



Faculty of Economics and Business

**“CSR Policy Modeling of Western European Companies
in Japan as a Strategic Tool”**

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by

Dipl.-Kff. Carolina Grünschloß

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List of Acronyms

BRIC	Acronym that refers to the fast growing developing economies of Brazil, Russia, India, and China
CAO	Cabinet Office of Japan
CSR	Corporate Social Responsibility
GDP	Gross Domestic Product
ISO	The International Organization for Standardization
JETRO	Japan Export Trade Research Organization
NGO	Non-governmental Organization
OECD	The Organization for Economic Co-operation and Development

List of Conducted Interviews

BASF Japan Ltd., Manager, Corporate Communications

on Oct. 11th 2007, 4:00 – 5:00 p.m.

at

Nanbu Bldg., 3-3, Kioicho, Chiyoda-ku,

Tokyo 102-8570, Japan

BMW Japan Corp., BMW Motorbike Director

on Oct. 10th 2007, 10:00 – 11:00 a.m.

interview conducted at the American Club in Tokyo

BMW Japan Corp. address:

Chiba, 10-2, Nakase 1-chome, Mihama-ku

Chiba-shi, Japan

Bundesverband mittelständische Wirtschaft e.V., Director of the BVMW in Japan

on Oct. 1st 2007, 11:00 -12:00 a.m.

at

Toranomon Kogyo Bldg. 1-2-18 Toranomom, Minato-ku,

Tokyo 105-0001, Japan

Chanel K. K., General Manager, Fragrance & Beauty Product Division

on Oct. 15th 2007, 2:00-3:00 p.m.

at

Shibusawa City Place Eitai 13 F, 37-28, Eitai 2-Chome Koto-ku,

Tokyo 135-0034, Japan

Henkel Japan Ltd., President

on Sept. 28th 2007, 2:00 – 3:00 p.m.

at

27-7 Shin Isogo-cho, Isogo-ku,

Yokohama-shi, Kanagawa 235-0017, Japan

IKEA Japan K.K., President & CEO

on Oct. 11th 2007, 10:00 – 11:00 a.m.

at

IKEA Funabashi 5F, 2-3-30 Hamacho, Funabashi-shi,

Chiba 273-0012, Japan

Kirin Mc Danone Waters Co. Ltd., Director, Marketing Department

on Sept. 27th 2007, 4:00 – 5:00 p.m.

at

Kanda Izumicho, 1st Section, Kanda Izumicho Building 8th floor, Chiyoda-ku

Tokyo 101-0024, Japan

Merck Ltd. Japan, President

on Sept. 26th 2007, 2:00 – 3:00 p.m.

at

Arco Tower 5F, 1-8-1

Shimomeguro, Meguro-ku

Tokyo 153-8927, Japan

Ministry of Economy, Trade and Industry Japan, Director, WTO Compliance and
Dispute Settlement as well as author of the book *CSR in Japan and Europe*

on Sept. 25th 2007, 12:00 – 1:00 p.m.

at

Kasumigaseki 1-3-1, Chiyoda-ku

Tokyo 100-8901, Japan

Nestlé Japan Ltd., Manager

on Oct. 16th 2007, 4:00 – 5:00 p.m.

at

NYK Tennozu Bldg., 2-2-20, Higashi-Shinagawa, Shinagawa-ku,

Tokyo 140-0002, Japan

Nippon Boehringer Ingelheim Co. Ltd., Corporate Environmental Manager

on Oct 4th 2007, 10:00 – 11:00 a.m.

at

Think Park Tower, 2-1-1 Osaki, Shinagawa-ku,

Tokyo 141-6017, Japan

Nissan Motor Co. Ltd., Corporate Vice President, Global Communications and CSR
Division

on July 24th 2008, 11:00 – 12:00 a.m.

at

6-17-1 Ginza, Chuo-ku,

Tokyo 104-8023, Japan

Roland Berger Strategy Consultants, Partner

on Oct. 2nd 2007, 11:00 – 12:00 a.m.

at

Roland Berger Ltd.

ARK Mori Building 23rd floor, 1-12-32, Akasaka, Minato-ku

Tokyo 107-6023, Japan

Standard Chartered Bank Tokyo Branch, Head Corporate Affairs, Japan

on Sept. 24th 2007, 11:00 -12:00 a.m.

at

21st Floor Sanno Park Tower, 2-11-1 Nagatacho, Chiyoda-ku

Tokyo 100-6155, Japan

TUEV Rheinland Japan Ltd., CSR Manager

on Oct. 10th 2007, 10:00 -11:00 a.m.

at

Shin Yokohama Daini Center Bldg., 9F

3-19-5, Shin Yokohama, Kohoku-ku,

Yokohama 222-0033, Japan

0. Research focus, objective and plan of thesis

Within an increasingly global economy, the playing field for corporations has been in rapid transition, facing management with unprecedented opportunities to tap into new markets beyond their home countries on the one hand side, and the need to consider a variety of unfamiliar risks on the other. Modern technology has made it easier than ever to communicate inexpensively over national borders and facilitated international trade tremendously, which has further added to the growing interconnectedness of the global economy. Last but not least has the recent global financial crisis in fall 2008 illustrated how closely interlinked businesses and nations have become today.

For an individual corporation, which wishes to engage in foreign markets, the question presents itself to what degree its products and corporate governance will have to be adapted to the specific local conditions in each nation. While the concept of the economies of scale calls for an internationally streamlined approach in order to achieve higher margins, on the other side, it remains clear that cultural and regional differences still persist and should not be neglected in context of managerial decision making. Indeed, striking a balance between global strategy and - possibly costly - local adaptations can be considered one of the main challenges for multinational corporations today.

Yet this balance is not only demanded for product design and marketing, but also in relation to other aspects of corporate governance. The global market surrounding forces corporations to assess new kinds of risks besides the economic ones, including social and environmental factors. Under the term of “Corporate Social Responsibility”, it has been widely discussed in recent years if, how and to what degree companies should tackle social and environmental issues as part of their management strategy. This thesis shall explore the specific situation of Western European corporations in Japan and their

approaches to CSR policies in this East Asian nation. Special consideration will be given to the question how they could improve their current practices even further and use their resources more effectively utilizing a more structured approach to CSR Policy Modeling.

The thesis will start with a general discussion about the concept of Corporate Social Responsibility. As it will become clear in the course of the analysis, the notion of CSR itself is a vaguely defined one and should be clearly characterized for the later usage in this thesis. While often associated with related theories, such as Corporate Citizenship, Business Ethics etc., the author will distinguish those concepts from that of CSR as discussed. In Chapter 2, the CSR environment in Japan and its implications for Western European companies shall be elaborated upon. Based on the findings of this theoretical research, the author will in Chapter 3 draw a number of hypotheses for the CSR Policy Modeling of Western European companies in Japan, which will as a next step be tested through a number of qualitative interviews conducted among foreign affiliated companies in Tokyo and Yokohama during fall 2007.

Subsequently, using a CSR Evaluation Model, conclusions about the drivers of CSR for foreign affiliated companies in Japan will be drawn. In Chapter 4, the proposed model will be applied to the exemplary industries of the food and beverage as well as the luxury goods business, to illustrate the significant diversity of CSR sensitivity degrees even within Japan. Finally, the author will in Chapter 5 propose a structured process for the strategic modeling of CSR policies for corporations engaging on the Japanese market. The author hopes to make a contribution with this thesis to the theoretical as well as empirical research about Corporate Social Responsibility, foreign affiliated companies in Japan as well as International Business Strategy.

The completion of this present PhD thesis would not have been possible without the generous support of a large number of people. My special thanks go to the team of the

Department for Production and Corporate Environmental Management of the Faculty of Economics and Business, Heinrich-Heine University Düsseldorf, in particular Prof. Gerd Rainer Wagner and my former colleagues Regina Luelfs, Ruediger Hahn, Svenja Wrede and Renate Scharnowski. Not only did the work with you and your valuable feedback help me realize this research project, but also did your friendship and your kindness make my time at the Department both professionally and personally one of the most enjoyable chapters in my life so far. Furthermore, I would like to thank Prof. Shingo Shimada, Faculty of Philosophy, and his team for the insightful input gained through their PhD seminars and several joint projects in the context of Business Ethics Research.

I would also like to express my appreciation to the various corporate representatives, who took their time out of their busy schedules to give me insights into their company's CSR strategies. Their generous support gave me the opportunity to link the theoretical findings to the real corporate world and helped me to broaden my horizon towards the actual application of social and environmental programs in the business world.

Moreover, I owe thanks to Prof. Verena Blechinger-Talcott and Prof. Kanji Tanimoto for their academic guidance, Susanne Brucksch for many wonderful discussions about our common research and last but not least Mr. Arnd Picker and the rest of the Henkel Japan Ltd. Team for making it possible to finish my thesis even while working in Yokohama. Furthermore, I owe gratitude to the Konrad Henkel foundation, which supported my research in Japan financially. Finally, I would like to thank my family and friends for their support over the course of this thesis. Your encouragement helped me to never give up and I am grateful for you every day.

Chapter 1:

Characterizing Corporate Social Responsibility (CSR)

To be able to analyze Corporate Social Responsibility (in the following referred to as CSR) as a strategic tool in international business, it is necessary to gain an understanding of this concept as well as its underlying motivations. In this chapter, a brief overview of the essential traits of CSR shall be given.

1.1. Theoretical foundation of the Social Responsibility of the firm

Even though CSR has been widely discussed in recent years, it remains a term that is understood differently by various actors and experts.¹ There exists no common consensus neither in academia nor in business practice on what exactly the social obligation of a corporation should encompass in today's business world² and CSR remains a vague term, "which can mean anything to anybody"³ and one that contains few concrete elements. With an immensely vast database of publications, studies, comments and reports about the phenomenon of Corporate Social Responsibility available world-wide,⁴ it is crucial to narrow down the concept to a concrete working definition.

There have been a number of attempts to characterize the phenomenon of CSR: Some researchers have tried to develop a universally valid definition of Corporate Social Responsibility by doing literature reviews of academic publications.⁵ While those studies are insightful and highlight the breadth of the available material, they nevertheless fail to agree on one conclusion about the fundamentals of CSR. The same

¹ Cf. e.g. Cramer, A. (2007), p. 2, and Marrewijk, M. v. (2003), p. 95

² Cf. Henderson, D. (2001), p. 21 f.

³ Frankental, P. (2001), p. 20

⁴ Currently (Sept. 2009), a search of the term "Corporate Social Responsibility" at Google Scholar generates more than 1,440,000 hits.

⁵ Cf. e.g. Carroll, A. B. (1999), Moir, L. (2001), Joyner, B. E.; Payne, D. (2002) as well as Carter, C. R.; Jennings, M. M. (2004)

is true for other methodological approaches to this question, such as investigations concerning the perceptions about the company's social obligations in the real business world by conducting qualitative interviews with managers.⁶ The results from these studies also demonstrate the equal lack of a general consensus among corporate officers as to what exactly CSR should comprise. What is more, mentioned research projects are all highly context specific and limited in scope; therefore as a matter of principle they fall short to provide a representative answer concerning the core qualities of the firm's social responsibility.

Due to this lack of common understanding of the term, a characterization of CSR based on a comparative analysis by Dahlsrud⁷ shall be elaborated for the purpose of further utilization in this thesis. According to Dahlsrud, there exist five dimensions which are frequently mentioned by experts in connection with the phenomenon of CSR: the stakeholder dimension, the social dimension, the economic dimension, the voluntary dimension and the environmental dimension.⁸ In the following, those five aspects of CSR shall be explored.

1.1.1. The economic dimension of CSR

Since the industrial revolution, corporations have been a driving force for the increase of public well-being by providing employment opportunities, developing and producing goods, paying taxes and advancing technology standards.⁹ In this sense, running a profitable corporation itself can contribute to the welfare of society. The concept of

⁶ Cf. e.g. O'Dwyer, B. (2002), Azer, A. (2001), Johnston, B. E.; Beatson, A. (2005)

⁷ Cf. Dahlsrud, A. (2006)

⁸ Cf. Dahlsrud, A. (2006), p. 5. While the first four dimensions are appearing in CSR definitions at comparable rates of more than 80%, only the environmental aspect is mentioned considerably less frequent with a mere 59% dimension ratio. This can be explained on the one hand by the fact that CSR is often understood as the enhancement of pure environmental responsibility, whereas the ecological dimension is somewhat implied as a commonly shared business practice. Not explicitly mentioning the environment in a characterization of CSR does therefore not necessarily mean excluding this aspect, but rather indirectly implying it.

⁹ Cf. Lantos, G. P. (2001), p. 3

CSR highlights the responsibilities of a corporation beyond creation of profits, yet a commitment to such obligations has to generate positive effects for the corporation to be sustainable.

Companies are driven by market pressures and financial indicators,¹⁰ which is why no matter to what extent a corporation is committed to social and environmental causes, it will have to manage its operations profitably to guarantee a long-term future for the organization. As Windsor points out “a leitmotiv of wealth creation progressively dominates the managerial conception of responsibility”¹¹. In fact, some managers and business experts disdain CSR, because they believe that shareholders should be the primary stakeholders and thus any investment in social programs will erode the expected profit of the firm.¹² It is certain that if a company is undertaking costly programs, which their rivals do not, this may erode its competitive position,¹³ as long as those policies do not bring about any benefits for the organization. Furthermore, a failure in generating profits for the corporation’s shareholders might result in the lay-off of the executives in charge or even make the company vulnerable to be taken-over by a stronger competitor.¹⁴

¹⁵In accordance with this assumption, Kaku proposes, based on the concept of *Kyosei*, that not all corporations can display the same level of responsibility towards their environment. Instead, a multi-step approach is commonly followed. Only after they have ensured their economic survival as a company and are generating profit as a first step, they can then focus on further stages, such as the cooperation with labour, stakeholders outside the company nationally and internationally as well as the

¹⁰ Cf. Frankental, P. (2001), p. 19

¹¹ Windsor, D. (2001), p. 226

¹² Cf. Lantos, G. P. (2001), p. 10

¹³ Cf. Martin, R. L. (2003), p. 83

¹⁴ Cf. Ibidem, p. 87

¹⁵ The following paragraph refers to Kaku, R. (2003), p. 108 ff.

government. Yet, Kaku shows that also the further and consecutive stages are to generate positive feedback effects for the corporation.

Porter and Kramer go as far as to suggest that a company should only undertake corporate social responsibility programs under the condition that they would also implement them “even if nobody ever knew about it”¹⁶, highlighting the indispensability of such program’s economic benefits for an organization.¹⁷ Taking those considerations into account, the compatibility of CSR policies with economic objectives becomes clear: Financial profit will have to be a core pillar next to its social and environmental goals. CSR programs should not fight the profit orientation of the company, but rather appeal to it and be seen as a potential profit driver,¹⁸ in particular in the long-term perspective. Thus, it can be observed that CSR as a business tool *has to comprise a contribution to economic objectives*.

