

CSR in Japan: A Historical Perspective

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Abstract

Corporate Social Responsibility, CSR is currently a fashion in Japanese business society. More Japanese companies have set up division of CSR and published CSR report since 2003. However, it is not first time that corporate social responsibility, or social responsibility for corporate executives, is noticed in Japanese business society. When the Japanese society began to industrialize, some Japanese companies, or business people recognized that they were social institution. CSR, the relationship between business and society is a subject of study of business administration from long ago. When the Japan Society of Business Administration was founded, Teijiro Ueda, who was famous scholar of business administration in Japan, filled the post of the chief editor of "Business and Society". On other hand, companies do not recognize that they have sociality and most of them operate business in the domestic and oligopolistic market, operate as before and cause trouble in the society.

1. Introduction

CSR, corporate social responsibility, is currently a fashion in Japanese business society. In 2003 Keizai Doyukai, the Japan Association of Corporate Executives, published the 15th Corporate White Paper on *"Market Evolution and CSR Management: Toward Building Integrity and Creating Stakeholder Value"*¹. Keizai Doyukai regarded CSR and corporate governance as the most important elements for companies to build trust and create sustainable stakeholder value. Some media, including Nihon Keizaishinbun, published "CSR ranking" on various valuation bases. There are many publications on CSR, which are written by scholars and business people.

However, it is not first time that corporate social responsibility, or social responsibility for corporate executives, is widely noticed in Japanese business

¹ See http://www.doyukai.or.jp/en/policyproposals/articles/pdf/030326_1.pdf.

society. As business corporations, companies started to operate in the Japanese society, some business people thought that both profit and morals were important. When the Japan Society of Business Administration was founded, Tejiro Ueda, who was famous scholar of business administration in Japan, filled the post of the chief editor of *“Business and Society”*.

Figure1 Relationships between Company and Society

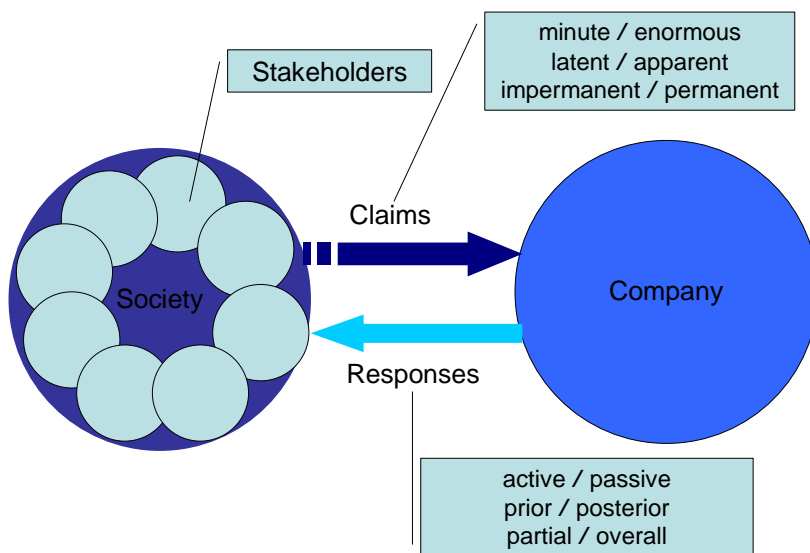


Figure1 shows the relationship between company and society. As a community is composed of individuals, a society is composed many stakeholders, which mean individuals, groups, and organizations. The government is one of stakeholders for companies, and each shareholder is one of stakeholders, too. In occasion, some of shareholders are customers, employees, and members of community, in which the company operates its business. Stakeholders claim to companies in various ways. For example, if one customer is injured in the product trouble, he claims for his damage to the company making that product. Other customer demands too low a price of the company. Many customers want companies to sell more serviceable goods in a lower price. They take it for granted that the goods are safe. On the other

hand, companies need respond their claim to survive in the society².

