responsibility in Japan needs to be placed in a historical context. The concept of corporate social responsibility, while gaining much momentum at the turn of the 21<sup>st</sup> century is not a new idea, either in Japan or elsewhere in the world. Japanese enterprises perceived themselves and were widely perceived as social institutions and enterprises have long been engaged in initiatives that furthered the interests of the general community at large, manifested most predominantly by philanthropic contributions by enterprises and conventional beliefs in life-long employment and seniority. Nonetheless, a debate on defining the scope of the responsibilities of enterprises first began to materialize in the mid 1950s. In 1956, a resolution by the National Assembly of Keizai Doyukai (Japan Association of Corporate Executives) depreciated the sole pursuit of profits by enterprises and called for an effective combination of various productive elements to seek harmony between economy and society (Kawamoto, 1977). This resolution was much influenced by Howard Bowen's book, *Social Responsibilities of the Businessman*, in which he writes that that managers should "pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of society" (Bowen, 1953).

This view was not shared by all and the concept that business leaders have a social responsibility prompted one prominent economist, Milton Friedman, to write that "few trends could so thoroughly undermine the very foundations of our free society than the acceptance of corporate officials of a social responsibility other than to make as much money for their stockholders as possible. This is a fundamentally subversive doctrine. If businessmen do have a social responsibility other than maximizing profits for stockholders, how are they to know what it is? Can self-elected private individuals decide what the social interest is?" (Friedman, 1962).

Friedman's views could also be found among Japanese business leaders at the time. By 1966, opinions among the top Japanese executives had changed and the chairman of Keizai Doyukai at the time stated that: "Corporate profits are a compensation obtained from consumers, and the result of the contribution companies make to society. Managers must above else do their best to grow profits, which is the essential aim of

companies” (Kawamoto, 1977, Kawamura, 2004). Industrial pollution problems of the 1970s however prompted companies to actively take steps to address the environmental problems. Neo-liberal economic paradigms dominated the CSR debate until the 1990s, when a series of corporate ethics scandals erupted in Japan. To promote ethical behavior, Nippon Keidanren (Japan Business Federation) in 1991 adopted the Charter for Good Corporate Behavior. The Charter was revised several times throughout the 90s to emphasize corporate ethics and compliance on the heels of further corporate scandals. In 2004, the Charter was revised to incorporate CSR. Keizai Doyukai, in its *21st Century Declaration* (2000), promulgated that corporations had the responsibility of creating not only “economic wealth” but also “social value” and “human value.” The organization reconfirmed these ideas in 2003 in its 15th Corporate White Paper titled ““Market Evolution” and CSR Management: Toward Building Trust and Creating Sustainable Stakeholder Value”

Reflecting the activity at the local level, there were developments on the issue of the responsibilities of companies, particularly those with overseas operations, at the global level. The increased importance of multinational enterprises on the world economic scene during the 1960s and 1970s raised a number of concerns about the social, economic and environmental impacts of their activities. The newly independent countries at the time viewed MNEs as remnants of colonial times and as a threat to their sovereignty and efforts to draw up international instruments to regulate their conduct were made at various multi-lateral fora, including the United Nations, the International Labour Organization (ILO) and the Organization of Economic Cooperation and Development (OECD) (Muchlinski, 1995). This led to the promulgation of voluntary guidelines such as the ILO’s Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy of 1977 (MNE Declaration) and the OECD Guidelines for Multinational Enterprises Guidelines of 1976. The perception of multinational enterprises changed in the 1980s as economic policies emphasized liberalization and deregulation and many countries welcomed and actively sought to attract foreign direct investment as a source of jobs, know-how and technology transfer.

In the 1990s, globalization came under increasingly skepticism, and MNEs, who are one of the main drivers of the process, found themselves being criticized again for the economic, environmental and social consequences of their global operations. Companies initially responded by instituting corporate policies and codes of conduct that apply to a company’s own operations, whether domestic or foreign, but now

policies and codes of conduct increasingly apply equally to business partners such as suppliers, subcontractors and licensees. These voluntary initiatives have been driven by constituencies such as consumers, NGOs, investors, international trade union organizations and the corporate sector itself, from developed countries, in contrast to the international regulation framework of the 1970s that was mainly supported by the South (Jenkins, 2001).