1.1.2. The stakeholder dimension of CSR

Besides the pursuit of economic objectives, the concept of CSR calls for an integration of the interests groups’ concerns into business strategy. Often, those claims are of non-economic nature and stakeholder management can serve as an instrument to evaluate, structure, and integrate such demands.¹⁹ The theoretical groundwork for this tool, the so-called stakeholder theory, was first formulated by Freeman²⁰ in 1983 and has become one of the basic concepts in modern business management. According to this paradigm, which combines aspects of organizational management and ethics,²¹ a corporation

¹⁶ Porter, M. E.; Kramer, M. R. (2003), p. 54

¹⁷ Porter and Kramer fail to identify who „nobody“ in their assumption shall comprehend. As many benefits of CSR programs are associated with improvements in reputation for the company among the public and consumers, the meaningfulness of the effects’ confinement exclusively on company internal aspects remains questionable.

¹⁸ Cf. Willard, B. (2002), p. 12 f.

¹⁹ Cf. Garriga, E.; Melé, D. (2004), p. 60

²⁰ Cf. Freeman, R. E. (1983) in detail

²¹ Cf. Phillips, R.; Freeman, R. E.; Wicks, A. C. (2003), p. 480

should take into account the interests of an array of different stakeholders into its business strategy, with the shareholders being only one of the groups to be considered.²²

A stakeholder is in essence any individual or group, who is having a stake in, i.e. is positively or negatively affected by, the company's actions.²³

Even if understood only in a geographical sense, large corporations will have relationships and dependencies with a multitude of different interest groups.²⁴

Stakeholders groups are, at least to some extent, dependent upon the firm for the realization of their institutional or personal objectives. Examples of such groups or individuals include, but are not limited to, suppliers, customers, employees, NGOs, local communities and governmental bodies (see Chart 1). Experts disagree on the composition of crucial stakeholder groups, yet as the smallest common denominator they usually include "those groups from whom the organization has voluntarily accepted benefits, and to whom the organization has therefore incurred obligations of fairness"²⁵. One can distinguish legitimate stakeholders on the one hand and derivative stakeholders on the other, the first owing an obligation by the corporation (e.g. employees and shareholders) and the second exercising power over the organization (e.g. NGOs or local community groups), which might have beneficial or harmful influences on it.²⁶ Some claim that stakeholder theory can not account for living beings, just institutional organizations and therefore the natural environment in which the firm operates must not be regarded as an interest group.²⁷ While one can elaborate on the discussion whether or not nature itself holds a viable stake towards business corporations, this aspect is usually taken into account indirectly through environmentalist groups or NGOs representing the desire for the conservation of the

²² Cf. Heath, J.; Norman, W. (2004), p. 248

²³ Ibidem

²⁴ Cf. L'Etang, J. (1995), p. 128

²⁵ Phillips, R. (2004), p. 2

²⁶ Cf. Phillips, R. (2004), p. 2

²⁷ Cf. Orts, E. W. ; Strudler, A. (2002), p. 219

natural environment. This is why corporations will rarely face the situation of being able to neglect environmental considerations completely without facing negative sanctions by above mentioned actors.²⁸

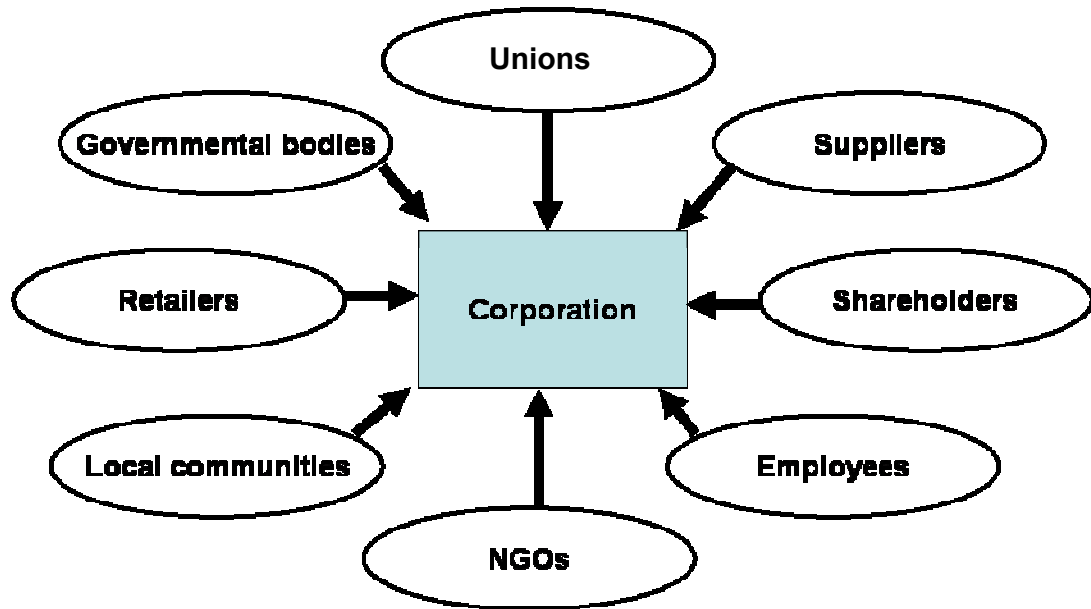


Chart 1: The stakeholders of a corporation²⁹

To efficiently plan and execute stakeholder management, the corporation has to identify its most influential interest groups and examine their specific viewpoints, values and demands towards the firm. This is a very complex task: As “standard” business behaviour varies depending on the culture, political and social circumstances, so do the expectations of the different stakeholders a corporation is faced with.³⁰ Besides of being dependent on external conditions, interests and ethical expectations of stakeholders can

²⁸ It has to be pointed out that such sanction mechanisms might not work efficiently in some cases, in particular in certain market surroundings like developing countries. For such settings, Donaldson and Dunfee call for the application of so-called hyper norms to avoid opportunistic behaviour that conflicts with common interest (see Donaldson, T.; Dunfee, T. W. (1999), p. 49 ff., as well as chapter 1.7. of this thesis in detail).

²⁹ Own chart

³⁰ Cf. Harting, T. R.; Harmeling, S. S.; Venkataraman, S. (2006), p. 44

develop and change over time as society evolves.³¹ Thus, every market setting has its specific conditions concerning the importance and composition of its interest groups. It is essential for a company to assess and know about its stakeholders' perceptions about the organization, as it can have a large impact on its performance.³²

Consequently, for CSR policies to be successful, after a careful assessment of the corporation's stakeholder demands in dependence of the organization's individual conditions, *an adequate integration of stakeholder interests in the business operations, policies and actions* will be crucial.

1.1.3. The social dimension of CSR

Above described stakeholder interests often include social motivations and accordingly the integration of the public or common good into the mission of a corporation by value creation can constitute one of the goals of CSR.³³ The importance of tackling social conditions as part of business strategy has been gaining momentum in recent years, with some experts even believing that the real challenges of the future will not consist of technical innovations for the firm, but the solutions of social issues.³⁴ This can be explained by the fact that companies can not function in isolation from the society and the environment surrounding them,³⁵ so knowing about the influences that social conditions have on the organization's activities can be an essential advantage for business management. What is more, the corporation is dependant on the well-being of the society it engages in: For example, productivity of the workforce depends on the education, the safety and health of the company's employees.³⁶ By helping to improve

³¹ Cf. Harting, T. R.; Harmeling, S. S.; Venkataraman, S. (2006), p. 60

³² Cf. Page, G.; Fearn, H. (2005), p. 305

³³ Cf. Senser, R. A. (2007), p. 77

³⁴ Cf. Boyle, D. (2003), p. 273

³⁵ Cf. Porter, M. E.; Kramer, M. R. (2003), p. 32

³⁶ Cf. Ibidem, p. 33

social conditions, ideally CSR programs can create a win-win-situation, benefiting both the corporation and society.³⁷ For instance, supporting a local university in its educational programs can be more cost efficient for a company than developing in-house training independently.³⁸ The corporation will be able to recruit well-trained employees for its operations, while on the other hand, the public can profit from better educational opportunities.

Beyond the creation of such win-win-situations, the support of social causes can even be crucial for the survival of the organization under abysmal conditions, such as those found in developing nations with insufficient infrastructure, inadequate healthcare, or rudimentary legislation. For example, in a number of African nations with high HIV/AIDS-infection rates and a thereof resulting constant loss of available workers, free healthcare provided from the corporate side is not only a good deed for social welfare, but also essential to stabilize productivity levels.³⁹ Furthermore, on some markets, like the one of the Bottom of the Pyramid, i.e. the poorest consumers in developing nations, to operate successfully, corporations will have to think of completely new and innovative product, distribution and marketing systems in accordance with the social conditions of the country.⁴⁰ For instance Procter & Gamble in Venezuela provides free schooling and support in setting up independent barber- and washing shops, thereby not only generating opportunities for the marketing of its products in those stores, but also helping the population to improve its economic infrastructure and fostering entrepreneurship.⁴¹ At this point of time, the systematic analysis and management of social issues is not very widespread in the business world

³⁷ Cf. Lantos, G. P. (2001), p. 16

³⁸ Cf. Porter, M. E.; Kramer, M. R. (2003), p. 37

³⁹ Cf. Rambharos, M. (2005), p. 25

⁴⁰ Cf. Prahalad, C. K.; Hammond, A. (2002), p. 54 f.

⁴¹ Cf. Peinado-Vara, E. (2006), p. 65

yet.⁴² However, above mentioned examples show that responding to social needs can generate instrumental opportunities for business; therefore *society as a major stakeholder* of the corporation should be considered within CSR policies.

1.1.4. The environmental dimension of CSR

In addition to social concerns, environmental considerations can become positive driving forces of CSR efforts. At a minimum, a corporation should feel committed to safe processing and production, show concern for the effects of its activities on the environment and compensate the environmental damage caused in the local community.⁴³ Whether a commitment for the environment has positive or negative effects on corporate performance is controversially debated. The conventional approach suggests that environmental policies are first and foremost additional costs for the corporation, which might erode its competitiveness in comparison with rivals in less regulated countries with less stringent legislative requirements.⁴⁴ The opposite approach assumes that implementation of environmental measures does not only generate costs, but rather that proactive environmental initiatives can generate business and financial benefits.⁴⁵ In fact, the improvement of the environmental standard of products and production methods often results in other enhancements in performance, such as reduction of costs, increase in quality, and serviceability.⁴⁶ As Porter and Van de Linde show, pollution can be an indicator of poor technology and the inefficient use of capacities, and accordingly investment in environmental improvements potentially boosts innovation.⁴⁷ Other studies propose that there is a positive relationship between

⁴² Cf. Arthur D. Little Ltd. (2002), p. 3

⁴³ Cf. L'Etang, J. (1995), p. 128

⁴⁴ Cf. Hontou, V.; Diakoulaki, D.; Papagiannakis, L. (2007), p. 29

⁴⁵ Cf. Willard, B. (2002), p. 12

⁴⁶ Cf. Arnold, M. B.; Day, R. M. (1998), p. 28

⁴⁷ Cf. Porter, M. E.; van der Linde, C. (1995), p. 100 f.

the level of environmental standards of a corporation and its market value⁴⁸ and point out that high levels of pollution generated by a company can result in significantly lower returns on its stock prices.⁴⁹ Moreover, potentially there may be positive effects for marketing: Environmentally friendly products are often associated with higher product quality by the customer,⁵⁰ leading to a competitive selling advantage. While only 15 years ago, the focus of environmental issues within organizations was largely on compliance, nowadays environmental management can be crucial for the survival and sustainable success of a firm.⁵¹ Certainly, the increase in environmental policies as well as the awareness of the public concerning environmental issues creates both challenges and opportunities for corporations depending on the characteristics of its market conditions.⁵² In the context of CSR, the firm's objective has to be to identify those fields in which it can generate win-win-situations, resulting in positive effects for both the corporation's competitive position as well as an improvement in environmental standards or conditions. Accordingly, we deduce that CSR should take into account *the environment as a crucial factor for the company's sustainable strategy*.

1.1.5. The voluntary dimension of CSR

As outlined above, commitment for stakeholder interests beyond profit maximization while keeping economic objectives in mind can have positive impacts for a corporation. In the context of the implementation of CSR strategies, it has been debated whether or not such a commitment should be undertaken on a voluntary basis or structured by legislation. In fact, in some corporations, compliance with existing environmental laws

⁴⁸ Cf. Dowell, G.; Hart, S.; Yeung, B. (2000), p. 1063

⁴⁹ Cf. Hamilton, J. (1995), p. 112

⁵⁰ Cf. Lantos, G. P. (2001), p. 43

⁵¹ Cf. Center for Social Innovation (2007), p. 1

⁵² Cf. Hontou, V.; Diakoulaki, D.; Papagiannakis, L. (2007), p. 29

is already considered as CSR, even though just constituting legal duty.⁵³ By definition, CSR should go beyond the simple observation of laws and regulations and comprehend concern for the most instrumental interests of the corporation's stakeholders.⁵⁴

Doubtlessly, there are issues arising when expecting business corporations to show voluntary commitment for society and the environment. First, one might argue that for a single company, engagement in CSR activities and the thereof resulting improvements in infrastructure or social conditions might not pay off due to the free rider problem. However, Porter and Kramer argue that in most cases, CSR engagement will nevertheless generate advantages for the firm, because an improvement of the local context will not affect most competitors and a disproportional benefit of reputational improvement will be enjoyed by the corporation having started the CSR initiative.⁵⁵ Surely, the "rising tide lifts all ships"⁵⁶ to a certain degree. However it is believed that if the strategy has a close fit with the corporation's specific resources and capabilities, there will still be enough incentives and benefits resulting for the firm out of its CSR programs.

Another argument for voluntary CSR is the fact that in today's civil society, simple compliance with the law will not earn a corporation public credit: To have positive impacts for its image or reputation, it is necessary to go *beyond* what laws and regulations require.⁵⁷ Additionally, even if legislative measures are discussed by some experts and governmental agencies, implementing laws for corporate social responsibility programs would not be very effective, as laws and regulations will always be of limited scope and thus not able to describe every possibility; by definition they

⁵³ Cf. Hemsley, S. (2005), p. 21

⁵⁴ Cf. Palacios, J. J. (2004), p. 393

⁵⁵ Cf. Porter, M. E.; Kramer, M. R. (2003), p. 43

⁵⁶ Kaku, R. (2003), p. 110

⁵⁷ Cf. Martin, R. L. (2003), p. 94

have to be reactive, i.e. describing what is not allowed, rather than what is possible as proactive opportunities.⁵⁸

To this date, voluntary responsibility of the corporation is not reflected in legal accountability.⁵⁹ Therefore, there are claims that CSR should be better integrated into a legislative foundation. Yet as for the moment, it is very unlikely that a majority of nations will embed obligatory CSR in their legislation.⁶⁰ For example the European Union has clearly defined CSR to be voluntary.⁶¹ It can therefore be presumed that for the time being *CSR has to be undertaken voluntarily*.

Summing up the finding of the above mentioned dimensions, it can be concluded that CSR

- incorporates the contribution to economic development
- integrates the interests of all stakeholders in the company's policies and actions
- takes into account the needs of society
- considers the needs of the environment
- is voluntarily

Accordingly, the following definition of CSR is proposed:⁶²

CSR is the contribution to economic development and voluntary integration of business operations and values, whereby the interests of all stakeholders, including the society and the environment are reflected in the company's policies and actions.

In this thesis, CSR will refer to above characterization. As a next step, conceptual parameters often associated with CSR shall shortly be introduced.