Figure2 Company, Market and Society

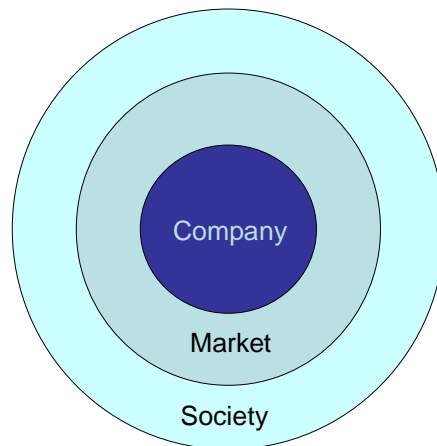


Figure2 is represented the relationship between company, market and society. While values that people in the society support change with passing time, one company wins competitors in the market and other company loses them. In the particular period, some companies and business people are representative of the market and society.

This paper discusses the issues related CSR in Japanese society with historical perspective. I would like to explore CSR, including the issues of the relationship between company and society.

2. Meiji Era: 1867-1911

In Meiji Era, the government adopted the policy to form the industrial society and imported institutions from the West, including the legislation system and the

² Demise 2004, 27.

company system. This era is the first period for the relationship between company and society. Before 1867, Japanese society was a feudal society under the Tokugawa shogunate. Although there was the Movement for Civic Rights and Freedom in the 1880s, we could not consider that Japan was a democratic state in those periods.

Eichi Shibusawa is called “the founder of Japanese Capitalism”. He took part in foundation of about 500 companies and about 600 social works³. He founded Tokyo Stock Exchange in 1878. He presented his idea, ‘The Analects of Confucius and abacus’. He reasoned that this would be the best way for Japanese business people to make success of their business. He thought that economy was consistent with morals and that business people complied a moral code. There were the classes of warriors, farmers, artisans and tradesmen in Edo Period. In those days, tradesmen meant business people had lower social standing. Some of them bribed government officers actually. After the Meiji Restoration, Shibusawa thought that the private profits were not inconsistent with the public interest in the right business.

The Japanese government tried to make a lot of money by industrial development. The government founded national enterprises including the coal mine, the shipyard, the silk mill, the railway, and the steelworks. Later, the government sold many of them to business people, like Yataro Iwasaki, at the relatively lower price. Iwasaki was the founder of Mitsubishi combine, *zaibatsu*. Business people were closely connected with the government. When the relationship weakened, some business declined. But the relationship between the government and business people was changing on occasion. Mitsubishi *Zaibatsu* had good relationship with the government, but once they lost a supporter in the government⁴. In those days, they got into trouble and they left the shipyard.

Companies with limited liability found since 1899, when the Japanese Commercial Code was legislated. The Stock Exchange Ordinance was enacted in 1878. Based on this ordinance, the Tokyo Stock Exchange was established in 1878.

³ Sasaki 2001, 23.

⁴ Sasaki 2001, 26.

However, the stock market was not full growth. Many companies, which belonged to *zaibatsu*, did not list their stocks on the stock market and not separate the management from the ownership. *Zaibatsu* families did not positively apply the limited liability system to their main company, which was a holding company.

As Japan was industrialized, many workers at the factories worked at a lower wage for a long time. Many young women worked at the silk mill. On the other hand, some young men found their work in the company, which belonged to *zaibatsu*, after graduation. They were promoted to the position of executive in the same company, or other companies that belonged to the same company group for about thirty years. Some companies, especially large companies, introduced the life time employ system.

There were large damages from mining pollution in Ashio, where was a copper mine and mined copper. It was first environmental pollution in Japan. The copper poisoning damaged rice paddies in the Watarase valley. Some farmers rose in rebellion against the government, which was not crowned with great success.

