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Globalization's New Face – Corporate Social Responsibility

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(Summary)

Having swept world markets with the efficiency of their manufacturing methods, Japanese corporations are now facing the need to adjust to new conditions of the globalized market place. This essay looks at Japanese companies and the new face of globalization – Corporate Social Responsibility (CSR). Even though, CSR has been a recently heatedly discussed concept in the West, this essay argues that for Japanese companies there is no such novelty attached to addressing issues coming under the umbrella of the CSR. Japanese companies have embraced the core CSR principle of raising the value of the company by caring for all stakeholders involved in the framework of their domestic and overseas operations already for quite a considerable time. Meanwhile, Western companies have tended to focus on short-term profit generation for their shareholders paying little attention to the overall stakeholders. Japan has emerged as a world leader for environmentally conscious corporate management. However, workforce related issues of CSR seem to be largely overlooked. Should Japan be able to realize its vision of a strong economy with a strong society that utilizes the energies of a diverse range of individuals, much more of Japanese CSR initiatives must be directed towards addressing human resources issues.

(full text)

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1. Introduction.

Even though an academic module in my university Economics' degree course, globalization has become a much more personalized experience for my generation. In fact, we are the products of globalization. I am a Latvian student, who as a European Union citizen studied in America, Switzerland, England and now Japan; one of my Japanese student friends here wears an English football club's shirt with a Swedish footballer's name and an Arabian sponsor's logo on it. Nowadays, we experience the impact of globalization upon every aspect of our lives. If today I can study in Japan, while my father can drive a Nissan in Latvia, I am curious about how globalization will shape our world of tomorrow. Thus, struck by personal observations from the perspective of a foreign student living in Japan, I became increasingly interested in the topic of globalization and Japan. With the globalization of goods and services' markets, a more global society seems to be gradually emerging. Will I and my peers truly become global citizens in the world of tomorrow? If Japanese companies have impressively managed to conquer international markets during the past decades, what are the new challenges facing them today? This essay aims to explore one of them - the concept of Corporate Social Responsibility (CSR) - and discuss how Japanese companies have come to increasingly embrace it in meeting the demands of the global citizens in a global marketplace.

This essay first examines the growing importance of CSR activities in the world and then specifically in Japan, set against the background of examining historical debates surrounding CSR-related issues. Positions of major advocates and opponents of business-driven socially contributing initiatives are then discussed. Further, the essay compares and contrasts approaches taken by the US, European and Japanese corporations. Whereas in the US and European CSR initiatives are left to be designed by individual companies, the Japanese approach emerges as more comprehensive, more philosophical approach to business management. The last section contains a more in-depth analysis of the Japanese CSR initiatives with respect to employment policies, an area of personal interest to me, followed by a conclusion.

2. Growing salience of CSR initiatives.

In boardrooms across the world CSR has become an indispensable element of any executive decision. Previously seen more as philanthropy or charity, CSR programmes have now become much more than a corporate diversion. Business leaders have come to recognize that consumers and employees will choose those

products and companies that align their policies with ethical and socially responsible practices. In other words, embracing CSR principles means more profit for the companies. Thus, CSR in this context could be defined as ‘the success of a company’s business gained not only through the observance of laws and regulations, but also through an approach that strikes a balance among economic, environmental and social issues in ways that takes all stakeholders – employees, local community, and society as a whole – into consideration.’