⁵⁸ Cf. Lantos, G. P. (2001), p. 4

⁵⁹ Cf. Frankental, P. (2001), p. 19

⁶⁰ Cf. Hopkins, M. (2004), p. 8

⁶¹ Cf. Commission of the European Communities (2002), p. 3

⁶² Slightly adapted from CSRwire (2007)

1.2. CSR in distinction to related concepts

In line with the unanimous understanding of the term itself, CSR is frequently cited in tandem with concepts such as Corporate Citizenship, Cause-related Marketing, Corporate Philanthropy as well as Triple Bottom Line and Sustainable Management, which respectively often are insufficiently distinguished from one another.⁶³ This chapter will briefly introduce some of the most widely encountered concepts related to CSR.

As a variation of the term CSR itself, parallel the term of Corporate Responsibility has gained in popularity, due to the fact that it does not exclude environmental and financial aspects in its wording.⁶⁴ On the other side, there exists the viewpoint that the indication “social” highlights the claim for a responsibility of business which exceeds the classical view of accountability merely for profit generation better.⁶⁵ As “CSR” is still more widely used as a term in business research and practice, in this thesis “Corporate Social Responsibility” shall be used as the denomination of choice.

1.2.1. The concept of Corporate Citizenship

The concept most often cited in relation to or as synonym of CSR is Corporate Citizenship. It is, similar to CSR, a vague notion which is interpreted differently by various experts. Arthur D. Little refers to Corporate Citizenship as “companies taking into account their complete impact on society and the environment, not just their impact on the economy”⁶⁶. Matten et al.⁶⁷ distinguish three common interpretations of Corporate Citizenship: 1.) a limited view, being close to corporate philanthropy, 2.) a view equivalent to CSR and 3.) an extended view of Corporate Citizenship,

⁶³ Cf. Beschoner, T. (2005), p. 41

⁶⁴ Cf. Webb, T. (2002), p. 3

⁶⁵ Cf. Hopkins, M. (2004), p. 2

⁶⁶ Cf. Arthur D. Little Ltd. (2002), p. 1

⁶⁷ Cf. Matten, D. et al. (2003), p. 112 ff.

encompassing a socio-political view concerning the role and obligations of companies in society. To some, Corporate Citizenship can include the notion that the engagement of the firm should go beyond charitable contributions and integrate ethical concerns in the key functions of the enterprise, such as products, production processes and marketing.⁶⁸ As the term suggests, generally Corporate Citizenship proposes the viewpoint of expecting the corporation to be a cooperative citizen, which – like an individual – is endowed with certain rights along with duties to fulfil.⁶⁹ While there are critics doubting that there should be any reason for corporations to voluntarily assume the citizenship duties which are asserted by supporters of the concept,⁷⁰ others emphasize the strategic advantages for the firm that can be achieved by embracing this model, such as improvement of reputation, trust relationships and social capital.⁷¹ In this aspect of instrumental usability for the company, Corporate Citizenship has extensive common ground with CSR; but on the other hand, it frequently exceeds the general framework of CSR towards other research field, such as sociological and political studies and touches on basic assumptions concerning the interaction of players in civil society and business.

This thesis shall focus on the strategic use of CSR for the benefit of the company and therefore shall exclude questions of the social or political validity and meaningfulness of Corporate Citizenship.

1.2.2. The concept of Cause-related Marketing

Another tool in association with the use of positive impacts from social commitment is the so-called cause-related marketing. Brønn and Vrioni define it as a concept which

⁶⁸ Cf. Beschoner, T. (2005), p. 42

⁶⁹ Cf. Kaiser, S.; Schuster, M. (2003), p. 609

⁷⁰ Cf. van Oosterhout, J. H. (2005), p. 678

⁷¹ Cf. Kaiser, S.; Schuster, M. (2003), p. 610

entails corporations “communicating through their advertising, packaging, promotions and so on their corporate social responsibility, namely their affiliation or work with non-profit organisations or support for causes”⁷². Cause-related marketing has been enjoying growing popularity:⁷³ For instance in the U.S., charitable contributions by companies have been falling by 50% during the last decade, while on the other side, expenditures for cause-related marketing has been soaring from \$125 million in 1990 to \$828 million in 2002.⁷⁴

Many corporations hope to benefit from cause-related marketing programs by improving their reputation and thus their image with their customers. As McWilliams and Siegel point out “support of cause related marketing creates a reputation that a firm is reliable and honest. Consumers typically assume that the products of a reliable and honest firm will be of high quality”⁷⁵. While some aspects of CSR policies might overlap with cause-related marketing, its major difference lies in the fact that the latter notion is not focused on stakeholder needs, but the degree of publicity, which can be generated by the intended marketing activity. In other words, cause-related marketing programs are supposed to make a brand or corporation more popular and/or well-known, which the potential by-product of improving social or environmental conditions, while for CSR the focus is vice-versa or at least equally strong on both objectives.

1.2.3. The concept of Corporate Philanthropy

In some cases, cause-related marketing is understood synonymously with philanthropy, as for example in Carroll’s pyramid of Corporate Social Responsibility.⁷⁶ This thesis

⁷² Brønn, P. S.; Vrioni, A. B. (2001), p. 207

⁷³ Cf. Frankental, P. (2001), p. 22 f.

⁷⁴ Cf. Porter, M. E.; Kramer, M. R. (2003), p. 28

⁷⁵ McWilliams, A.; Siegel, D. (2001), p. 120

⁷⁶ Carroll considers philanthropic responsibilities as the highest or last step of corporate social responsibility, which is not demanded but desired by the public. He admits though those philanthropic

though will adopt a more stringent interpretation of the concept,⁷⁷ seeing it as a contribution to society which is not driven by duties or responsibility, but rather the desire to do good for the community or public. Usually, philanthropic donations consist of ad hoc gifts, which do not focus on any feedback or benefit for the corporation, and are often arbitrary decided upon by a senior executive or the head of the company. In particular the United States have a tradition of Corporate Philanthropic giving, whereas in Europe and Japan this concept is a newer phenomenon, introduced in connection with the growing interest in CSR.

Some critics do not find CSR programs worthy if they include a benefit for the corporation and thus could have been undertaken out of self-interest in contrast to purely altruistic motives.⁷⁸ Proponents of this view would consider Corporate Philanthropy the only “sincere” CSR. While there are some evidences that even unfocused philanthropy can have positive impacts on corporate reputation,⁷⁹ the large majority of CSR experts however dismiss philanthropy as a management tool⁸⁰ due to its missing focus and arbitrary nature and suggest leaving such charitable giving a private matter.

1.2.4. The concepts of Triple Bottom Line and Corporate Sustainability

Two further concepts building a foundation for CSR are the Triple Bottom Line and Corporate Sustainability. According to the theory of the Triple Bottom Line, the success of a corporation should not be measured only by its financial achievements, but also

activities should be undertaken to foster the image of the firm as a good corporate citizenship in its community, which strictly speaking makes them part of marketing or publicity policies. (Cf. Carroll, A. B. (1991), p. 42)

⁷⁷ The following paragraph refers to L’Etang, J. (1995), p. 130

⁷⁸ Cf. Lantos, G. P. (2001), p. 32

⁷⁹ Cf. Williams, R. J.; Barrett, J. D. (2000), p. 348, and Brammer, S.; Millington, A. (2005), p. 29 ff.

⁸⁰ Cf. e.g. Lantos, G. P. (2002), p. 208 ff.

including social as well as environmental bottom lines.⁸¹ The term itself was coined by Elkington's *Cannibals with Forks: The Triple Bottom Line of 21st Century Business*⁸² and has been widely used in the relation to sustainable management since.⁸³ The reasons for an implementation of Triple Bottom Lines in business are - similar to the motivations for CSR – seen in convergence, social obligation and the need for transparency.⁸⁴ In fact, many use the term CSR synonymous to Triple Bottom Line. The latter concept though only makes up one aspect of CSR, namely the integration of social and environmental factors into accounting in form of an innovative assessment method. The objective of such a new accounting method is to foster sustainable development, which by itself has sustainability as its ultimate goal.⁸⁵ As for the other above described tools, definitions for sustainable development are manifold,⁸⁶ yet common consensus seems to be that it aims towards “the best possible quality of life for an indefinite period of time which can be extended to the whole globe.”⁸⁷ Applied to the business field, Dyllick and Hockerts suggest that thus Corporate Sustainability should be characterized as “meeting the needs of a firm’s direct and indirect stakeholders [...] without compromising its ability to meet the needs of future stakeholders as well”⁸⁸. Following this interpretation, the thesis at hand proposes to understand Corporate Sustainability as the goal of CSR programs, which can be supported by Triple Bottom Line accounting methods.

Although each of the above concepts have connections and overlapping areas of high interest with CSR, the scope of this thesis demands a research focus. Thus, the further

⁸¹ Cf. Norman, W.; MacDonald, C. (2004), p. 243

⁸² Elkington, J. (1997)

⁸³ The two following sentences refer to Norman, W.; MacDonald, C. (2004), p. 246

⁸⁴ Cf. next Chapter in detail

⁸⁵ Cf. Schaltegger, S.; Burritt, R. (2005), p. 185

⁸⁶ Cf. Steurer, R. (2001), p. 537

⁸⁷ Schaltegger, S.; Burritt, R. (2005), p. 187

⁸⁸ Dyllick, T.; Hockerts, K. (2002), p. 131

argumentation shall be confined to CSR as a business tool, as characterized on page 15, and highlight its meaningfulness from the corporate angle.

1.3. Motivations for corporations to implement CSR policies

To gain a deeper comprehension of CSR, this chapter will shed light on the motivations for business to use this tool. The remarkable increase of attention towards CSR can be explained by a number of external as well as internal corporate forces.⁸⁹ External influences promoting the firm's social responsibility have for example been globalization and thereof resulting more complex markets, a more sophisticated stakeholder surrounding, including NGOs, as well as financial stakeholders with increasing demand of corporate transparency.⁹⁰ Through the higher connectedness of markets and the growing power of multinational corporations, the influence of national governments has been diminishing,⁹¹ forcing corporations to consider new approaches for their social responsibilities out of voluntary actions. In such rapidly transforming international settings, CSR has crystallized as an instrument suitable to tackle the new societal expectations emerging towards business enterprises. Following the argumentation of Arnold and Day,⁹² who identified morality, compliance and opportunity as the key drivers for CSR engagement for the corporate side, major internal drivers for the advancement of CSR programs will be introduced.

1.3.1. Morality as a driver for CSR

CSR is often linked with ethics and the personal desire of managers to undertake good deeds. In fact, many managers believe that their corporations have a moral duty towards

⁸⁹ External and internal drivers in the context of CSR are apparently not to be seen separately from another, but rather as interconnected. Changing external expectations can clearly become a promoter for corporations to change their business strategy. In awareness of the more complex external influences exceeded the scope of this paper, here the internal viewpoint is adopted with the focus on corporate internal motivations.

⁹⁰ Cf. Commission of the European Communities (2002), p. 6

⁹¹ Cf. Sutinen, S. (2006), p. 19

⁹² Cf. Arnold, M. B.; Day, R. M. (1998), p. 3

society and the environment to help resolve the most pressing issues of our time, such as degradation of the environment, poverty, inequality and discrimination.⁹³ The ethical dimension can occasionally be found in the basic understanding of CSR: For example, one commonly cited definition of CSR is that of Holme and Watts⁹⁴, offering the following interpretation:

“Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large.”

The same is true for the understanding of CSR by many other experts, such as the organization “Business for Social Responsibility”, which sees CSR as “achieving commercial success in ways that honour ethical values and respect people, communities and the natural environment.”⁹⁵ Some claims for CSR are completely founded on ethical grounds, demanding in essence that the action taken by a company in this context should be genuinely altruistic or community-minded.⁹⁶ While the integration of ethical and business paradigms has been widely debated and to this day remains problematic,⁹⁷ it is nevertheless true that in some cases morality can be the driver for the social responsibility engagement in companies. Interestingly, research indicates that such voluntary, personal commitment does not have to be bound to whether or not a company is one’s own possession: A study of Spar and La Mure⁹⁸ revealed that some executives feel a commitment to social obligations, even if there was no apparent economic benefit for the firm or the individual.

⁹³ Cf. Kaku, R. (2003), p. 106

⁹⁴ Holme, L.; Watts, P. (2000), p.10

⁹⁵ White, A. L. (2006), p. 6

⁹⁶ Cf. Baker, M. (2006)

⁹⁷ Cf. Chapter 1.5. in detail

⁹⁸ Cf. Spar, D. L.; La Mure, L. T. (2003), p. 89 ff.

As respectable and desirable as it might be for corporate executives to have such personal responsibility towards employees, the environment and society overall, morality has to be distinguished from the strategic modeling of the business tool CSR as interpreted in this thesis. It is crucial to differentiate personal and organizational values clearly. While the first category belongs to the field of philosophy and psychology, a business thesis will have to confine analysis to the second aspect of organisational values and their management. This thesis thus argues that morality and ethics should be part of a basic foundation of the company, expressed through universal hypernorms (see Chapter 1.7.), on which the strategic orientation of the corporation can be built upon. Yet focus of this research will be on business drivers, such as compliance and opportunity, as follows.

1.3.2. Compliance as a driver for CSR

In some cases, compliance with laws and regulations can be a driver for CSR engagement. Particularly in connection with environmentally-benign production, compliance with legal requirements is and will remain one of the most essential motivations for investment in environmentally friendly products and production methods.⁹⁹ Additionally, social considerations such as accountability to stakeholders others than the corporation's shareholders is required by law in some countries: For instance in Germany, a worker representative on the board can be demanded by the employees in enterprises with more than five staff members.¹⁰⁰ Moreover, listings of stock on the international trading markets, for example the London Stock Exchange, demand the addressing of environmental and reputational issues for corporate internal

⁹⁹ Cf. Arnold, M. B.; Day, R. M. (1998), p. 3

¹⁰⁰ Cf. §§ 1, 7 Betriebsverfassungsgesetz (BetrVG)

controls.¹⁰¹ What is more, since the Enron scandal, more indirect and much broader impact has been generated by third party liability, extending legal liability towards related professional groups such as accountants and lawyers, which has made American corporate management particularly cautious about poor social performance and ethical risks in management practices.¹⁰² Furthermore, new legislation like the Sarbanes-Oxley Act require stricter controls on corporate governance, for example by the mandatory independence of auditors, as defined by the American Congress¹⁰³ and the prohibition of legal consultation, brokerage or investment services by auditing companies for their clients.¹⁰⁴ In many parts of the world, laws are implemented focusing increasingly on transparency and disclosure of information to pressure corporations to act more responsibly in their daily business operations.¹⁰⁵

Therefore, in some cases the existence of regulations can be trigger for socially responsible behaviour of a company; some firms might also see CSR as a tool to influence the modeling of or minimize government regulations.¹⁰⁶ By definition however, CSR should mainly relate to engagement *beyond* existing legislation and generally not substitute legislation concerning social or environmental standards.¹⁰⁷

1.3.3. Opportunity as a Driver for CSR

Potentially the most instrumental CSR driver for firms is the fact that the implementation of social and environmental programs can generate benefits or competitive advantages for the corporation. Extensive research has been undertaken to

¹⁰¹ Cf. Arthur D. Little Ltd. (2002), p. 3

¹⁰² Cf. Hopkins, M. (2004), p. 5

¹⁰³ Cf. Romano, R. (2004), p. 13

¹⁰⁴ Cf. Ibidem, p. 41

¹⁰⁵ Cf. Waddock, S. (2005), p. 21

¹⁰⁶ Cf. Lantos, G. P. (2001), p. 44

¹⁰⁷ Cf. Commission of the European Communities (2001), p. 8

answer the question about whether CSR itself has a business case, i.e. whether socially responsible corporate governance will generally pay off financially.