Figure3 Relationships between Company and Society in Meiji Era

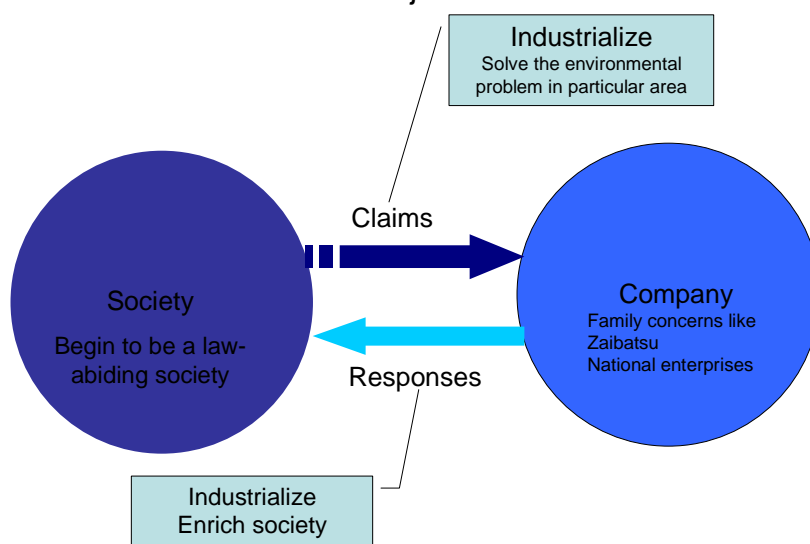


Figure3 shows the relationship between company and society in Meiji Era. In this period, both society and company started to modernize and industrialize.

3. Prewar Period (1911-1945)

In the first this period, the society started to democratize. There was the Movement for Democracy and Liberalism in the Taishou Era, and the Universal Suffrage Law legislated in 1925. The social movements, including labor movements and human right movements, were occurred in this period. As mentioned previously, Ueda, the scholar of business administration, filled the post of the chief editor of "Business and Society". But, the more the gap between rich people and poor people extended, the larger militarists became in the society. The terror groups took aim at statesmen and business people including Zaibatsu. In truth, Osachi Hamaguchi, who was the Prime Minister, and Takuma Dan, who was the chairman of the board of directors in Mistui Zaibatsu were assassinated by the terrorists. When Zenjiro Yasuda, the famous banker in this period, was assassinated, some people, who felt envious of his success, praised the assassin. Even some famous business people commented that Yasuda did not devoted gains to charity. But Yasuda thought good deed should be done behind the scenes, so he anonymously subscribed a large amount of money to Tokyo University for building an auditorium, which was called the Yasuda auditorium after his death.

Zaibatsu had a change of direction in that situation and gave priority to national interests. *Zaibatsu* decided that group companies were listed the stock exchange and the holding companies which controlled group companies were listed the stock exchange at last. The mass of the people bought shares of those companies. The largest financial panic occurred and most of them suffered damage. *Zaibatsu* practiced charity in this period. Mitsui Zaibatsu decided to make a donation of 2.5% of their profits and founded the large hospital for charity. As the influence of the military became stronger, *Zaibatsu* cooperated with the military by pressure.

Koyata Iwasaki who led Mitsubishi *Zaibatsu* in this period presented the *Three Corporate Principle of Mitsubishi*. These principles were the foundation of the

vision and strategy for our commitment to corporate social responsibility⁵.

Corporate Responsibility to Society; *"Shoki Hoko"*

Strive to enrich Society, both materially and spiritually, while contributing towards the preservation of the global environment.

Integrity and Fairness; *"Shoji Komei"*

Maintain principles of transparency and openness conducting business with integrity and fairness.

International Understanding through Trade; *"Ritsugyo Boeki"*

Expand business, based on all encompassing global perspective.

In this period, business people challenged new business, private railroad, motors, and electric. Konosuke Matsushita, who found the Matsushita electric in 1918, was invited by a friend to spend a day at a popular Shinto shrine. During his visit, he was struck by the complementary roles that both religion and business play, saying, "Human beings need both physical and spiritual prosperity. Religion guides people out of suffering toward happiness and peace of mind. And business, too, can contribute by providing physical necessities required for happiness. This should be its primary mission."⁶

As a result of his experience, he said to his employees, "The mission of a manufacturer is to overcome poverty by producing an abundant supply of goods. Even though water can be considered a product, no one objects if a passerby drinks from a roadside tap. That is because the supply of water is plentiful and its price is low. Our mission as a manufacturer is to create material abundance by providing goods as plentifully and inexpensively as tap water. This is how we can banish poverty, bring happiness to people's lives, and make this world a better place."⁷

⁵ See <http://www.mitsubishicorp.com/en/about/philosophy/philosophy02.html#3Principles>.