Similarly in Japan, with the evolution of civil society, CSR has received increasing attention and CSR practices are used as benchmarks for evaluating business success. The rapid globalization of Japanese economy and the emergence of Japanese companies as powerful multinationals have raised expectations for businesses to address issues ranging from environmentally-sound practices and ethical governance to observance of human rights norms, rejection of child and forced labour and eradication of poverty. Furthermore, the need to address personal data protection in the information society and the necessity to attend to diversification of the labour force in the context of low-birth, aging society have become increasingly salient issues that Japanese corporations are facing today. Situation has shifted in comparison to former decades when Japan exhibited miracle growth turning the country into the post-war economic phenomenon. The dynamics that then served well are failing to adjust to the new realities. Having swept the world markets with the efficiency of their manufacturing methods, Japanese corporations are facing numerous new challenges in coping with the consequences of the prolonged recession of the 1990s and the diminishing of the competitive advantage that they had come to depend upon. This highlights the particular importance for Japanese companies to restructure their management and production methods in order to regain global competitiveness while not ignoring the need to enhance their social significance and value, answering social needs and respectively communicating with stakeholders. Indeed, the globalized nature of today’s markets has rendered CSR practices a vital part of sustainable corporate management, and an essential element in any company’s drive for greater global competitiveness.

A survey of Japanese CSR practices reveals astonishing results. CSR has been actively promoted by the Nippon Keidanren with the establishment of the 1991 ‘Corporate Behaviour Charter’ and the promulgation of its 2004 CSR ‘Implementation Guidelines’. In its 2000 ‘21st Century Declaration’ Keizai Dōyūkai advocated corporate responsibility for creating not only ‘economic wealth’ but also ‘social and human value’. The 2003 15th Corporate White Paper ‘Market Evolution and CSR Management: Toward Building Trust and Creating Sustainable Stakeholder Value’ only further reaffirmed their strong commitment to CSR principles.

According to a Keizai Dōyūkai 2004 report, about 32 per cent of all the companies that submitted self-evaluations, reported that they had established a

department (or position) in charge of CSR. A common trend observed is the establishment of either dedicated CSR departments or CSR committees drawing from various departments. Owing to the extremely wide-ranging nature of CSR, Japanese companies have effectively responded to the need to oversee and promote the efforts carried out by various divisions and sections in a unified manner. This in turn has made it possible for the Japanese corporations to formulate and carry out strategies in consultation with their top executives and to systematically disseminate information regarding the company's CSR efforts to investors and the general public. In sync with the international moves for "triple bottom line" company reporting, including performance with regard to the environment and society as well as finances, Japanese companies have set to devise appropriate ways to publish this information. Already 57 per cent of companies responding to the Keizai Dōyūkai 2004 report survey, and 79 per cent of companies with 5,000 or more employees, indicated that they had prepared an environmental report. However, before turning to specific modes of CSR activities of Japanese companies, I want to step aside to discuss the origins of the CSR debates and explore how that knowledge shapes our understanding of CSR in modern day Japan.

3. Historical debates surrounding CSR issues.

Academics argue that even though the 21st century exhibits CSR at the focal point of business interests, the concept itself is not new neither for Japan nor for the rest of the world. Japanese enterprises are seen as traditionally having perceived themselves and having been widely perceived as social institutions. Enterprises have long been engaged in initiatives that furthered the interests of the general community at large, manifested most predominantly by philanthropic contributions and conventional beliefs in life-long employment and seniority. The Confucian teachings on fostering and nurturing special relationships with people around you, interpreted as the need for an enterprise to be a good 'citizen' within the community where it operates, were embedded in Chinese, Korean and Japanese companies' socially responsible attitudes as early as 15th century, some scholars posit.

A formal debate on defining the scope of the responsibilities of enterprises, however, first began to materialize in the mid-1950s. The Japanese Keizai Dōyūkai condemned the single-minded focus on profits by enterprises and urged for a positive symbiosis between the economy and society. Such moves echoed much of the publications at the time calling for managers to pursue policies and take decisions with benefits and values of the society at large taken into account.

Opposing views were advocated by prominent libertarians arguing that the only social responsibility businesses should be expected to live up to is making the maximum profit for its shareholders, which then can decide for themselves in which community projects to invest their profit earnings. The core of libertarian thinking

rejects the very idea that a set of individuals, a corporate executive board, for example, should decide on the wider social interests at stake.

On a world-wide scale, CSR gained prominence as a response to the raising concerns about the social, economic and environmental impacts of the increasingly global activities of the multi-national corporations (MNCs, at the time, however, referred to as multi-national enterprises – MNEs). In the 1960s and 1970s, newly independent countries at the time voiced their fear of such MNCs being remnants of colonial times and threatening their national sovereignty. Consequently, multiple international documents were drafted in order to regulate the behaviour of such MNCs.