For instance, Margolis and Walsh¹⁰⁸ tried to identify a correlation between CSR and the economic performance of a company. Their findings indicate that social commitment of the firm as a dependent and independent variable can in many cases be linked positively to corporate performance, most apparently for companies with strong brand image. However, they also stress that frequently no correlation between the intensity of CSR and economic performance could be identified. Critics may argue that even for the positively correlated cases, it is not necessarily clear whether social responsibility is a driver for success. It is contrariwise possible that more profitable companies are more capable of implementing social and environmental programs whereas struggling companies are not. Therefore, generally linking a business case to the concept of social responsibility can be considered problematic. As Baker puts it:¹⁰⁹

“Each of these (CSR) processes describes a range of possible activities – and any one of those activities may be beneficial or detrimental to the business. It all depends on the judgement in selection of which action to take, and the skill and energy applied to achieving results. The business case, therefore, is for a proposed course of action, not for some broad general concept of a type of activity.”

¹¹⁰Comparing the claim for finding a business case for CSR with the demand to do so for tools such as marketing or innovation management in general, Baker argues that while successful marketing or innovation management can boost a company's performance, it not necessarily has to. In his mind, the same is true for CSR, which contains choices, dilemmas, as well as benefits and catastrophes. This is why even though experts have been searching for “a single concept, perhaps a single word to sum

¹⁰⁸ Cf. Margolis, J.; Walsh, J. P. (2001), p. 32 ff.

¹⁰⁹ Baker, M. (2006)

¹¹⁰ The following two sentences refer to Baker, M. (2006)

up the business end of sustainable development”¹¹¹, it is unlikely to be found in the concept of CSR.

Due to the complexity of aspects that can be included in CSR programs and the dependency on company resources, positioning as well as specifications of its market and stakeholders, it is impossible to make a universally valid prediction of how CSR will work for companies.¹¹² It is common business sense that a corporation will avoid social and environmental policies if they should have no positive impact on the firm. Yet, if planned, executed and controlled wisely, CSR commitment can indeed generate competitive advantages for business.¹¹³ For example, several studies¹¹⁴ point out the potential positive impacts of CSR on corporate performance, including favourable influences¹¹⁵ on risk management, reputation management, employee recruitment, motivation and retention, competitiveness and market positioning as well as corporate societal legitimacy.

1.3.3.1. Opportunities in relation to risk management

Companies increasingly have to be able to identify, respond to, and manage a wide variety of different risks.¹¹⁶ CSR can help to establish a better analysis and management of such threats through the in-depth analysis of stakeholder concerns.¹¹⁷ As Kytte and Ruggie emphasize, corporations are usually already familiar with three kinds of

¹¹¹ WBSCD (2000), p. 1

¹¹² Concerning the possible effects of CSR programs, the Economist (2005), p. 8 f. distinguishes four categories of potential CSR effects on company profits and social welfare: win-win (positive for both aspects), borrowed virtue (positive only for social welfare, negative for company profits), pernicious (positive for company profits, negative for social welfare) and delusional (negative for both). The Economist argues that according to this classification, only the first category of win-win CSR programs, which generate a positive effect both in the economic and social area, can be applied as sustainable strategic instruments.

¹¹³ Cf. Sutinen, S. (2006), p. 17

¹¹⁴ Cf. Reed, D. (2001), Margolis, J.; Walsh, J. P. (2001), Roberts, S.; Keeble, J.; Brown, D. (2002) and Arthur D. Little; Business in the Community (2003)

¹¹⁵ Cf. Roberts, S.; Keeble, J.; Brown, D. (2002), p. 1, and Emerson, J.; Bonini, S. (2004), p. 30

¹¹⁶ Cf. Arthur D. Little Ltd. (2002), p. 3

¹¹⁷ Cf. Hopkins, M. (2004), p. 10

“traditional risks”, namely economic, political and technological ventures.¹¹⁸ From their perspective, CSR can be utilized as a management tool to tackle the newly emerging kind of social hazards, which they calculate as the threat of the stakeholder issue multiplied with the corporation’s vulnerability.¹¹⁹ Furthermore, showing broader responsibility for societal and environmental demands as well as implementing ethical standards in business practice can help minimize the costs for litigations as well as bad publicity in the media.¹²⁰ In this sense of profane risk management, CSR as an instrument for business leadership is also accepted in the financial community.¹²¹ Certainly the foundation of such risk management has to be laid on long-term developments and strategies, as many CSR programs do not generate short term benefits that immediately appear on the financial statements of the firm.¹²² To do so is essential, as leadership that fails to recognize the importance of integrating the claims of society, the common good, and the interests of the consumer-citizen into its corporate strategy will run the risks of failure in the medium or long term.¹²³ One of the major areas of opportunity in this context is the management of reputation, as will be elaborated in the following.

1.3.3.2. Opportunities in relation to reputation management

Perhaps one of the most critical, strategic and vulnerable assets of a company is its image.¹²⁴ In particular for brand-conscious industries, the fostering of a positive and ethical corporate image constitutes a key driver for CSR programs. In today’s information society, it has become more difficult to maintain a positive reputation:

¹¹⁸ Cf. Kytte, B.; Ruggie, J. G. (2005), p. 5

¹¹⁹ Cf. *Ibidem*, p. 8

¹²⁰ Cf. Lantos, G. P. (2001), p. 17

¹²¹ Cf. Ramthun, C. (2007), p. 60

¹²² Cf. Lantos, G. P. (2001), p. 34

¹²³ Cf. Fitzgerald, N.; Cormack, M. (2006), p. 34

¹²⁴ Cf. Cravens, K.; Oliver, E. G.; Ramamoorti, S. (2003), p. 201

¹²⁵Not only has the influence of media on public opinion increased, the public has also become more eager to pass judgement. There are more informal ways of public commentary, for example through the internet by bloggers, who might have considerable impact on a corporation's reputation. Some newspapers have started to publish lists of the most unethical corporations regularly, such as the Multinational Monitor.¹²⁶ Activists, NGOs, socially oriented investors and well-informed customers have developed awareness and skills to provoke public attention towards corporate problems and thereby being able to damage firm reputation significantly.¹²⁷

Doubtlessly, reputation as a corporate resource is hard to grasp, manage and measure in correlations with other indicators. Research indicates that an unfavourable corporate image can make it problematic to build a strong brand, yet a good reputation is not linked to guaranteed success.¹²⁸ What is more, stock markets are often not unduly influenced by reputational crisis of corporations, as it is assumed that the medium and long term profitability will not be affected greatly.¹²⁹ Also, there is only very little research available about whether consumers will pay an extra-premium for products produced by socially responsible companies in comparison to irresponsible organisations.¹³⁰ Maignan suggests that the actual value of CSR as a marketing tool is hard to calculate due to the fact that the degree of consumer support for socially responsible products as well as their individual definition of CSR are unclear; most research about CSR has been undertaken in the United States and thus the gathered information and coherences about CSR and customer behaviour might not be applicable to other cultural and regional conditions.¹³¹ This assumption is supported by other

¹²⁵ The following two sentences refer to Fitzgerald, N.; Cormack, M. (2006), p. 7

¹²⁶ Cf. Mokhiber, R.; Weissman, R. (2006)

¹²⁷ Cf. Waddock, S. (2005), p. 21

¹²⁸ Cf. Page, G.; Fearn, H. (2005), p. 305

¹²⁹ Cf. Frankental, P. (2001), p. 19

¹³⁰ Cf. Maignan, I. (2001), p. 58

¹³¹ Cf. *Ibidem*, p. 59

studies finding cultural differences concerning the importance of brand image for consumer's decisions: For example, Japanese consumers tend to be twice as influenced by brand image in their purchasing decisions than those in the U.S. or the U.K.¹³²

While the correlation between sustainable image and benefits for revenues remains unclear, it is nevertheless essential for a company to foster consumers' trust in the firm's products and brands. A single corporate scandal might result in instant loss of public trust and potential product boycott. As the saying goes, "trust lost departs on a fast horse and returns, if ever, slowly by foot."¹³³ This fragility of image is one reason why the importance of reputation management has been gaining momentum on global markets: Identifying emerging changes in attitudes, preferences and trends can result in a reputational advantage. On the other side, missing an important trend can lead to loss of market share and a competitive disadvantage.¹³⁴ Having understood this fact, most internationally engaging auditing and consulting firms today offer advice on how to model effective CSR programs to leave a positive image for stakeholders of the company.¹³⁵ To do so, financial statements alone will not suffice for a successful reputation management;¹³⁶ rather, more sophisticated strategic approaches, which encompass social and environmental aspects, are needed to control PR outcomes. In fact, the CSR department of firms is often located within corporate or external affairs, thus being an adjunct of the PR division.¹³⁷ Yet, it has to be pointed out that too much PR around CSR activities can undermine the concept and end up counter-productive for the corporation. For many companies CSR is little more than cosmetic treatment or cause-related marketing and does not touch the core business functions of the firm.¹³⁸ For

¹³² Cf. Oligvy and Mather Japan K. K. (2005), p. 1

¹³³ Fitzgerald, N.; Cormack, M. (2006), p. 34

¹³⁴ Cf. Fitzgerald, N.; Cormack, M. (2006), p. 24

¹³⁵ Cf. The Economist (2005), p. 3

¹³⁶ Cf. Cravens, K.; Oliver, E. G.; Ramamoorti, S. (2003), p. 203

¹³⁷ Cf. Frankental, P. (2001), p. 22

¹³⁸ Cf. The Economist (2005), p. 4

example, the tobacco company Philip Morris contributed \$75 million to charity in 1999, but spent over \$100 million for an advertising program to inform the public about their philanthropic activities.¹³⁹ Reputable CSR though should not give in to the temptation to focus on groups or topics which promise to bring the largest publicity, instead of those areas which would be the best fit between corporate resources and stakeholder needs.¹⁴⁰ Clearly, a reasonable balance has to be found between investment in social causes and its public promotion.

1.3.3.3. Opportunities in relation to employee recruitment, motivation and retention

CSR programs can be a tool to make a company more attractive as an employer and thus protect human capital assets.¹⁴¹ Many corporations find it increasingly difficult to recruit top-class employees, so the reputation of being a socially and environmentally outstanding company can help improve the image among job applicants.¹⁴² A corporation with a positive, ethical image is more likely to be considered an attractive place to work.¹⁴³ Research findings suggest that the level of CSR as a positive factor employees consider when they search for a job becomes more important the higher educated an applicant is.¹⁴⁴ Accordingly, an outstanding CSR record can support corporations in attracting well-qualified employees, which is essential in today's knowledge-driven organizations. Moreover, by implementation programs which improve for instance education and life quality in the communities where the

¹³⁹ Cf. Porter, M. E.; Kramer, M. R. (2003), p. 27 f.

¹⁴⁰ Cf. L'Etang, J. (1995), p. 131

¹⁴¹ Cf. Doane, D. (2004), p. 3

¹⁴² Cf. Ibidem, p. 4

¹⁴³ Cf. Fitzgerald, N.; Cormack, M. (2006), p. 29

¹⁴⁴ Cf. Albinger, H. S.; Freeman, S. J. (2000), p. 250

corporation is operating, the firm can benefit by recruiting better trained, more satisfied employees.¹⁴⁵

On the other side, companies with tarnished corporate image can face considerable problems in recruiting suitable candidates: For example in the oil industry, which has come under attack because of environmental and social problems caused by oil production and pollution, some business leaders believe that the most negative consequence was that young talented graduates would no longer consider the industry attractive for their careers.¹⁴⁶

1.3.3.4. Opportunities in relation to competitiveness and market positioning

As with other business areas, such as marketing and research and development, there is obviously an optimal degree of CSR spending¹⁴⁷ where the benefit from investment is higher than the expenditures for the program. Yet, where this optimal point of expenditure lies has to be assessed and calculated for each individual case of corporation. However, even if companies are engaging in CSR, they often do not use it to its fullest potential. In fact, many corporations fail to clearly identify the issues their stakeholders are most concerned about, such as pensions, investments, or job security with employees, and do not link their actions to such claims.¹⁴⁸

If social and economic goals are aligned through CSR programs, they can help a company build a sustainable long term business strategy¹⁴⁹ and strengthen its competitiveness in the market. Positive effects of CSR can in particular be identified in connection with intangible resources, such as knowledge, communication and thereof

¹⁴⁵ Cf. Porter, M. E.; Kramer, M. R. (2003), p. 28

¹⁴⁶ Cf. Arthur D. Little Ltd. (2002), p. 3

¹⁴⁷ Cf. Lantos, G. P. (2001), p. 37

¹⁴⁸ Cf. Ian King, as cited in Hemsley, S. (2005), p. 21

¹⁴⁹ Cf. Porter, M. E.; Kramer, M. R. (2003), p. 27

resulting trust relationships.¹⁵⁰ In accordance with the resource-base view of the firm,¹⁵¹ which identifies valuable, rare and inimitable and effectively used resources as essential for corporate success, CSR can help built such competencies. While corporations have to compete in service and outstanding products, successfully implemented CSR programs can help them gain an edge also in the ideological dimension, which has been gaining in importance.¹⁵² Other advantages can be the increase of operational efficiency: CSR might help find potentials for cost reduction by innovative production methods, increasing customer loyalty, better market positioning, and the development of new markets such as the Bottom of the Pyramid.¹⁵³ Besides, implementing and executing higher levels of social or environmental performance than mandated by law can generate a competitive advantage because companies can thereby indirectly force competitors to follow suit.¹⁵⁴

1.3.3.5. Opportunities in relation to legitimacy

Legitimacy can be characterized as a “generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions”¹⁵⁵. Enjoying the reputation of being environmental and social responsible can increase the legitimacy of a corporation.¹⁵⁶ On the other side, companies with poor reputation concerning CSR issues can find themselves under constant public scrutiny concerning their operations, as it was the case for the pulp and paper industry in the early 1990s. The public outcry concerning rainforest destruction and creation of carcinogenic compounds which was

¹⁵⁰ Cf. Arnold, M. B.; Day, R. M. (1998), p. 1

¹⁵¹ Cf. e.g. Barney, J. (1991) and Wernefelt, B. (1984)

¹⁵² Cf. Center for Social Innovation (2007), p. 1

¹⁵³ Cf. Arnold, M. B.; Day, R. M. (1998), p. 4 and Hahn, R. (2009) in detail

¹⁵⁴ Cf. Hopkins, M. (2004), p. 7

¹⁵⁵ Suchman, M. C. (1995), p. 574

¹⁵⁶ Cf. Sutinen, S. (2006), p. 20

associated with this industry forced the associated companies to tighten their restrictions for wood import and improve bleaching processes.¹⁵⁷ Today, companies in most industries are exposed to a growing moral pressure of legitimacy worldwide,¹⁵⁸ because the public has been sensitised to immoral corporate practices by more readily available information offered through a variety of media channels. To be considered a legitimately acting corporation has become more difficult, as consumers have been developing scepticism towards what the firms are officially claiming.¹⁵⁹ Furthermore, the decreasing influence of national states and the resulting imputation of responsibility to the corporate sector as well as an increasingly professional and civil society have been contributing to a more critical public towards moral business issues.¹⁶⁰ With some large multinational companies having larger influence and economic power than even some nation's governments,¹⁶¹ civil society of today's global economy demands more of a corporation as justification for business than pure productivity.¹⁶² As national governments and international organizations such as the United Nations and the World Bank are all experiencing diminishing resources and thus the reduction in their ability to respond to the many challenges of human development, many believe that the business sector should play a larger role for wider social and environmental concerns than it did up until now.¹⁶³ Some argue that it is not the task of business to attend to social policy, but rather that of the government and suggest a clear division of those two sectors.¹⁶⁴ However, within the global new world market and consumer's trust in companies steadily declining due to an increase in corporate scandals,¹⁶⁵ corporations will have to respond to the claims of accountability, transparency and wider responsibility of the

¹⁵⁷ Cf. Arthur D. Little Ltd. (2002), p. 7

¹⁵⁸ Cf. Steinmann, H.; Löhr, A. (2002), p. 513

¹⁵⁹ Cf. Brønn, P. S.; Vrioni, A. B. (2001), p. 208

¹⁶⁰ Cf. Wieland, J. (1999), p. 16

¹⁶¹ Cf. Garriga, E.; Melé, D. (2004), p. 57

¹⁶² Cf. Lantos, G. P. (2001), p. 5

¹⁶³ Cf. Hopkins, M. (2004), p. 9

¹⁶⁴ Cf. The Economist (2005), p. 16

¹⁶⁵ Cf. Hätönen, J.; Nurmi, P.; Sandberg, B. (2006), p. 51

public. The introduction of social audits constitutes a first step in this direction, and there are indications that such audits might become more common as a standard expansion of the classical financial audits.¹⁶⁶ In this sense, CSR programs constitute an instrument to communicate corporate efforts for social improvements to its stakeholders and make a contribution for the construction of an enterprise, which is internally as well as externally perceived as being legitimately run.