⁶ See <http://panasonic.net/history/founder/chapter2/story2-06.html>.

⁷ *Ibid.*

Figure4 Relationships between Company and Society in Prewar Period

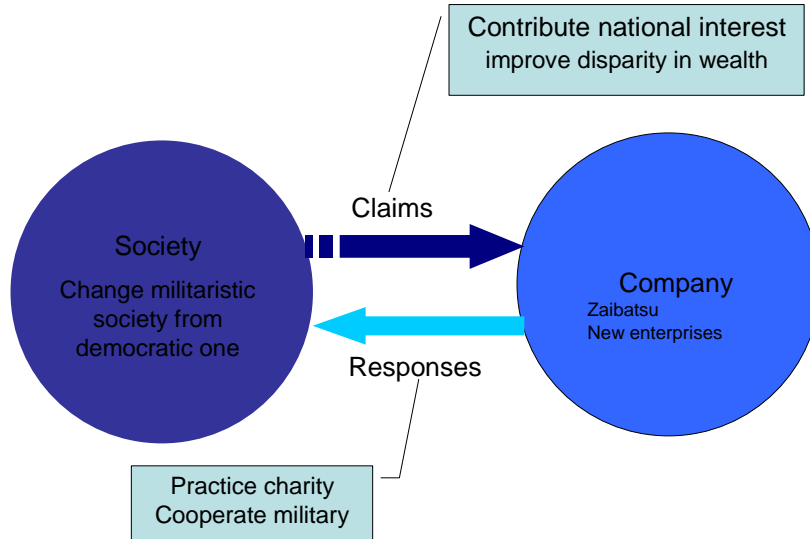


Figure4 shows the relationship between company and society in Prewar Period. Company is larger organization than other organizations including university and hospital, in the Japanese society.

4. Postwar Period (1945-1989)

After World War , GHQ (the General Head Quarters of the Allied Powers) broke up *Zaibatsu* and compelled *Zaibatsu* families to dispose of all company shares. GHQ directed the Japanese government to prohibit holding companies. GHQ ordered many Japanese managers, who cooperated with the Japanese military authorities, to leave public life. Thus, the founder and his family left the post of many Japanese companies that were founded before 1945. GHQ supported the seminars on top management for newly-appointed top managers, the ideas of social responsibility for business were taught there. GHQ reformed the agricultural land ownership system and gave rights to the workers. The Antimonopoly Law was legislated in 1947. These policies to democratize the Japanese society set the framework for

Japan's postwar economic development.

Many workers joined the labor union and labor movements. The strong labor movement rose in the Toyota Motors and Kiichiro Toyoda, who was the founder of he Toyota Motors, resigned as president of the company. After these experiences, many companies adopted the capital-labor cooperation policy. They gave priority to employees' interests and welfare over those of their stockholders. Many companies were short of funds and banks were influential with companies. Previously banks and employees were considered to be the main stakeholders in Japanese corporations⁸. Many of the large companies would hold equal shares of other large companies. This is referred to as cross-shareholdings. It was used as a measure to prevent takeover. Within this system banks would finance many companies that belong to the same group of cross-shareholdings. This created dependency by such a cross-shareholding group on the bank⁹. Consequently, when the company faces financial difficulties, the bank would send its executives in to restructure and rescue the company.

After World War , many companies, including Honda Motors, SONY, and SANYO Electric, were established. In most of them, the founder wanted his family to succeed to his post. However, Soichro Honda, the founder of Honda Motors, did not want his son to succeed him and did not allow his son to enter Honda Motors. He explained that after a company is listed it becomes a public institution. The business environment influences the performance of a company. Business environments change consistently and take on serious aspects like turbulence. In such environments, top management needs to respond to change ability, experience and knowledge of business administration. Though they were family, Honda believed that his son did not have enough ability, experience and knowledge and was not capable for top management.