Today, MNCs remain the main players in instituting CSR programmes, which emerged when in 1990s MNCs were again at the receiving end of criticisms and renewed concerns over the impact of their global operations on the economic fitness, environmental conditions and the social fabric of communities in the host states of their subsidiaries. Initially responding by self-drafted, self-enforced and self-monitored corporate codes of conduct for domestic and foreign operations, MNCs have gradually come to embed and represent a wide set of values and principles, commonly known as CSR practices. Significantly, due to the scope of their operations, MNCs have also been able to induce their business partners on the supply chain, subcontractors and licensees to comply with such CSR practices. Thus, we witness how MNCs have used that same global scope of their operations so widely criticized, this time, to advocate for positive global change with respect to increasing societal contributions of business enterprises.

On the other hand, echoing earlier concerns of the libertarian thought, there are those companies hesitant to jump on the CSR bandwagon. They argue that implementation of the CSR initiatives is diverging the management from its central tasks, and could thus consequently lead to dampening impact on their corporate performance. However, whereas the positive impact of CSR initiatives with respect to local communities and the environment, for example, can be directly and immediately observed, a causal link between implementing CSR initiatives and the dampening effect on corporate performance is yet to be proven. Even though, unable to dismiss the opponents' arguments, we can at least regard as insubstantial claims that the effort a firm makes to fulfil its social responsibilities is the 'cost the corporation has to pay' and that is hence exhibits a trade-off with its corporate performance.

Furthermore, in contrast to the regulatory framework of 1960s and 1970s, today CSR initiatives are voluntary and largely driven by constituencies such as consumers, NGOs, investors, international trade union organizations and (in the developed countries) the corporate sector itself. Sceptics would and have argued that CSR is just merely a tactical reaction on the part of MNCs to certain market forces that for the time being favour those companies with a strong CSR commitment. But,

like the market itself, this commitment could easily be turned upside down. One solution to this problem would be a framework of international regulation, or 'a move beyond CSR and more towards corporate social accountability'. The Japanese business leaders have been the main proponents of such a move towards CSR practice codification, but have met with significant opposition elsewhere; the developed world hardly represents a homogenous group in this respect. This leads us into the discussion of diversity of opinion with regard to CSR. In the next section, I would like to compare and contrast the CSR as understood and practiced in the US and Europe and in Japan.

4. Diversity of approaches towards CSR activities.

Even though general common ground can be established, one can observe notable differences in the perception and implementation of CSR programmes by American and European and Japanese companies. The common larger underlying principles that all three regions share with regard to the CSR concept are that corporations should play an active role in building a better (more sustainable) society, that the commitment to CSR activities should not be dictated by law but that they should be pursued by each corporation on its own beyond the boundaries of legal compliance, and, lastly, that each corporation should have such concepts and codes of conduct built into its own scheme of corporate activity. Each region, however, has arrived at its own interpretation of these broad principles.

American corporations are characterized as favouring the promotion of CSR practices that particularly reflect corporate ethics and a commitment to compliance with a positive influence on society. Differing from the rest of the world, by implementing CSR action programmes American companies aim to differentiate themselves from other companies, in the hope that the results of their efforts will be viewed positively by stakeholders and consumer markets with interests in the specific field. Corporate and brand strategies in the United States differ among companies, and each separate company is thus seen as assigning as priorities those CSR practices best suited to their own specific strategies. American company CSR activities tend to almost exclusively focus on corporate citizenship activities that contribute to the local community within which they operate. Thus, for American business leaders corporate autonomy and respect for national and cultural diversity when designing and implementing CSR programmes are viewed as required to take precedence over all other considerations.

Whereas in the US CSR practices largely developed with the leverage of socially responsible stock investments by the private sector, in Europe CSR was much more government driven and designed in line with various policy platforms. The general trend observed in Europe is the desire to incorporate CSR elements in existing EU laws and regulations governing such issues as environmental protection, public

procurement, and labour practices.