As described above, in aggregate CSR can serve as a valuable tool for corporations to generate competitive advantages, minimize risks and foster legitimacy. It is clear that each company has to choose among the different optional CSR programs that best match the firm's objectives and align its strategy accordingly.¹⁶⁷ This can be an especially complex task in international business: With more and more companies expanding their operations beyond their national boundaries, many firms are faced with the challenge of adjusting their CSR practices to foreign market settings and cultural values. Thus, in the following chapter, some specifications of social responsibility in the trans-national context shall be highlighted.

1.4. Implications of CSR for international business strategy

In the international market context, CSR can become a tool to anticipate changes in societal expectations and create new markets as a first-mover.¹⁶⁸ In particular, under conditions where local governments have left market failures unaddressed or could not provide infrastructure to meet the basic necessities of the population, there might be opportunities for companies to bridge the gap and contribute considerably to social welfare.¹⁶⁹ Additionally, when a company is setting up operations abroad, it will often

¹⁶⁶ Cf. Lantos, G. P. (2001), p. 38

¹⁶⁷ Cf. Marrewijk, M. v. (2003), p. 96

¹⁶⁸ Cf. Arnold, M. B.; Day, R. M. (1998), p. 7

¹⁶⁹ Cf. The Economist (2005), p. 15

have to confront the “stigma of being foreign”¹⁷⁰, i.e. have starting disadvantages due to the lack of information about different consumer preferences or divergent treatment from the host nation’s government, suppliers, or buyers. Strategically well implemented CSR programs can in such situations help to overcome or at least decrease this “liability of foreignness”¹⁷¹, especially those concerning the development of intangible resources such as trust.

Yet, for the implementation of global CSR, several issues have to be tackled. On the international stage, corporations are stuck in the dilemma of two opposing trends: an increased pressure for short-term returns on profit from the investors’ side¹⁷² and demands for ethical corporate performance from NGOs and other concerned stakeholders.¹⁷³ In many cases, investment in CSR activities will only pay-off in the long-term, possibly making a focus on social and environmental concerns difficult to justify for management towards the corporation’s shareholders. Apart from that, it can be complex to assess social impacts, in particular if engaging in foreign countries, whose culture is based on different ethical values and jurisdiction.¹⁷⁴

Moreover, there might also be the question of geographic scope and whether a corporation is more responsible for one nation (e.g. the home country) than another (the host country).¹⁷⁵ Besides, practical aspects should not be overlooked. Some experts argue that for a multinational or transnational corporation, it is essential to integrate the various values of its employees’ cultures within a common set of values and that a global organization requires having a universal corporate culture implemented at least to

¹⁷⁰ Hymer, S. (1976), p. 35

¹⁷¹ Zaheer, S. (1995), p. 342 f. defines „liability of foreignness“ as „the costs of doing business abroad that result in a competitive disadvantage for an MNE subunit [...] broadly defined as all additional costs a firm operating in a market overseas incurs that a local firm would not incur.”

¹⁷² Cf. Hätönen, J.; Nurmi, P.; Sandberg, B. (2006), p. 52

¹⁷³ Cf. Fitzgerald, N.; Cormack, M. (2006), p. 7

¹⁷⁴ Cf. Fitzgerald, N.; Cormack, M. (2006), p. 25

¹⁷⁵ Cf. Hätönen, J.; Nurmi, P.; Sandberg, B. (2006), p. 60

some degree.¹⁷⁶ The large majority of international CSR programs though are only aligned roughly with corporate strategy and unfocused¹⁷⁷ on specific regional conditions. A regulated management of trans-national CSR is aggravated because international standardisation of social responsibility programs and audits is still in the fledging stages even though there have been attempts to organize CSR globally, for example by the UN Global Compact, a project which was joined by over 2.300 business enterprises in 87 countries.¹⁷⁸ Yet, an issue with this system of institution is that their membership is voluntary and therefore the implementation of enforcement mechanism or binding rules is problematic, if not impossible, to realize.¹⁷⁹ Another approach for a global measurement setting is undertaken by the International Standards Organization (ISO), which has been successful in implementing more than 16.000 different global standards before.¹⁸⁰ Additional attempts, like the “ILO Declaration on Fundamental Principles and Rights at Work and its Follow-Up”, jointly created by international employers and governmental representatives, has been weak in content and insufficiently implemented.¹⁸¹ At this point of time, most countries do not share a common basic foundation of laws and regulations concerning social and environmental aspects,¹⁸² and while this increase of trans-national standardisation of social standards is encouraging and desirable, for now most international CSR activities will have to come from the corporate side based on voluntary motives and in consideration of regional discrepancies.

In fact, some corporations with cutting-edge CSR approaches have started to model their social and environmental programs depending on geographical, cultural and

¹⁷⁶ Cf. Ralston et al. (1997), p. 178

¹⁷⁷ Cf. Porter, M. E.; Kramer, M. R. (2003), p. 30

¹⁷⁸ Cf. Senser, R. A. (2007), p. 78

¹⁷⁹ Cf. Palacios, J. J. (2004), p. 395

¹⁸⁰ Cf. Senser, R. A. (2007), p. 78

¹⁸¹ Cf. *Ibidem*, p. 81

¹⁸² Cf. Kapstein, E. B. (2001), p. 106

economic conditions: For example Henkel has found that in industrialized nations the expectations towards the responsibility of the firm focus on the maintenance of competitiveness as well as existing high level norms, while in emerging economies the emphasis is placed on the contribution to the nation's development, provision of training as well as the establishment of social and environmental standards.¹⁸³ Based on the conditions of the respective nation and its cultural perceptions, the design of the most effective CSR program can differ greatly. For instance, Lodge has found major schools of cultural thinking concerning the ideal construct of social relations which he distinguishes as communitarian and individualist ideologies:¹⁸⁴ Countries such as Germany, France and Japan, where the needs of the community and consensus are emphasized, are assigned to the first classification whereas nations such as the United States, where individualism is valued highly, to the latter. According to such value sets, CSR activities should be modelled reflecting the perceptions of the respective stakeholder groups, such as employees or consumers. Indeed, research¹⁸⁵ gives indications that cultural values can impact the preferences of consumers concerning the actual modeling of corporate social responsibility.¹⁸⁶ In some cases, adjustment to other cultural standards might generate positive impacts for both the corporate side as well as society: For example Unilever in Saudi Arabia, a country in which women are discouraged to work outside of home, arranged workplaces for female employees in separate offices to respect local traditions and values.¹⁸⁷ Yet, adjustment to other value sets is not unproblematic. When trying to apply social and environmental standards in an international context, there is always the risk of one group trying to impose its values

¹⁸³ Cf. Henkel KGaA (2007), p. 11

¹⁸⁴ Cf. Lodge, G. C. (1990), p. 52

¹⁸⁵ Cf. Maignan, I. (2001), p. 70

¹⁸⁶ It has to be noted though that when surveys about consumer attitudes concerning CSR are conducted, it has to be kept in mind that the viewpoints and actual purchasing behaviour of the surveyed candidates might not correspond completely, i.e. they might attribute a large importance to ethical aspects "in theory", yet not translate those moral ideas when they purchase a product or at least not be willing to pay a premium for responsibly produced goods. (Cf. Page, G.; Fearn, H. (2005), p. 306)

¹⁸⁷ Cf. Fitzgerald, N.; Cormack, M. (2006), p. 16

on another.¹⁸⁸ Thus, when a corporation has reached agreement to perform CSR activities in host countries, a vital challenge will be the development of a strategy to deal with diverging sets of ethics and values.

1.5. The role of Business Ethics in relation to CSR

When discussing CSR in connection with values and morals, the question imposes itself whether there exists a universal ethical justification for corporate responsibility beyond profit maximization and how values of stakeholders, who might belong to other cultural groups, shall be integrated in CSR policies. This chapter will shed light on those issues.

1.5.1. Ethical justification of corporate duties beyond profit maximization

As described above, CSR can be both understood as a philosophy, as well as a strategic and operational practice¹⁸⁹ aimed at gaining competitive advantages. It is often linked to an ethical dimension of doing business and some see it as the “tribute that capitalism everywhere pays to virtue”¹⁹⁰. Others underline the importance of a moral dimension of the social duties of the firm by describing them as both “a moral responsibility and an economic necessity”¹⁹¹. Without a doubt, arguments for an ethical obligation of corporations to be concerned with social and environmental issues are manifold.

Firstly, the unprecedented and growing power of corporations today, in particular large trans-national enterprises,¹⁹² calls for an adequate level of responsibility of those organizations.¹⁹³ Multinationals have an increasingly large influence on the world: The share of world trade made up by the largest 350 trans-national corporations has jumped

¹⁸⁸ Cf. Kapstein, E. B. (2001), p. 106

¹⁸⁹ Cf. Palacios, J. J. (2004), p. 391

¹⁹⁰ The Economist (2005), p. 3

¹⁹¹ Arthur D. Little Ltd. (2002), p. 1

¹⁹² Cf. Palacios, J. J. (2004), p. 389

¹⁹³ The following two sentences refers to Hopkins, M. (2004), p. 4

from 40 percent in the early 1980s to around 70 percent in 2004 and foreign direct investment has almost doubled from the early 1980s in comparison to a decade later. Due to the enormous size and capacities of transnational firms today, their decisions concerning investments, labour, knowledge management, and social policy can have a crucial impact on the society, politics, and environment of the nations they are engaging in. It seems only fair that, like any human being should bear the responsibility for his or her actions and the people he or she affects directly and significantly, a corporation should be accountable for its activities which affect the firm's stakeholders.¹⁹⁴ As the corporate social contract theory emphasizes, business and society do not only have a set of rights they enjoy, but also have to commit to reciprocal responsibilities towards each other.¹⁹⁵ Due to the mutual dependency of business and society, their interrelations should be based on mutual trust and respect.¹⁹⁶ Davis puts it into his social power equation as follows: "Social responsibility of businessmen arises from the amount of social power that they have."¹⁹⁷ Yet, not responding to one's obligation is not only a matter of moral, as Davis explained already in 1960: "Whoever does not use this social power responsibly will lose it. In the long run those who do not use power in a manner which society considers responsible will tend to lose it because other groups eventually will step in to assume those responsibilities"¹⁹⁸. The trend is clearly going towards a sharing of rights and responsibilities by different influential actors and the promotion of social and environmental issues will increasingly be dealt with not only by governments alone, but rather partnerships between the government and other actors, including non-governmental institutions and specifically, the business sector.¹⁹⁹

¹⁹⁴ Cf. Lantos, G. P. (2001), p. 23

¹⁹⁵ Cf. Ibidem, p. 7

¹⁹⁶ Cf. Fitzgerald, N.; Cormack, M. (2006), p. 25

¹⁹⁷ Davis, K. (1967), p. 48

¹⁹⁸ Davis, K. (1960), p. 63

¹⁹⁹ Cf. Hopkins, M. (2004), p. V

While the notion of responsibility based on power held by the corporations is one pillar of the ethical foundation of CSR, another is the fact that the obligation beyond pure profit generation is a result of the flawed market playing field itself. According to the theory of the Pareto Optimality, in perfect markets, a maximum social benefit will be achieved if every company is trying to maximize its profits.²⁰⁰ Therefore, some argue that benevolence or ethics are not necessary for business conduct, as it is the nature of capitalism that everybody is looking after one's own interest and that markets are solely driven by voluntary economic interactions.²⁰¹ However, in reality imperfect markets prevail, in which some ways of profit maximization, such as bribery, tax evasion, price fixing and the exploitation of prices not reflecting the scarcity of resources can hurt society and the environment.²⁰² This is why the consideration of the corporation's role in society should be an important part of business leadership,²⁰³ in which other factors beyond economic ones have to be taken into account. While profit creation is a dominant goal of a corporation's existence, it is nevertheless the only reason for which companies were designed.²⁰⁴ If the role of business is understood as "to innovate and deliver products and services, to use resources efficiently so that value is created and to conduct operations so that they are performed profitably and accepted by society",²⁰⁵ it becomes clear why CSR should have a close fit with the strategic positioning of a firm. It is certainly true that ethically desirable goals and economic objectives can coincide.²⁰⁶ Ethical violations by a corporation can provoke repudiation from the firm's stakeholders and therefore have negative impacts on business.²⁰⁷ In fact, some empirical evidence shows that in the long run, a sound ethical foundation is necessary and profitable for

²⁰⁰ Cf. Lantos, G. P. (2001), p. 25

²⁰¹ Cf. The Economist (2005), p. 13

²⁰² Cf. Lantos, G. P. (2001), p. 26

²⁰³ Cf. Fitzgerald, N.; Cormack, M. (2006), p. 5

²⁰⁴ Cf. Ibidem, p. 7

²⁰⁵ Fitzgerald, N.; Cormack, M. (2006), p. 8

²⁰⁶ Cf. Beschoner, T. (2005), p. 41

²⁰⁷ Cf. Cravens, K.; Oliver, E. G.; Ramamoorti, S. (2003), p. 208

business.²⁰⁸ In some cases, a lot of money can be earned by a strategic well-thought of strategy which implements social and environmental concerns.²⁰⁹ Yet, there are also many situations in which there exists a conflict between economic and ethical goals, out of which issues for the implementation of business ethics in management arise.