In 1956, the Japanese Association of Corporate Executives, Keizai Doyukai,

⁸ Hopt and Wymeersch 1997, 185-193.

⁹ Hoshi and Kasyap 2001, 91.

issued the statement on social responsibility for corporate executives. They suggested that the corporation was a social institution and that corporate executives were no longer stewards of shareholders, but that they were stewards of the society in which their companies operated. The goal of social responsibility for corporate executives was to develop economy in harmony with society. Really Japan's GNP had become the second largest to the United States by 1968. Akira Yamashiro and Shigetaka Mori, they were famous scholar of business administration in Japan, presented the idea on social responsibility for corporate executives. Their idea related to the separation between ownership and management.

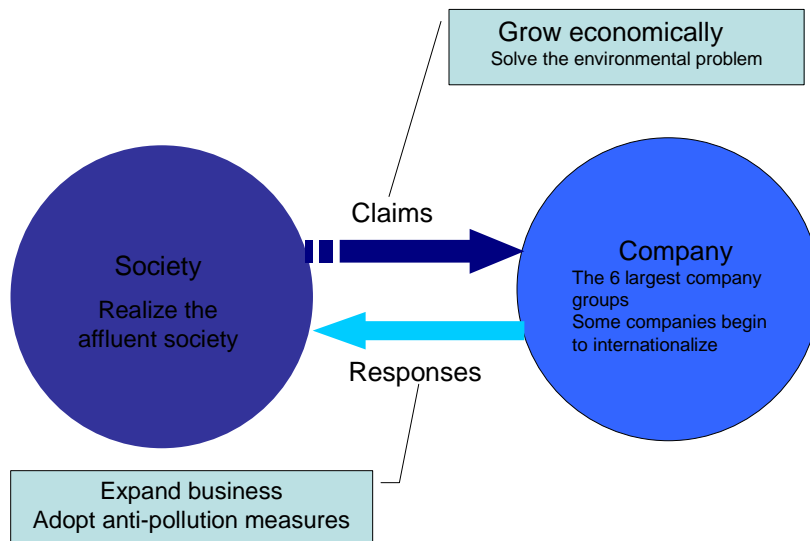
On the other hand, the price of this rapid economic growth was steady pollution. Some pollution diseases were famous around the world; *Minamata* disease, a type of poisoning caused by industrial mercury pollution in Kumamoto Prefecture, and ouch-ouch, "*itai-itai*" disease, so called because of its extremely painful effects, caused by cadmium poisoning from industrial wastes in Toyama Prefecture. After these diseases were well known in the Japanese society, the Basic Law for Environmental Pollution legislated in 1967. In 1960s, the idea of consumerism was introduced and the consumer movements occurred. The Japanese Government enacted the Basic Law for Consumer Protection. But the Product Liability Law came into force in 1997.

In those days, the different concepts of corporate social responsibility were introduced into Japan from the United States. Some of the concepts were related to interaction between business and society. One concept suggested by Milton Friedman was that the only social responsibility of corporate executives was to make as much money as possible. In the early 1970s, the members of the Japan Society of Business Administration entered into a controversy with corporate social responsibility in their national conference. Some books on business and society were published, and some university established the chair of business and environment, or corporate policy. However, the concept of corporate social responsiveness, that R. W. Ackerman and R. A. Bauer presented in their book, "*Corporate Social*

Responsiveness: the Modern Dilemma, in 1976, was not introduced to Japanese business society. Corporate social responsiveness referred social issues management and attached importance to the process of management.

The oil crises brought about economic business depression. The more they were interested in the economic recovery, the fewer they were interested in corporate social responsibility. In the mid-1980s, many Japanese companies went into the United States after the high-yen recession and the trade friction. The community which Japanese companies operated in urged them to undertake philanthropic activities. At first they started with donations and volunteer activity. After that many large companies introduced philanthropic activities into Japan. This was related to the "bubble economy". Keidanren, Japan Federation of Economic Organization, established "1% Club", which requested each member to contribute 1% of ordinary profit in 1990.