The debate on CSR has further been broadened to include an examination of how corporate interests can be brought in line with the broader universal goals of sustainable development, exemplified by the United Nations Global Compact, which aims for a partnership between business and society to achieve sustainable development. Company initiatives and inter-governmental initiatives, such as the Global Compact, OECD Guidelines and the ILO's MNE Declaration are voluntary in nature, which have raised some concerns from some actors, notably NGOs, on the credibility of these voluntary initiatives. To address these concerns, stakeholders are exploring ways to increase credibility and accountability through systems of measurement, reporting and monitoring while at one end, some civil society organizations are calling for legally-binding measures of regulation.<sup>2</sup>

### **III. Drivers of CSR in Japan**

An examination of the local and global evolution of CSR already sheds some light on the drivers of CSR in Japan today. To gain further insight, one-to-one consultations with a wide range of organizations, identified through the local networks of the International Labour Organization (ILO) and the Japan Institute for Labour Policy and Training (JILPT) were also undertaken.<sup>3</sup> The drivers that were identified are:

#### *Domestic drivers*

- Increased understanding of the business benefits of integrating social and environmental concerns into corporate practices and principles. In response more companies are publishing sustainability reports and reorganizing management structures to incorporate structures responsible for CSR.

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<sup>2</sup> See for example Christian Aid (2004).

<sup>3</sup> Organizations that participated in consultations are listed in Annex I.

- A series of ethical corporate scandals have damaged public confidence in business and companies are responding to restore confidence through greater commitment to CSR.
- Domestic investor interest in socially responsible investment (SRI). As of October 2004, the total value of SRI funds remained small, representing less than 0.01% of the market (ASrIA, 2003). Nonetheless, considering that SRI first started in 1999 with the launch of eco-funds, there SRI market was expected to grow. In the United States, for example, SRI funds have grown from USD 40 billion in 1984 to over 2.3 trillion in 2001, representing a market share of 15% (ibid).
- Reforms towards a smaller government have prompted the private sector to take on some of the social responsibilities of government.
- Growth of civil society in Japan. The Law to Promote Specified Nonprofit Activities of 1988 have made it easier for non- profit organizations concerned with various social issues to be legally established.
- There is a growing demand for products that are made taking into consideration environmental and social standards and surveys by the National Consumer Affairs Center of Japan reveal that the series of food-related scandals have changed the consumer buying behaviour, especially in regards to the quality and safety of food products.

#### *International drivers*

- Japanese corporations have high awareness of ISO 9000 and ISO 14000 quality and environmental standards and the decision by the International Standardization Organization (ISO) to move towards a standard on social responsibility has been a major driver for Japanese companies' interest in CSR.
- Foreign investor pressure. With the burgeoning of SRI funds in the United States and Western Europe, companies in Japan are increasingly having to respond to questionnaires sent by foreign SRI funds and rating agencies.

- Foreign business partners are increasingly asking Japanese firms to abide by their company codes of conduct or other external standards.
- Technological advances in information technology have vastly improved dissemination of information, including negative campaigns against companies, and Japanese firms are responding to manage this risk.
- New regulations in other countries. Enterprises, who have subsidiaries abroad, especially in developed countries, are keeping abreast of regulatory developments around CSR in other countries.

#### **IV. How are SMEs responding?**

The main drivers of CSR will differ for each company, depending on company size, industry and corporate strategy. In consequence, the extent that a particular issue within the CSR agenda is being addressed will also differ for each company. Nonetheless, consultations during this research has identified that Japanese companies addressing CSR issues are generally more likely and more comfortable in addressing environmental and product safety and health issues.

The relative scarcity of workplace issues can be due to several factors. First, employees have traditionally been considered as stakeholders of a company and there exists a perception on the part of companies that they have for long addressed the issues and thus less need to address them systematically under the umbrella of CSR.