1.5.2. Issues for the implementation of Business Ethics in management

Some uphold the point of view that ethics are generally incompatible with business. For example, it is argued that demanding from corporations to give lower priority to growth and profit than social or environmental issues²¹⁰ is like “asking armies to give up their guns”²¹¹, because managers “cannot give such higher priorities than the bottom line, or they may find themselves out of work”²¹². Some believe executives simply do not have the competency, the democratic credentials nor the time to care about the public good.²¹³ There also exists the standpoint that using assets of the corporation for something else than profit generation is unethical, because those assets do not belong to the managers themselves but rather the owners, i.e. the shareholders.²¹⁴

If corporate and ethical goals coincide, they can easily be aligned strategically. However, the issue is that there frequently exists a discrepancy between the risks for a corporation and the risks for society.²¹⁵ For a corporation, being committed to responsibility beyond its legal obligations can turn out to be a disadvantage in comparison to competitors who are not, because the global market setting does in many areas not demand a full

²⁰⁸ Cf. Lantos, G. P. (2001), p. 16

²⁰⁹ Cf. Arnold, M. B.; Day, R. M. (1998), p. 3

²¹⁰ At this point, it has to be noted that CSR as understood in this paper should go hand in hand with the generation of benefits for the company and not undermine profitability. However, admittedly, under certain conditions profit will have to be sacrificed for moral causes according to the concept of hypernorms, as explained in chapter 1.7.

²¹¹ Mander, J. (1998), p. 309

²¹² Ibidem

²¹³ Cf. The Economist (2005), p. 18

²¹⁴ Cf. Ibidem, p. 16

²¹⁵ Cf. Doane, D. (2004), p. 5

responsibility from companies in social and environmental aspects.²¹⁶ In this sense, it is apparent that CSR can only be a sustainable management tool if it is linked to some opportunity for the corporation, but there might be situations in which the support of societal interests will not support the goals of the firm, in particular in the short term. Clearly, “[...] business can do well and do good ... *up to a point*. Business in the end must be profitable and the aims of social and environmental objectives do not always coincide with the hard-nosed business realities of the competitive marketplace”²¹⁷.

Therefore, business ethics are sometimes irreconcilable with pure economical management thinking. As a matter of fact, business ethics do not only criticize the choice of instruments to reach corporate goals (such as e.g. profit maximisation), but often the goals themselves.²¹⁸ By definition, ethics deal with situations in which moral standards should override self-interest.²¹⁹ According to moral thinking, a corporation should for example try to set up the fairest contracts with its business partners, being by itself a radical suggestion, because business partners will usually be focused on setting up the most favourable contract for their own party.²²⁰ As ethical evaluation of corporate action will base its judgment on the moral worth of the intention behind it, it has to dismiss purely self-interested reasoning.²²¹ If the expected value of a certain action or strategy exceeds the potential costs of ethical behaviour and moral compliance, for the manager in charge of the decision there exists a dilemma and the temptation to act in an immoral or unethical manner.²²²

A magnitude of such and other moral dilemma in connection with the (inefficient) functioning of markets, the insufficient internalization of external effects, and the

²¹⁶ Cf. Senser, R. A. (2007), p. 79

²¹⁷ Doane, D. (2004), p. 2

²¹⁸ Cf. Beschorner, T. (2005), p. 41

²¹⁹ Cf. Lantos, G. P. (2001), p. 16

²²⁰ Cf. L’Etang, J. (1995), p. 129

²²¹ Cf. Ibidem, p. 126

²²² Cf. Harting, T. R.; Harmeling, S. S.; Venkataraman, S. (2006), p. 50

incompatibility of ethical thinking and business, have been debated.²²³ For the sake of scope of this paper, here the focus will be laid on practical issues arising in the context of value application in CSR management, where it will be assumed that the company in question has decided to promote ethical behaviour. Under this presumption, it is often not clear what exactly defines moral intentions. An example would be a school program by Cadbury, a confectionary corporation from the UK.²²⁴ The company had implemented a voucher program, which allowed children to collect chocolate wrappers and in return earn sports equipment for their schools. The first issue here is whether it is ethical or not to boost sales by selling more chocolate candy to children through a CSR program. Secondly, it is doubtful whether the promotion of candy consumption (and potential fostering of obesity) can be alleviated by the purchase of sports equipment.

Such examples show how a worthy cause can be debated controversially²²⁵ and in many cases without definite moral answers or even precedent cases to fall back on.²²⁶ Sometimes, good intentions can even lead to negative outcomes for the stakeholders: A retreat from developing countries due to the non-acceptance of lower social standards can bring about unforeseen negative implications for the local population: For instance, the change of supply chains excluding smaller manufacturers in order to supervise global standards more easily can leave those enterprises with no market for their products and create unemployment.²²⁷ In this way, retreating from poor countries to avoid the conflict with lower standards in production or employment can in the end harm those people intended to protect.²²⁸

²²³ For a more detailed subject overview, cf. e.g. Ulrich, P. (2002), Homann, K.; Blome-Drees, F. (1992), Lay, R. (1989) and Velasquez, M. G. (1988)

²²⁴ Details of the case see Doane, D. (2004), p. 4

²²⁵ Cf. Lantos, G. P. (2001), p. 30

²²⁶ Cf. Fitzgerald, N.; Cormack, M. (2006), p. 6

²²⁷ Cf. *Ibidem*, p. 15

²²⁸ Cf. *The Economist* (2005), p. 11

Some CSR advocates claim that corporate responsibility should and can solve “the big global problems of our time: from climate change to poverty and inequality.”²²⁹ However, a company actively promoting CSR programs sometimes finds itself confronted with a steadily mounting quantity of claims towards it. Such observations make it obvious that the responsibility of corporations can only be part of the solution in cooperation with other actors, such as governments, NGOs and civil society. To this point, there is no regulatory institution for ethical conduct or social performance to audit companies on the international stage,²³⁰ even though attempts are undertaken to change this (see Chapter 1.4.).

The unavoidable question in this context therefore is who or what should define the ethics a corporation refers its activities to. As long as companies are managed by an individual or family, usually those persons decide about the general ethical orientation of the firm. In fact, there are a respectable number of companies with an exemplary approach to responsibility towards their employees, community and national societies governed by their founding family or descendants.²³¹ Yet, with multinationals growing in scale and having their governing rights distributed to a larger number of players, it becomes increasingly difficult to define one single entity as the standard setting institution for ethical values. Traditional Business Ethic theories cannot solve this dilemma, because they call upon the conscious and moral individual manager without addressing how those organizational ethics or values should be defined. Business ethics advocates such as Jeurissen ask for the clear communication of guiding values and demand that company leaders have to be “personally committed, credible and willing to take action on the values (...)”²³² the company is representing. However, the

²²⁹ Cf. Doane, D. (2004), p. 8

²³⁰ Cf. Hopkins, M. (2004), p. 8

²³¹ Examples include the German corporations Deichmann and Boehringer Ingelheim as well as the Japanese companies Kokuyo and Mitsui.

²³² Jeurissen, R. (2006), p. 98

corporation itself is value-neutral and therefore can not interpret ethical questions independently. As a business enterprise is not engaging alone within its market environment, even an organisation that is strongly driven by values cannot “invent” its ethics by itself.²³³ Moreover, business management works with the criteria of gain and loss and not by moral aspects of “good” and “evil”. To be able to integrate a notion of ethical behaviour, therefore an interpretation of what is considered to be moral or immoral has to take place by a human institution. In larger organizations where ethics and values have to be strategically managed with additional personnel or even separate departments, it becomes essential to structure the planning, execution and control of corporate moral behaviour.

In accordance with the stakeholder model, this thesis proposes that the interest groups of the corporation should be interpreters of those values, i.e. it should be the stakeholders who decide what values are to be used for corporate governance. Bluntly put, it is the task of the corporation to analyse the moral perceptions of its (most influential) stakeholders and design the organization’s CSR programs correspondingly.²³⁴ The stakeholders’ views of what can be considered “good” or “evil” should thus be adopted by the corporation’s management and integrated into corporate business strategy. Only when a company can succeed in reflecting its stakeholders’ ethical and moral beliefs in its business operations and activities will it be able to build and maintain long-term and sustainable relationships with these interest groups. Therefore, this thesis suggests that rather than appealing to the individual executives’ moral beliefs in the context of CSR, a broader, more general analysis of external ethical assumptions will have to be the foundation for CSR policy decisions. In order to

²³³ Cf. Jeurissen, R. (2006), p. 96

²³⁴ It has to be admitted that there may be exceptional situations in which such strategy can not be recommended and hypernorms should be applied (cf. chapter 1.7. in detail). In the large majority of the cases however, above described adaptation to the stakeholders’ values will be the most effective and consistent method for CSR policy modeling.

research stakeholder expectations and needs, it is crucial for the corporation to actively implement stakeholder management with the goal of identifying, weighing up, and balancing the demands of the organization's interest groups, as will be outlined in the following.

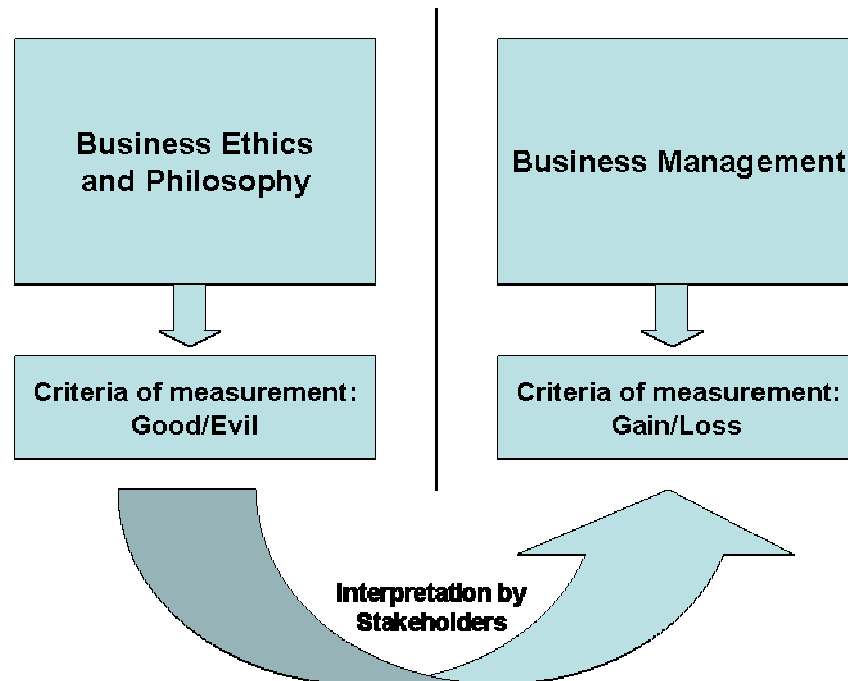


Chart 2: Interpretation of ethics by stakeholders²³⁵

1.6. Balancing of stakeholder values within a global context

According to Hopkins²³⁶, the implementation of CSR can have positive impacts on all the seven azimuths a corporation is engaging in: shareholders and potential investors, managers, employees, customers, business partners and contractors or suppliers, the natural environment and local communities, including national governments. However, a company has to analyse what aspects of CSR are most instrumental for the firm; expecting an organization to engage in every aspect of environmental protection and/or

²³⁵ Own chart

²³⁶ Cf. Hopkins, M. (2004), p. 4

social development would be absurd and non-practical.²³⁷ The demands of stakeholders are often conflicting and a corporation cannot respond to all claims.²³⁸ Therefore, it is crucial to assess what kind of issues are of importance for its targeted stakeholders to support their interests²³⁹ and align the social strategy of the corporation with the firm's general business objectives.

In fact, CSR that is close to the core business functions often works most effectively. The advantage of designing a CSR strategy closer to the corporation's business activity is even more evident when the community investment made is much less influenced by economic downturns and that the corporation can benefit from feedback of its activities such as knowledge gain for its employees, increased customer trust and loyalty, as well as improvements of its products and services.²⁴⁰ It is likely that demands of stakeholders will change and evolve over time, depending on contextual factors,²⁴¹ so a corporation which has gained the capability to cooperate with its interest groups and forecast their needs and expectations can achieve a considerable competitive advantage. Such prognosis can be elaborated e.g. by initiating "stakeholder dialogue".²⁴² However, "negotiation" would in most cases be the more appropriate term. As executed in the moment, stakeholder dialogue is mainly concerned about the reduction of reputation risks and the fostering of legitimacy. In many cases, such dialogue is confined to the pacifying of communities rather than a real open engagement with them²⁴³ and therefore misses large areas of potential opportunity. In this area, there is room for improvement with many corporations to more efficiently seize the potential resulting out of stakeholder interaction.

²³⁷ Cf. Hopkins, M. (2004), p. 3

²³⁸ Cf. Sutinen, S. (2006), p. 15

²³⁹ Cf. Lantos, G. P. (2001), p. 31

²⁴⁰ Cf. SustainAbility et al. (2003), p. 4

²⁴¹ Cf. Hätönen, J.; Nurmi, P.; Sandberg, B. (2006), p. 67

²⁴² The following two sentences refer to Sutinen, S. (2006), p. 26

²⁴³ Cf. Doane, D. (2004), p. 4

Just as a corporation has to carefully choose what kind of areas it focuses its CSR efforts, it also has to make a selection concerning which stakeholders it wants to engage into dialogue and cooperation with. Even stakeholders which are commonly summed up together, such as NGOs, can be a very heterogeneous group that follows significantly different objectives.²⁴⁴ Savage et al.²⁴⁵ propose to rate the different stakeholder groups depending on their possible threat and potential for cooperation with the organization (see Chart 3). Accordingly, groups with high relevance and large interest in cooperation should be collaborated with, while high relevance and non-supportive groups better be confronted with a defensive strategy. For low-threat organizations, Savage et al. suggest an involvement strategy in case they are inclined to cooperate and a monitoring strategy for non-supportive ones. What groups will fall into which category will depend on their specific conditions in relation to the corporation. In many cases, employees and customers will be the two groups having most influence on the well-being of the business and should, among others, enjoy primary consideration.²⁴⁶

²⁴⁴ Cf. Sutinen, S. (2006), p. 12

²⁴⁵ Cf. Savage, G. T. et al. (1991), p. 65

²⁴⁶ Cf. Lantos, G. P. (2001), p. 41

Stakeholder's potential for threat to organisation

		High	Low
Stakeholder's potential for cooperation with organisation	High	Stakeholder Type 4 Mixed Blessing Strategy: Collaborate	Stakeholder Type 1 Supportive Strategy: Involve
	Low	Stakeholder Type 3 Non-Supportive Strategy: Defend	Stakeholder Type 2 Marginal Strategy: Monitor

Chart 3: Typology of organisational stakeholders²⁴⁷

However, even under the assumption that consumers and employees have been identified as major stakeholders, conflicts may still arise. For instance, customers might prefer investments to improve product quality or lower prices, while employees demand higher wages, more vacation and better working conditions.²⁴⁸ One of the core challenges to tackle concerning the implementation of a CSR strategy is to decide when and to what extent other stakeholders in contrast to the shareholders should be favoured. In many cases, economic interests and the commitment for a broader social welfare will collide²⁴⁹ or at the least have to be balanced against each other. Today it is widely accepted that shareholder value maximization is not conformable with the satisfaction of the interest of certain stakeholder groups.²⁵⁰ This is why the careful assessment of what stakeholder claims to support (or ignore) has become a crucial task for the corporation.