Figure5 Relationships between Company and Society in Postwar Period



Ryuzo Kaku, who was the chairman of Canon, presented the idea, "kyosei", symbiosis. A concise definition of this word would be "living and working together for the common good," but our definition is broader: "All people, regardless of race,

religion or culture, harmoniously living and working together into the future.” Unfortunately, the presence of imbalance in our world -in areas such as trade, income levels and the environment-hinders the achievement of *kyosei*¹⁰. Presently the idea of *kyosei* is the corporate philosophy of Canon.

Many bribery incidents came to light in this period. The bribery scandal of Showa Denko, which operated in the business of chemical fertilizers, the Lockheed scandal came to light in 1976, and the Recruit scandal was detected in 1988. Recruit developed information services on job offers. The founder of Recruit, the one-time Chief Cabinet Secretary, former chairman of NTT, which was the largest telephone and telex company in Japan, two government officials were arrested.

Figure5 shows the relationship between company and society in Postwar Period. In this period, the Japanese society realized the affluent society and large companies internationalized. Some of them established the factories and offices in the United States. After some regulations on pollution, large companies adopted anti-pollution measures.

5. Present time (1991-)

After the collapse of the “bubble economy”, many company scandals were brought to light. Large security companies were forced to compensate for losses their customers had suffered due to heavy falls in stock prices. The Japan Business Federation, Nippon Keidanren, published the Charter of Corporate Behavior in 1991. After that many large companies established a code of ethical conduct or code conduct in Japan. Some large companies gave large sums of money to "*sokaiya*", who are professional troublemakers at stockholders' meetings, unfairly. Japanese scholars began to use the term "business ethics" to introduce and describe the situation in the United States. The Japan Society for Business Ethics Study was

¹⁰ See <http://www.canon.com/about/philosophy/index.html>.

established in 1993. Some top managers regarded business ethics as important and were going to institutionalize business ethics on their own initiative. But there was not a growing tendency for Japanese companies to do so, because many of them gave top priority to improving efficiency within their companies. After the collapse of the "bubble economy", many companies had large slumps and some went bankrupt. Some top managers believed there was "*zhukyou*", the Confucian ethic which strengthen the concept of belonging to a company in their company and they did not regard business ethics as important.

In 2000, a large food company poisoned some 15,000 people with bad milk. A large motor company car defect-cover up was exposed. In 2002, another food company re-labeled imported beef as domestic beef and committed malfeasance, getting money from the government by fraud. In a large trading company, a manager was arrested for bribery. It was found that Tokyo Electric Power Company managed for years to cover up defects in nuclear power plants. Some cases were detected by authorities, which received their information from whistle blower from inside the company. Whistle blowing however were conflicts with Confucian ethics, where things should be solved from within, strengthening the feeling of belonging to the company.

The Japanese Financial Services Agency published an inspection manual for banks in 1999. The word "compliance" was used there. R-BEC, the Business Ethics & Compliance Research Center at Reitaku University published ECS 2000, Ethics Compliance Management System Standard in 1999. In ECS2000, business ethics, legal compliance and ethical-legal compliance are defined as follows¹¹ :

Business ethics are defined in practice as including all activities carried out within an organization in order to ensure fair and responsible behavior of the organization.

¹¹ See <http://r-bec.reitaku-u.ac.jp/files/ECS2000E.pdf>

Legal compliance is defined here as all the internal activities of an organization made in order to comply with the laws and regulations applicable to their business and to the goods and services in which they deal. Ethical-legal compliance is defined here as the compliance with applicable laws and regulations (including social values) and all internal activities made in order to implement the ethical standards which an organization has established upon its own volition.

In Japan, many people do not make a distinction between "business ethics" and "compliance", but each term is separately defined in ECS2000. R-BEC publishes ECS2000 to put it to practical use. Some companies have adopted methods of ECS2000, GRI, Global Reporting Initiative Sustainability Reporting Guidelines, and UNGC, United Nations, Global Compact, as well as introduced ethics codes, ethics committees, ethics communication systems, ethics officers, and ethics training programs. Both GRI and UNGC were published in 2000. Furthermore, many companies in Japan have also formulated environmental policy. These companies, taking the issue of the environment seriously, also publish an environmental report. Recently more companies have published these environmental and social reports, as well as a "sustainable report", which contains information on the social performance evaluated by the companies.