Second, the scope of workplace issues has widened to include issues such as equal opportunity and work and life balance. These issues are relatively new and some companies are having difficulties in addressing such issues. For example, the Japanese government in 2001 instituted a legally mandated employment quota for persons with disabilities. Statistics indicate, however, that 57.5% of private companies are not achieving quota.<sup>4</sup> The relative novelty of workplace issues is not specific to Japan. A World Bank/International Finance Corporation survey of 107 executives from multinational companies, mainly from the United States, Canada and Western Europe reveals that among manufacturing companies, company policies on environmental

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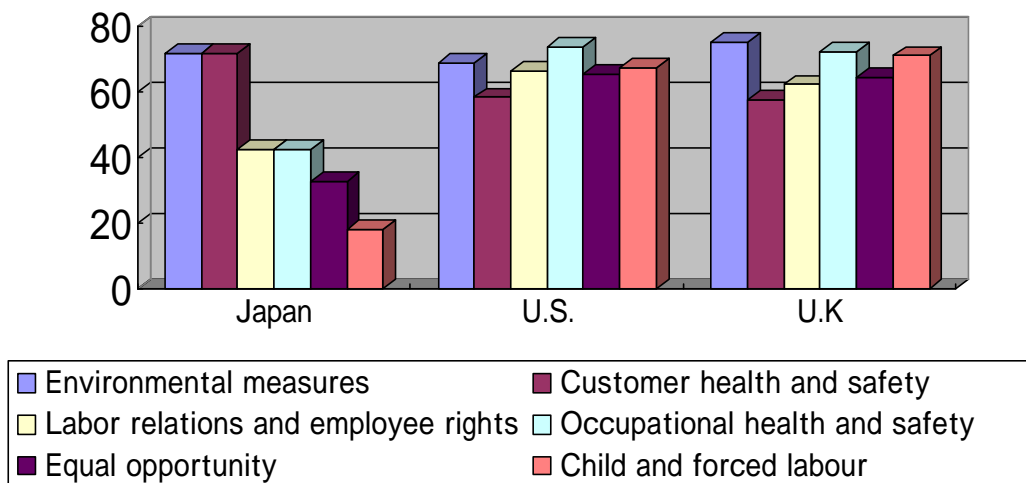
<sup>4</sup> Information provided by the Ministry of Health, Labour and Welfare

rights and community health have been in place the longest, with labour rights and human rights having a comparatively shorter lifespan (World Bank/IFC, 2003).

Third, workplace issues are considered less important in business dealings with business partners. Small and medium sized suppliers note that buyer companies readily request specifications on quality, privacy of confidential information, and environment but workplace criteria are frequently not prerequisites for business partnerships.

Fourth, Japanese companies are likely to face less demand to address workplace issues from investors. Japanese investors have a relatively lower interest in the social aspects of CSR compared to environmental issues, reflected in the prominence of eco-funds in SRI. A Ministry of Environment survey for example suggests that private individuals in Japan, who are either investors or are interested in investing generally, are significantly more concerned about environmental measures and customer health and safety than about workplace issues, in contrast to the United States and the United Kingdom.

**Figure 1. Issues of concern about corporate behaviour by private individuals**



Note: percentage of respondents who believe that companies should take measures in particular category

Source: Ministry of Environment, Japan (2003)

These generalizations however do not necessarily apply to SMEs. These sizes of companies tend to have less resources, less know-how and less institutional capacity to



tackle CSR in the same way as the larger companies. Table 1 is based on a survey of 229 companies by Keizai Doyukai. The table illustrates whether companies of different sizes have taken measures on certain CSR issues. A value of 0 denotes that no measures have been taken while a value of 1 denotes that the company has taken steps. A value of 2 signifies that the company has taken steps and believes the steps to be “satisfactory.”