²⁴⁷ Slightly adapted from Savage, G. T. et al. (1991), p. 65

²⁴⁸ Cf. Lantos, G. P. (2001), p. 36

²⁴⁹ Cf. The Economist (2005), p. 4

²⁵⁰ Cf. Garriga, E.; Melé, D. (2004), p. 54

Some scholars²⁵¹ have criticized stakeholder theory as impractical due to the fact that it demands equal treatment of all stakeholders groups. For example Marcoux has suggested the fair balancing of stakeholder interests according to three possible interpretations, including Egalitarianism (distribution based on the Rawls' difference principle), Equalitarianism (equal contribution to all stakeholders) and the Pareto-Consequentialism (finding the best solution for everybody without diminishing the benefit for anyone).²⁵² It is clear that an equal contribution of favour according to any of the three above mentioned principles is either impractical or simply impossible to evaluate and execute, not to mention that it would most likely not generate the highest value for the corporation in return. Sternberg goes as far as to say that assuming that all stakeholders are equally important to a corporation and treating them this way "confounds business with government"²⁵³. This is why others²⁵⁴ have suggested an approach based on meritocracy rather than equality. For a reasonable balancing of the contributions to stakeholders and their share of organizational influence, assessment should be based on meritocracy and the amount of contribution to the firm,²⁵⁵ instead of treating all stakeholders equally. It is apparent that the measurement of such meritocracy is not a trivial task and will differ according to the specific circumstances an organisation is engaging in. Focusing on "equitability, rather than equality"²⁵⁶ can serve as a first criterion for stakeholder management within the corporation, but when conflicting interests of different legitimate stakeholder groups exist, the evaluation will

²⁵¹ Examples include Gioia, D. A. (1999), Marcoux, A. M. (2000) and Sternberg, E. (2000)

²⁵² Cf. Marcoux, A. M. (2000), p. 96

²⁵³ Cf. Sternberg, E. (2000), p. 50

²⁵⁴ Cf. Phillips, R.; Freeman, R. E.; Wicks, A. C. (2003), p. 488

²⁵⁵ Cf. Phillips, R. (2004), p. 3

²⁵⁶ Phillips, R. (2004), p. 3

have to take into account extensive economic, social, and ethical interrelations, possibly on a trans-national level.²⁵⁷

On the international stage, globally engaging corporations have to abide by local rules and legislations of their host countries and therefore have to develop a specific form of corporate citizenship and notion of responsibility for each unique setting.²⁵⁸ Also, there exists a large diversity of expectations towards corporations in different nations and even a simple notion such as “quality” can include social and environmental factors.²⁵⁹

Furthermore, one of the key issues for the implementation of international CSR has become the management and control of complex supply chains, which are an essential part of most multinational corporations’ procurement system today. The dramatic reputational damage a lack of supervision of the firm’s supply chains can bring about could be observed in the apparel industry: In recent years, companies, such as Nike, Adidas and the Gap, have been experiencing harsh attacks from NGOs and media, criticizing their production and labour standards in third world countries.²⁶⁰ Guaranteeing socially acceptable working conditions for employees in companies that legally do not even belong to the corporation, controlling the observance of environmental standards and quality levels from afar, and adjusting the communication and management style to foreign value systems are tasks that a modern international corporation is faced with in satisfying local as well as global stakeholders.²⁶¹

Besides, in many countries as well as on the international market, NGOs have been gaining growing impact and playing a larger role in the shaping of public opinion towards multinational corporations. In some cases, the public tends to trust NGOs more

²⁵⁷ For an example of conflicting stakeholder interest, see Munilla, L. S.; Miles, M. P. (2005), p. 380 f. with a description of the Exxon case in Chad, encountering conflicting claims from Western NGOs and the indigenous population.

²⁵⁸ Cf. Palacios, J. J. (2004), p. 389

²⁵⁹ Cf. Fitzgerald, N.; Cormack, M. (2006), p. 12

²⁶⁰ Cf. Kapstein, E. B. (2001), p. 109

²⁶¹ Cf. Senser, R. A. (2007), p. 78

than corporations, as could be seen in the case of Shell: The company rightly claimed that the sinking of an oil rig would cause less environmental impact than other methods, but was nevertheless heavily impacted by campaigns of Greenpeace convincing the public to boycott the company due to the corporation's plans.²⁶² This classic example demonstrates that the perception of the facts by the stakeholders is just as crucial as the actual facts themselves. To avoid wrong or negative interpretation of corporate actions, it is thus essential to carefully and professionally plan, execute, and control company communication with the different stakeholders and actively initiate dialogue with them to avoid misunderstandings. For a multinational enterprise, one basic strategic question to be confronted is how to organize such communication with stakeholders internationally. Possible models could be those suggested by Hogen, who distinguishes ethnocentric²⁶³, polycentric²⁶⁴ and transnational²⁶⁵ networks for the management in global corporations. Either one of those models might be an effective organizational form for a corporation in the context of stakeholder management. In awareness of those network varieties, the most fitting system has to be chosen by the corporation on a case-specific basis.

1.7. Application of hypernorms to international CSR practices

Given that a business enterprise has carefully assessed its stakeholders' expectations and aligned its social and ethical conduct accordingly, there still remain cases in which such a strategy will not suffice for the sustainable conduct of management. In business practice it should be differentiated between two forms of CSR: an instrumental one, serving the purpose of enhancing shareholder value and an intrinsic one, which is embraced simply because it is the morally right thing to do, no matter if it will increase

²⁶² Cf. Kapstein, E. B. (2001), p. 111

²⁶³ Cf. Hogen, J. (1998), p. 17

²⁶⁴ Cf. Ibidem, p. 38

²⁶⁵ Cf. Ibidem, p. 58

shareholder profit or not.²⁶⁶ Some authors²⁶⁷ differentiate three forms of CSR, a strategic one, being synonymous with instrumental CSR, an ethical one, understood as the compliance with universal moral standards, and an altruistic one, defined as doing good works at the expense of shareholders without any positive feedback to the corporation. In business practice, the last case of altruistic CSR with no benefit for the company should be scarce and from an economist's point of view can not be recommended as a tool for corporations.²⁶⁸ The two remaining forms, instrumental and intrinsic corporate social responsibility, should be discussed separately from one another: While the first one will in most cases prevail and constitute the large majority of CSR programs within corporations, the intrinsic one must by all means not be neglected as a moral foundation of business essential for today's complex global economy.²⁶⁹ Yet it has to be noted that this thesis will focus mainly on the first kind of instrumental CSR.

For the sake of completeness, the positioning of intrinsic CSR within the broader concept of social responsibility of the firm shall be outlined shortly. There doubtlessly has to be a foundation of moral values on which management is built upon and most agree that to be able to survive as a company in the long-term, it is essential to act according to some basic ethical values, which Sternberg refers to as "ordinary decency"²⁷⁰. Kilcullen and Ohles Kooistra stress likewise that there exists a "degree of moral obligation that may be ascribed to corporations beyond simple obedience to the laws of the state"²⁷¹. Donaldson and Dunfee refer to such basic values as "hypernorms"²⁷², which they see as generic moral attitudes shared by the individual

²⁶⁶ Cf. Martin, R. L. (2003), p. 88 f.

²⁶⁷ Cf. Lantos, G. P. (2001), p. 2

²⁶⁸ Cf. Chapter 1.2.3. about Corporate Philanthropy

²⁶⁹ Cf. Steinmann, H. (2005), p. 80

²⁷⁰ Cf. Sternberg, E. (2000), p. 8. Sternberg includes into this ordinary decency values such as „honesty, fairness, the absence of physical violence and coercion and the presumption of legality”.

²⁷¹ Kilcullen, M.; Ohles Kooistra, J. (1999), p. 158

²⁷² Cf. Donaldson, T.; Dunfee, T. W. (1999), p. 27

contractors independently of their cultural origin.²⁷³ Admitting that it will be problematic to agree on a large set of such universally accepted norms, they nevertheless believe that consensus about at least a number of certain structural, procedural and substantive norms can be found.²⁷⁴

On the other side, some argue that usual business activities, such as investment and provision of employment will have positive impacts on society, even if certain norms, which could in Western industrialized nations be considered as basic values, can not be met under specific conditions, like those of developing countries.²⁷⁵ Yet assuming that “business as usual” will in all cases bring about positive impacts at the bottom line for world society is no satisfying paradigm for sustainable development, as the emergence of global issues like environmental pollution, the destruction of the ozone layer, global warming clearly show.²⁷⁶

This is why in this thesis the claim for hypernorms will be supported. In fact, the observance of some hypernorms is evidently in the interest of the corporations themselves. For example in the long-term perspective, honest management practices are the only feasible policy²⁷⁷ and at a minimum there has to exist a certain level of trust between business partners to be able to engage in corporate activities with one another.²⁷⁸ Even if companies find a loophole in the law which makes their actions legal, it will be difficult for them to stay successful in the market if they cheat and lie to their business partners.²⁷⁹

However, compliance with hypernorms might in some cases not directly serve the corporation’s objectives or even not be in the interest of the company’s stakeholders.

²⁷³ Cf. Donaldson, T.; Dunfee, T. W. (1999), p. 50

²⁷⁴ Cf. Ibidem, p. 53 and 57

²⁷⁵ Cf. The Economist (2005), p. 9

²⁷⁶ Cf. Ponting, C. (2007), p. 380 ff.

²⁷⁷ Cf. The Economist (2005), p. 17

²⁷⁸ Cf. Donaldson, T.; Dunfee, T. W. (1999), p. 33

²⁷⁹ Cf. The Economist (2005), p. 16 f.

For instance, studies show that consumers tend to worry more about the direct effects a product will have on themselves than the overall social or environmental bottom line of the good.²⁸⁰ Arguing that due to the lack of interest of certain stakeholders in specific social or environmental issues, the corporation can ignore those problems, may under particular conditions be no morally acceptable strategy. Not only should those hypernorms include guidance to what should by all means be undertaken, but also concerning areas that should be refrained from,²⁸¹ due to the conflict with fundamental human rights and dignity.

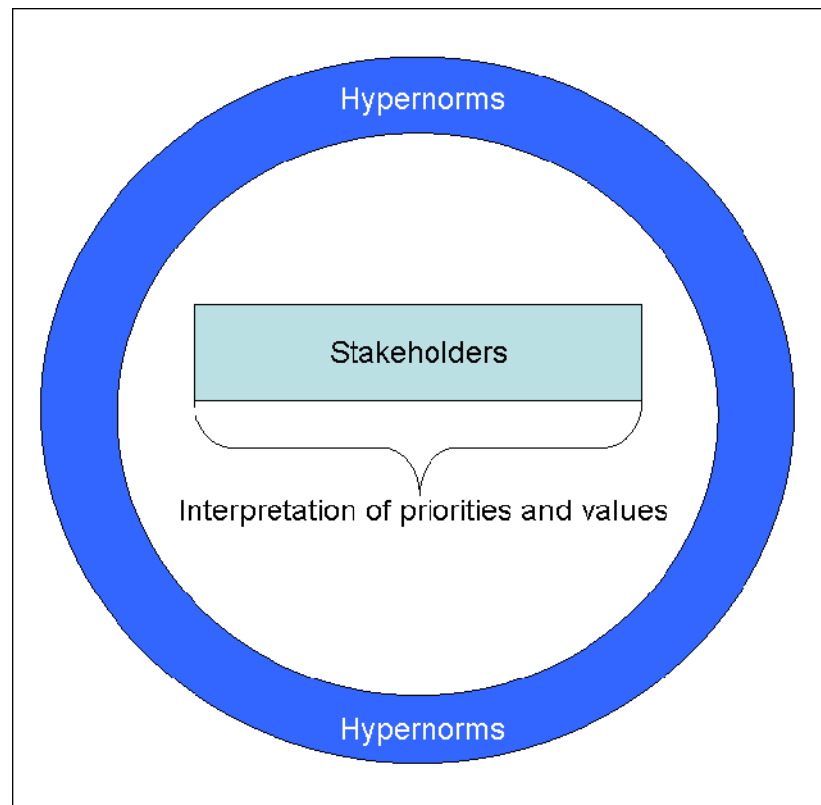
As a Green Paper by the Commission of the European Communities states it, CSR should not substitute legislation or regulation by the government and that in areas where no appropriate legislative framework concerning social and environmental standards exists, the main efforts should be made towards the establishment of such.²⁸² This means that under conditions were appropriate basic social and environmental legislation is not implemented yet, corporations have the obligation to establish their engagement of some basic values, even if the market they are acting in is (not yet) demanding their enforcement.

Accordingly, this thesis proposes that any kind of business activity, may it be national or international, should be undertaken within the frame of hypernorm consideration. In other words, a set of generic moral norms should form the foundation on which the corporation then builds its stakeholder dialogue upon (see Chart 4). As long as stakeholder demands do not violate those hypernorms, the claims can be responded to without any problems. Only if interest groups ask for actions that are incompatible with those moral norms, should the latter enjoy primacy.

²⁸⁰ Cf. Page, G.; Fearn, H. (2005), p. 310

²⁸¹ An example could be the possible hypernorm of respecting the separation of church and state and e.g. refrain from the distribution of free learning materials to schools being religiously biased (cf. Lantos, G. P. (2001), p. 33).

²⁸² Cf. Commission of the European Communities (2001), p. 7



*Chart 4: Hypernorms as framework for stakeholder value interpretation*²⁸³

It would go beyond the scope of this thesis to discuss what hypernorms should exist precisely in international business nowadays,²⁸⁴ because such considerations include philosophical and normative thoughts which far exceed the limits of a business treatise. The corporate world will only be able to contribute to the solution of the large global problems and not solve them alone,²⁸⁵ but agreeing on a set of generic moral norms would be an indispensable first step towards sustainable world development.

To do so, there are some challenges to tackle. One of the major issues for the implementation of hypernorms into international business is currently the lack of

²⁸³ Own chart

²⁸⁴ Even the authors Donaldson and Dunfee, who first coined the term “hypernorm”, refrain from listing up values they would recommend as basic rules. However, first attempts in the direction towards an implementation of such values include efforts by the Caux Round Table and the Global Compact.

²⁸⁵ Cf. Arnold, M. B.; Day, R. M. (1998), p. 8

enforcement, control and sanctioning institutions on the global level. Voluntary codes rely on the corporation to be judged, executed and controlled. As corporate scandals like Enron show, this is not always the case.²⁸⁶

At this point of time, there exists no global governance framework or institution which could monitor the accountability of corporations and their compliance with hypernorms around the globe.²⁸⁷ As Stiglitz, one of the major critics of the role of business in today's globalized world, puts it: "Unfortunately, we have no world government, accountable to the people of every country, to oversee the globalization process in a fashion comparable to the way national governments guided the nationalization process. Instead, we have a system that might be called global governance without global governance, one in which a few institutions – the World Bank, the IMF, the WTO – and a few players – the finance, commerce and trade ministers, closely linked to certain financial and commercial interests – dominate the scene."²⁸⁸ To make global standards concerning generic moral norms and basic values for international business a reality, more political will in the direction of sustainable development, the support of the public good and the transnational cooperation will be needed from global players.²⁸⁹ As Walzer hopes "perhaps the end product of this effort will be a set of standards to which all societies can be held – negative injunctions, most likely, rules against murder, deceit, torture, oppression and tyranny"²⁹⁰.