When evaluating the salience of CSR as an ingredient in a multinational company's global competitiveness formula, the numbers speak for themselves. Business for Social Responsibility (US) and Corporate Social Responsibility Europe unite 50 of the world's largest European and US businesses. Furthermore, the United Nations' Global Compact, encouraging dialogue between the business community, labour and environmental activists and government regulators in order to promote responsible business practise throughout the world, currently unites more than 500 companies worldwide. However, among those 500 companies, there are less than 10 Japanese companies that have endorsed the compact. What lies beneath such a discrepancy? The next section aims to examine the differing approach to CSR within the Japanese business community.

5. CSR and Japanese companies.

The heated discussions around CSR witnessed in recent years in American and European corporations have left many Japanese business leaders baffled. In fact, in contrast with American and European businesses who have largely only focused on short-term profit generation, Japanese companies have long taken a balanced approach to managing their companies, with an eye to the overall stakeholders, including employees, customers, and local citizens, as well as shareholders. As discussed before, significant number of Japanese corporations have established CSR-related departments, disseminate information through the publication of reports, and they pay attention to relationships with stakeholders. Such activities might not have been labelled as CSR, yet that does not mean that Japan has been lagging behind in its socially responsible corporate thought. Quite the contrary, if, as Nippon Keidanren has stated, CSR is at the heart of a corporation's comprehensive activities aimed at maintaining harmony between the corporation, society, and the environment, all the while sustaining development, Japanese companies are certainly at least on par with the West. Moreover, by turning its resource-poor handicap to its advantage, Japan is quoted as having targeted cutting-edge technology and know-how toward energy conservation, resource conservation, and environmental protection – for the good of the rest of the world.

Especially in the area of environment, the interrelationship of CSR and corporate competitiveness is relatively easy to grasp: efforts to reduce the environmental burden often lead to greater efficiency and lower costs, and the Keizai Dōyūkai 2004 reports shows the market for environmentally friendly goods and services is growing. Adjusting to their geophysical limitations, Japanese companies consistently operate with expressive caution towards the environment and remain ranked high by US and European organizations that rate businesses for socially

responsible investment. Thus, environmental CSR has emerged as particular strengths of the Japanese corporations.

In fact, scholars argue that Japanese companies have found themselves in a paradoxical situation. During the economic recession of the 1990s, Japanese enterprises were highly criticized for governance structures that sought to balance the interests of various stakeholders, including shareholders, employees, customers, business partners and the wider society. Many turned to suggesting instead the model prevalent in the US that aimed to place the creation of value for shareholders over that created for stakeholders. Mid-way through the first decade of the 21st century, with the increasing eminence of CSR on the corporate agendas, the Japanese companies are finding themselves confronted with systematically organizing a concept that they are familiar with but on which they had not placed an explicit label as the West has done. Instead it has been observed that Japanese companies are more prone to use cultural mechanisms such as philosophy and guiding principles to address such issues. The planning and management of the most important issues was usually conducted through teams or committees, and little formal monitoring was conducted.

There are significant domestic and international drivers that have led the Japanese companies to adapt to the new market conditions and the new terms of reference of the CSR framework. Domestically, after the 1988 Law to Promote Specified Non-profit Activities was passed, easier legal formation of various socially concerned non-profit organizations meant an unprecedented increase of civil society actors, which in turn, have called upon Japanese corporations to step up to the challenges of implementing formal CSR initiatives. Internationally, increased globalization of Japanese businesses has meant that due to international pressures, Japanese management has had to align their policies with CSR practises in the host countries or as advocated by various foreign business partners.

However, whereas in the area of environmental CSR activities, Japanese companies have taken the lead among global multinational corporations, little discussion and few demands from investors have been voiced regarding the workplace issues component of the CSR programmes. 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. If the 'new Japan' is to overcome the consequences of the 1990s decade of social discontinuity and sluggish economic growth, then its workforce needs to be attended to. How much of Japanese CSR initiatives are dedicated to employee relations?