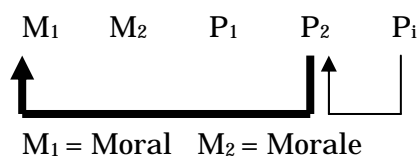
Commission of the European Community presented a Green Paper, *"Promoting a European Framework for Corporate Social Responsibility"* in 2001. The green paper defined CSR as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis"¹². Later, Commission of the European Community published *"Corporate Social Responsibility: A business contribution to Sustainability Development"* in 2002 and set up the European Multi-Stakeholder Forum on Corporate Social Responsibility. Keizai Doyukai send the mission to European nations to investigate CSR there.

¹² Commission of the European Community, *"Promoting a European Framework for Corporate Social Responsibility"*, 2001, p.5.

In 2003, Keizai Doyukai published The 15th Corporate White Paper on “*Market Evolution’ and CSR Management: Toward Building Integrity and Creating Stakeholder Value*”. Keizai Doyukai regarded corporate social responsibility and corporate governance as most important when companies built trust and create sustainable stakeholders value. This white paper was affected by the idea of European CSR. In 2004, Keizai Doyukai published the results of a survey on corporate social responsibility and corporate governance in Japan. It concluded Japanese companies needed to build compliance systems with effective checking mechanisms.

In 2004, Nippon Keidanren revised their Charter of Corporate Behavior. Nippon Keidanren recognized that their stakeholders became more interested in corporate social responsibility and they wrote “human right”, “communication with their stakeholders”, and “supply chain” clearly. Both Keizai Doyukai and Nippon Keidanren are composed of top managers and corporate executives. In each company, it is necessary for top manager to commit to their stakeholders to institutionalize business ethics, or to ensure corporate social responsibility. But all of the top managers in large Japanese companies do not recognize the embrace social responsibility in the same degree, largely due to the fact that many do understand that the society which their companies operate in, or that their stakeholders are continuously changing their relationship with the company. Many of these companies are relatively cut off from society, resulting in a sort of exclusivities.

Mizuho Nakamura, who is famous scholar for business administration and business ethics in Japan, proposes MP Model, as follows¹³.



¹³ Nakamura 2003, 19.

P_1 = Productiveness P_2 = Performance P_i = Public Interest

If companies improve moral of their constituents, morale of their constituents, especially, employees, will become high. As that result, both productiveness and performance will become high. If these companies make a profit, public interest will become high. Nakamura calls this model MP, MP represents most promising. In 1990's, he introduced business ethics in United States, including issues management and social support system for business ethics.

Iwao Taka is a most famous scholar of business ethics in Japan and is the head of the Business Ethics & Compliance Research Center at Reitaku University, presently. He joins the member of committees, which are founded by some departments of the Japanese government. At same time, he is outside director of Mitsui Sumitomo Insurance. In the past, he led to introduce business ethics program to some companies, where the scandals were found out.

Kanji Tanimoto is a most famous scholar of CSR in Japan. He applies system theory to the relationship between business and society. He introduces the idea of CSR and SRI, socially responsible investment to Japanese business society. In 2005, he founded the Social Innovation Japan, and he expands his field to practice from academic one. Both Taka and Tanimoto is unique scholar in Japanese academic society and they work with not only academic people but also business people, government people and other organization people. Nevertheless their efforts obtain good results to some extent, all of business people do not recognize that CSR, or business ethics is important for their business activity.

Figure6 shows the relationship between companies and society in Japan. The companies with high transparency are responsive to the expectations of stakeholders, even if they are small. They are going to ensure corporate social responsibility positively. The company with some transparency responds to large requests from stakeholders. Large requests, for example, are the needs of customers, or claims of large shareholders. The company with little transparency exploits stakeholders for its own ends.