**Table 1. Company’s measures on certain CSR issues**

Issue	Firm size (No. of employees)			All firms
	<300	300-999	>5000	
<b>Environment (Avg)</b>	<b>0.692</b>	<b>1.174</b>	<b>1.592</b>	<b>1.26</b>
Employee education on environment conservation	0.68	1.17	1.57	1.25
Acquisition of external certification	0.54	1.26	1.65	1.34
Resource saving, recycling	0.96	1.31	1.68	1.38
Energy saving	0.81	1.29	1.63	1.33
Green purchasing and procurement	0.47	0.84	1.43	1
<b>Workplace (Avg)</b>	<b>0.812</b>	<b>0.987</b>	<b>1.39</b>	<b>1.083</b>
Equal opportunity	1.23	1.11	1.38	1.2
In-house recruitment, free agent systems, etc	0.71	0.75	1.41	0.93
Capability and performance assessment	1.27	1.2	1.52	1.3
Employee education and training	0.93	1.15	1.43	1.2
Nurturing of senior management	0.81	0.92	1.32	1.02
Consideration of employees as family members	0.75	0.98	1.29	1.04
Assistance with childcare, nursing	0.32	0.72	1.35	0.87
Varied working hours and forms	0.52	0.98	1.26	1
Safety and hygiene	0.65	0.89	1.42	1.02
Consideration of human rights	0.93	1.17	1.52	1.25
<b>Society (Avg)</b>	<b>0.355</b>	<b>0.67</b>	<b>1.265</b>	<b>0.815</b>
Use of special management resources for social contribution activities	0.52	0.84	1.4	0.99
Support for employee’ volunteer activities	0.19	0.5	1.13	0.64

Note: For the issues of Environment and Society, only questions with possible answers “N/A, No, Yes, Yes and we believe satisfactory results are being achieved” are included. For the issue of Workplace, only questions with possible answers “N/A, No, Yes, Yes and we believe our measures to be satisfactory” are included. No=0; Yes=1; Yes and we believe our measures to be satisfactory=2

Source: Based on Keizai Doyukai (2003).

A cursory examination of the table confirms that on average more companies have taken measures in relation to environmental issues than workplace or society issues. Disaggregated by firm size however, more SMEs (enterprises that have less than 300 employees) have taken measures on workplace issues than on environment or society. An inclusion of additional issues under any one category could change the implications of the table. However, it is important to note that on average, there is almost no difference between the number of SMEs and large companies that have taken steps on workplace measures which can be characterized as having relatively low sunk costs (such as equality of opportunity). For issues that involve significant sunk costs, for example social contributions, fewer SMEs on average have taken steps

## **V. Policy implications**

Large multinational enterprises often have whole organizational structures, such as a department or executive responsible for CSR, that they can tackle the issues of CSR comprehensively. This is not the case for the vast majority of SMEs and there is need to take a more staged approach and build up on existing practices to build confidence and appreciation of CSR (Grayson, 2003, European Commission, 2003). A preliminary analysis of current measures being taken in the area of CSR by small and medium-sized enterprises suggest that more SMEs are likely to have experiences in workplace issues, particularly those with no initial costs. Building on this experience provides a good entry point for the promotion of CSR in SMEs and in the achievement of a critical mass of experiences.

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## **Appendix I**

Ministry of Health, Labour and Welfare

Ministry of Economy, Trade and Industry (METI)

Research Institute of Economy, Trade and Industry (RIETI)

Japan Institute for Labour Policy and Training

ILO-Tokyo

Keizai Doyukai (Japan Association of Corporate Executives)

Nippon-Keidanren International Cooperation Center (NICC)

Nippon Keidanren (Japan Business Federation)

Japan Overseas Enterprises Association (JOEA)

Council for Better Corporate Citizenship (CBCC)

Japanese Trade Union Confederation (RENGO)

Japan Council of Metalworkers; Unions (IMF-JC)

National Consumer Affairs Center of Japan (NCAC)

Japanese Trade Union Confederation (RENGO)

Nihon Keizai Shimbun, Inc (NIKKEI)

NEC Corporation

Pioneer Corp.

Dial Services Co.

Benesse Co.

Hokkai MIC

AEON Co