6. Japanese companies and their CSR initiatives with regard to employment policies.

The Nippon Keidanren's 'Corporate Behaviour Charter' calls upon members to strive to respect diversity, individuality and differences of their employees, to promote safe and comfortable workplaces, and to ensure the mental and physical well-being of their employees. The Keizai Dōyūkai '21st Century Declaration' envisions a society of self-reliant individuals able to find hope in the future, empowered to actively pursue their individual challenges and able to find meaning in life; the Japanese society should give full expression to and utilize the energies of a diverse range of individuals. In order to realized such a vision, Japanese companies will increasingly have to shift away from traditional modes of thinking and focus on making use of diverse human resources, developing employee capabilities, and creating a congenial and family-friendly work environment.

However, the Keizai Dōyūkai survey does not find a reflection of addressing such needs for reform within the Japanese companies' CSR agendas. In fact, in the 'people' category of CSR, the 2004 report notes that the percentage of companies that considered their own efforts sufficient was not very high, suggesting the need for more work in this area. Furthermore, an extremely low percentage of firms reported progress in regard to such indicators of equitable treatment as the percentage of women on the board of directors, the percentage of women in managerial posts, and the percentage of foreigners in such posts, once again highlighting an ongoing issue for Japan companies.

With regard to Japanese women in employment, gradual change has taken place since the adoption of the 1986 Equal Employment Opportunity Law. However, companies seem to need to take more responsibility since the prevailing hiring trends suggest that around 60 per cent of people still believe that male employees are given priority over female ones when it comes to promotion. For the effective hiring of talented women, but also men alike, companies are in need to be promoting more family-friendly work environments. Past trends of company-centred work ethic and long work hours, that have prevailed in Japan until now, have created a breed of human being with no time for family or community, putting an unhealthy strain on the fabric of society, the Keizai Dōyūkai report suggests. Even though, a majority of companies surveyed indicated that they were taking steps toward creating a family-friendly workplace, overall, few responded that these measures were sufficient. In addition, should the companies be able to raise their 'value' for one of the most significant of their stakeholders – their employees – they must be able to increasingly devote their CSR activities for implementation of in-house education and training programs. As the Keizai Dōyūkai report suggests, in the sense that employees rate and choose companies, they too constitute a market. Thus, it is unacceptable that among the submitted company self-evaluations, a significant 37 per cent of companies reported that they had not conducted employee satisfaction surveys. Thus, if in other CSR areas Japanese companies exhibit superior results, then within the scope of

workplace issues such as equal opportunity and work and life balance, the current CSR initiatives leave much to be desired.

7. Conclusion.

If Japan is to re-emerge after the period of stagnation and Japanese companies are to re-discover their global competitive edge, the country, its society and its business leaders will have to face up to the new issues surrounding the globalized world – the globalized market place and the increasingly globalized society. This essay looked at the new face of globalization – CSR. Even though, CSR has been a recently heatedly discussed concept in the West, this essay has argued that for Japanese companies there is no such novelty attached to addressing issues coming under the umbrella of the CSR. Japanese companies have embraced the core CSR principle of raising the value of the company by caring for all stakeholders involved in the framework of their domestic and overseas operations already for quite a considerable time. Meanwhile, Western companies have tended to focus on short-term profit generation for their shareholders paying little attention to the overall stakeholders. Japan has emerged as a world leader for environmentally conscious corporate management, however, workforce related issues of CSR seem to be largely overlooked. Should Japan be able to realize its vision of a strong economy with a strong society that utilizes the energies of a diverse range of individuals, much more of Japanese CSR initiatives must be directed towards addressing human resources issues. Just like I am only at the beginning of my journey in exploring the inner workings of the Japanese society, I see the Japanese companies at the beginning of their journey in realizing the full potential of their workforce and thus being able to yet again benefit from the process of globalization – this time with its new face, the face of CSR.

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