Figure6 Three Models of a Japanese Company

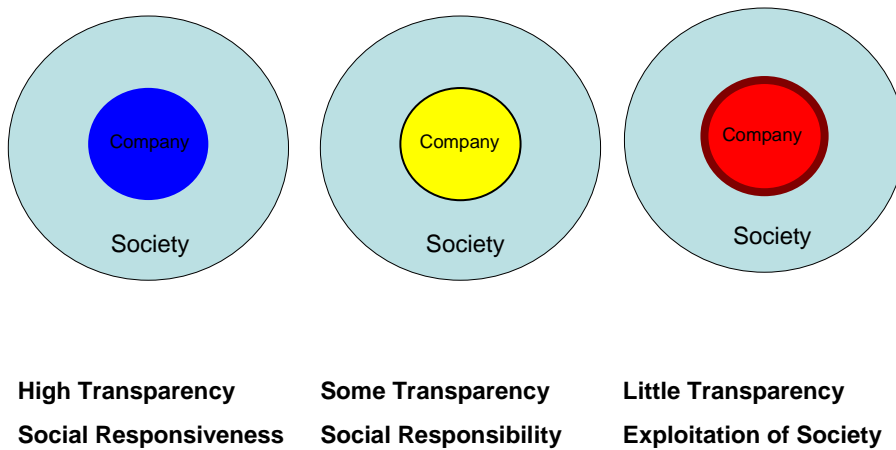


Figure7 Relationships between Company and Society in the Present Time

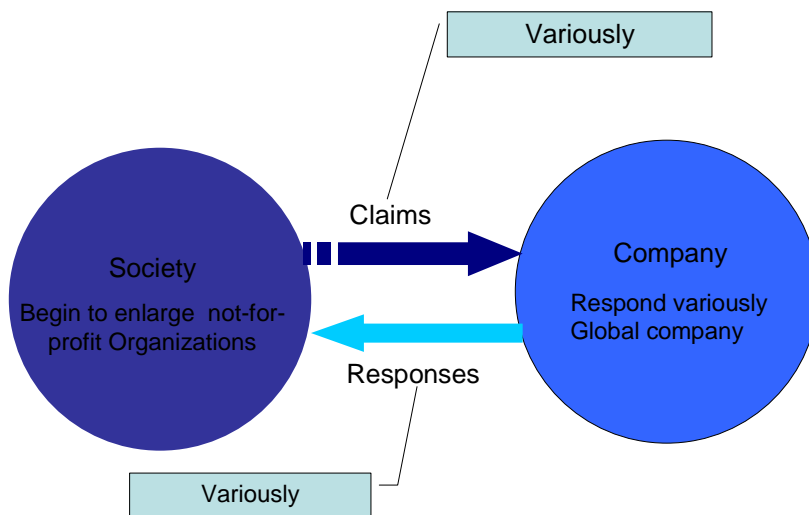


Figure7 shows the relationship between company and society in present time. Many people join the not-for-profit Organization after legislation. The global NGOs

like the Green Peace start to operate in Japan. The Japanese global companies including Canon, Toyota Motors, and Sony understand these circumstances. Other companies, which operate business in the domestic and oligopolistic market, operate as before and cause trouble in the society.

6. Conclusion

CSR is currently a fashion in Japanese business society, including scholars and media. However, it is not first time that, is noticed in Japanese business society. When the Japanese society began to industrialize in Meiji Era, some Japanese companies, or business people recognized that they were social institution. But other companies did not recognize so.

After World War , the idea of corporate social responsibility, or social responsibility for corporate executives introduced Japanese business society from United States. In 1970s, some business people had an interest in corporate social responsibility, but many of them lost them in the face of the oil crisis. In latter 1980s, some business people concerned corporate philanthropy, but many of them lost them in the face of the depression days. In 1990s, some business people had an interest in business ethics, and recently they concern CSR. All companies do not recognize that they have sociality and most of them operate business in the domestic and oligopolistic market, operate as before and cause trouble in the society.

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