²⁸⁶ Cf. Doane, D. (2004), p. 6

²⁸⁷ Cf. Palacios, J. J. (2004), p. 399

²⁸⁸ Stiglitz, J. E. (2002), p. 21 f.

²⁸⁹ Cf. Waddock, S. (2005), p. 23

²⁹⁰ Walzer, M. (1992), p. 9

Chapter 2:

Western European companies and the CSR environment in Japan

The last chapter outlined how Corporate Social Responsibility involves an economic aspect, a stakeholder dimension, and social, environmental and voluntary dimensions. Furthermore, the relation of Corporate Social Responsibility to other concepts, such as Business Ethics, was discussed. The theoretical framework of Corporate Social Responsibility shall now be applied to the practical case of Western European companies²⁹¹ in Japan. Afterwards, it will be examined if and to what extent CSR is of strategic importance for such corporations in the Japanese market and how an efficient CSR policy should be planned, executed and controlled.

To further explore this question, the specific situation of foreign affiliate companies in Japan in the context of CSR will be examined in the following section. In accordance with the structure used in Chapter 1, after an introduction to the general situation of foreign affiliate companies and the current state of the art of CSR in Japan, the chapter will take up the five dimensions introduced above.

2.1. The specific situation of foreign affiliated companies in Japan

As the first non-Western society to become fully industrialized, based on distinctly oriental values, Japan is playing a special role in today's world economy²⁹² and currently constitutes the second largest market globally, second only to the United

²⁹¹ In the following section, "Western foreign affiliated companies" are going to be contrasted with "Japanese corporations." To do so, it is first of all necessary to explain how the terms "Western" and "Japanese" are defined in the context of this thesis. Generally speaking, a nationality can refer to a geographic location or a group of people sharing common traditions or origins, often comprising a nation. Here, Western and Japanese corporations shall be used in this sense of companies of Western (European) and Japanese origin respectively, i.e., companies originally established in those geographical locations. Although not all corporations might fit into those rough stereotypes, for the sake of simplicity, the concepts of "Western corporation" and "Japanese corporation" will be used as classifications describing general tendencies and characterizations typically found in such companies.

²⁹² Cf. Abegglen, J.C. (2006), p. 7

States.²⁹³ There are at present more than 3000 majority foreign-owned companies functioning in the Japanese market with remarkable influence in a number of industries. For example, in manufacturing, foreign companies account for about 10% of total sales revenues.²⁹⁴ While many European and North American companies are engaged in the Japanese market, their performance is often disappointing compared to the results achieved in other regional markets.²⁹⁵ The failure of a considerable number of Western corporations in Japan, which are very successful in their home countries, including, for example, Vodafone, Carrefour, Ebay and Burger King,²⁹⁶ underlines the difficulties faced in this East-Asian nation. In particular, European corporations have long neglected or underestimated Japan's business potential²⁹⁷ and entered this market rather late. Even though legal barriers have been diminishing world-wide in the course of the progress of free trade, social and cultural borders still remain.²⁹⁸ Zaheer refers to such country specific difficulties, which a non-local corporation has to face, as the "liability of foreignness."²⁹⁹ Consequently, corporations can face certain issues in foreign countries due to the fact that they are not as familiar with them or as known there as in their home markets. In fact, this liability can, among others, consist of the following aspects:³⁰⁰

1. Costs associated with spatial distance, including travelling, international coordination and transportation costs.
2. Costs arising out of unfamiliarity with the local environment and culture.
3. Costs due to the host country environment, such as nationalism or unfavorable legislation for foreign corporations.

²⁹³ Cf. World Bank (2008), p. 1

²⁹⁴ Cf. Abegglen, J.C. (2006), p. 19

²⁹⁵ Cf. Lohtia, R. et al (2005), p. 1009

²⁹⁶ Cf. Lane, G. (2007)

²⁹⁷ The following two sentences refer to Khan, S.; Yoshihara, H. (1994), p. 4

²⁹⁸ Cf. Ulrich, K.; Sofka, W. (2006), p. 1

²⁹⁹ Zaheer, S. (1995), p. 341

³⁰⁰ Cf. Zaheer, S. (1995), p. 343

By definition, the liability of foreignness is a relative concept and only applies to barriers that exist for foreign corporations, which local competitors do not face.³⁰¹

While it can be argued that, in some cases, being a foreign affiliated company in Japan can also constitute an advantage due to a differentiation from the competitors,³⁰² barriers in many areas still exist. Certainly all the above mentioned aspects of this liability of foreignness can apply to Western companies in Japan depending on the individual corporate case. As Japan-specific issues, companies frequently cite³⁰³:

- Closed character and particularity of the Japanese market
- The high costs of doing business in Japan (rents, housing, industrial real estate)
- High taxation levels on corporate profits
- Difficulties in hiring qualified Japanese personnel
- Extreme difficulties in acquiring Japanese companies
- Multitiered and complex distribution and retail system
- Government guidelines, policies and regulations that lack clarity
- *Keiretsu*³⁰⁴ structure
- Weaknesses in the intellectual property system
- Lengthy testing and approval periods for new foreign products
- Fierce competition and extremely high quality demands from the Japanese customers

In this context, it is worthwhile to examine how foreign companies can utilize the concept of Corporate Social Responsibility to tackle some of the issues outlined above.

³⁰¹ Cf. Ulrich, K.; Sofka, W. (2006), p. 2

³⁰² Cf. DIHKJ and Roland Berger Strategy Consultants (2003), p. 20 f.

³⁰³ Cf. Khan, S.; Yoshihara, H. (1994), p. 7, as well as Hafiz, M.; Buckley, P. J.; Sparkes, J. R. (1995), p. 28

³⁰⁴ Cf. Chapter 2.2.2.3. in detail

Certainly, implementing a CSR-Policy will not solve every single Japan-specific challenge. However, in some areas, there is, nevertheless, the potential for Western companies to improve their positioning vis-à-vis their Japanese counterparts by doing so. To gain a deeper understanding of how a successful CSR strategy should be implemented, the Japanese CSR environment has first of all to be explored in more detail. This thesis intends do so, discussing the different dimensions of CSR and their strategic implications for foreign affiliated companies.

2.2. CSR in Japan today

The active implementation of CSR policies is a rather recent phenomenon in Japan, in particular, the perspective of CSR as a business tool as well as an innovative approach for corporate and social relationships.³⁰⁵ The astonishing speed with which CSR has become a mainstream business notion can be observed easily in the yearly surveys about “environmentally friendly corporate activities” conducted by the Ministry of the Environment in Japan. In the survey undertaken in 2001,³⁰⁶ CSR was not even mentioned in any part of the questions, but by 2004, 49.7% of the surveyed companies had already implemented CSR as one aspect in connection with their environmental policies.³⁰⁷ This number rose to 62.2% in the 2005 survey, where only 8.6% of the companies were not considering the implementation of CSR in the future.³⁰⁸ Interestingly, among the listed companies, this number was even lower, just under 4%. This figure is an indication that even among shareholders and on the stock market, CSR had by then gained a high level of acceptance.

³⁰⁵ Cf. Anjō, T. (2004), p. 44

³⁰⁶ Cf. Ministry of the Environment (2002)

³⁰⁷ Cf. Ministry of the Environment (2005), p. 77

³⁰⁸ Cf. Ministry of the Environment (2006), p. 82

CSR being a term that originated in the Western world,³⁰⁹ it is clear that the Japanese interpretations of what CSR embraces vary due to historical, cultural, and political reasons compared to the approaches to the concept in Europe and North America.³¹⁰ First of all, as indicated earlier, the interest in CSR in the Japanese business world is very pronounced. According to KPMG's 2005 study on the reporting of CSR issues, Japan was ranked first in the world, with 80% of its top 100 companies publishing CSR reports, followed by the UK with 71%, Canada with 41%, and France with 40%.³¹¹ Moreover, in Japan, the association of CSR with compliance on the one hand and philanthropic activities on the other is very strong,³¹² which is also reflected by the in-depth consideration those issues are given in most CSR reports. Yet, while the majority of companies in Japan lay their focus on compliance and risk management aspects when it comes to CSR, many fail to explore the innovative business chances this concept can offer.³¹³ However, recent developments do not merely visualize CSR as philanthropy, but increasingly emphasize the business case of CSR, in other words, the benefits which can be generated both for the company undertaking social or environmental measures and for the stakeholders.

Generally speaking, Japanese companies are highly unlikely to discuss issues that are of no importance in the traditional corporate system.³¹⁴ Consequently, CSR in Japan has focused more on environmental aspects than on employment and human right issues.³¹⁵ The notion that corporate social engagement in third world countries, for example the provision of AIDS medication or the building of schools for employees' children, should be an instrumental part of CSR activities, is not very widely accepted in Japan

³⁰⁹ Cf. Tanabe, T. (2005), p. 114

³¹⁰ Cf. Welford, R. (2005)

³¹¹ Cf. KPMG (2005), p. 10

³¹² Cf. Anjō, T. (2004), p. 33

³¹³ Cf. Ikuta, T.; Minetaki, K. (2006), p. 95

³¹⁴ Cf. Tanimoto, K.; Suzuki, K. (2005), p. 15. "Traditional corporate system" refers here to the common Japanese corporate governance system, as found in the majority of corporations between the Second World War until the bursting of the economic bubble in the late 1980s.

³¹⁵ Cf. Hanada, M. (2006), p. 22

yet.³¹⁶ In fact, most companies do not report on issues such as HIV/AIDS.³¹⁷ Fujii criticizes, in particular, the Japanese neglect of social aspects, the ignorance of human rights issues for their overseas operations and their focus on philanthropic activities, in contrast to real innovative change, and describes the European approach as exemplary.³¹⁸ Also the integration of CSR into the international supply chains has hardly begun.³¹⁹ Furthermore, many companies are lagging behind in areas such as the effective promotion of female and foreign employees and the establishment of family-friendly working structures.³²⁰ Very few companies, compared to their Western counterparts, report on gender issues and they are less likely to collect the opinion of their employees. However, on the other hand, they are more likely, than Western companies, to report on the public opinion towards their CSR approach.³²¹

Interestingly, Japanese companies are particularly active concerning their CSR programs abroad, for example in the United States. As Feinberg points out, Japanese try to overcome a general suspicious feeling of the population towards their foreign management by putting extra effort in conforming to the community, for instance, by supporting the local interest groups, sports and arts.³²² Consequently, Japanese companies have proved themselves to be very active and responsible corporate citizens overseas.³²³

Depending on the industry, the extent to which CSR reports are published varies tremendously. For example, a study by Kawashita et al. found that while around 93.8% of companies belonging to the electricity and gas industry are publishing CSR reports, only 37.8% do so in the manufacturing industry and, quite surprisingly, no reports were

³¹⁶ Cf. Anjō, T. (2004), p. 37

³¹⁷ Cf. Kawashita, F. et al. (2005), p. 533

³¹⁸ Cf. Fujii, T. (2005), p. 15, 47, 62 ff.

³¹⁹ Cf. Ikuta, T. (2007), p. 70

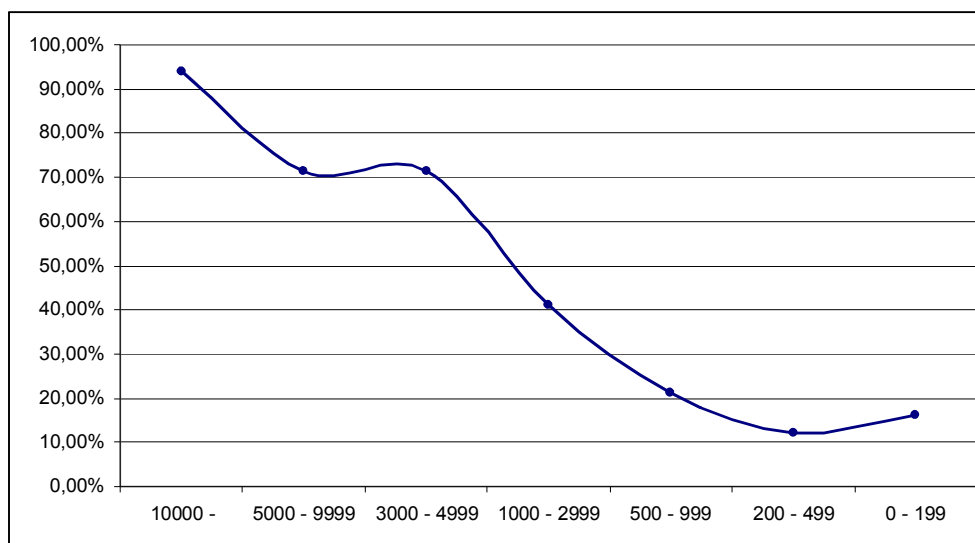
³²⁰ Cf. Anjō, T. (2004), p. 38

³²¹ Cf. Tanimoto, K.; Suzuki, K. (2005), p. 15

³²² Cf. Feinberg, M. (1991), p. 13

³²³ Cf. Wokutch, R. E.; Shepard, J. M. (1999), p. 529

found at all for corporations belonging to the sectors of fisheries, agriculture, forestry or mining.³²⁴ It is also insightful to analyse the correlation between the publication of CSR reports and the size of the company, measured in number of employees (see Chart 5 below).



*Chart 5: Publication of CSR-related reports with respect to the number of employees*³²⁵

As the graph indicates, almost all (93.4%) companies with 10,000 or more employees publish a CSR report, but this number decreases steadily with smaller size of the corporation. For example, only 12% of firms with 200 - 499 employees publish a CSR report. This trend can easily be thought of as being caused by two reasons. The first is that a company of a smaller size might simply not have the resources to put together a CSR report, even though the company could, in accordance with its scale, be engaged in environmental or socially beneficial activities. The second one is that larger companies have to deal with more stakeholders than smaller ones, such as NGOs, official

³²⁴ Cf. Kawashita, F. et al. (2005), p. 535 f.

³²⁵ Adapted from Kawashita, F. et al. (2005), p. 536

institutions or government agencies and, therefore, have a more urgent need to show transparency and gain legitimacy.

Keeping all this in mind, the current CSR boom in Japan will now be explored in greater detail. As for the structure, the five dimensions proposed in the previous chapter (economic, stakeholder, social, environmental, and voluntary dimensions) will be used.

2.2.1. The economic dimension of CSR in Japan and its implications for foreign affiliated companies

The economic dimension has been playing a crucial, if not decisive, role, in the rapid introduction of CSR in Japan in recent years. For example, Ikuta³²⁶ found that, in Europe, CSR was mostly pushed forward by governmental policies, in the US by strong pressures from consumers and investors, and in the Third World by multinational corporations as part of their risk management. However, in contrast to those other places, the main driving forces for CSR policies in Japan were coming from the side of the industry (see Chart 6 on the following page). Ikuta also points out the leading role of business organizations such as the *Nippon Keidanren*,³²⁷ which stand in contrast to a relative lack of involvement from the governmental side. Overall, in Japan, developments within the industrial world, such as the introduction of the ISO standard, were more influential drivers for the implementation of CSR policies than the comparatively low demands from society.³²⁸

³²⁶ Ikuta, T. (2008), p. 6 ff.

³²⁷ Nippon Keidanren (日本経団連), an abbreviation for Nippon Keizai Dantai Rengōkai (日本経済団体連合会), stands for the “Japan Economic Federation”, the largest Japanese business association of today.

³²⁸ Cf. Anjō, T. (2004), p. 38

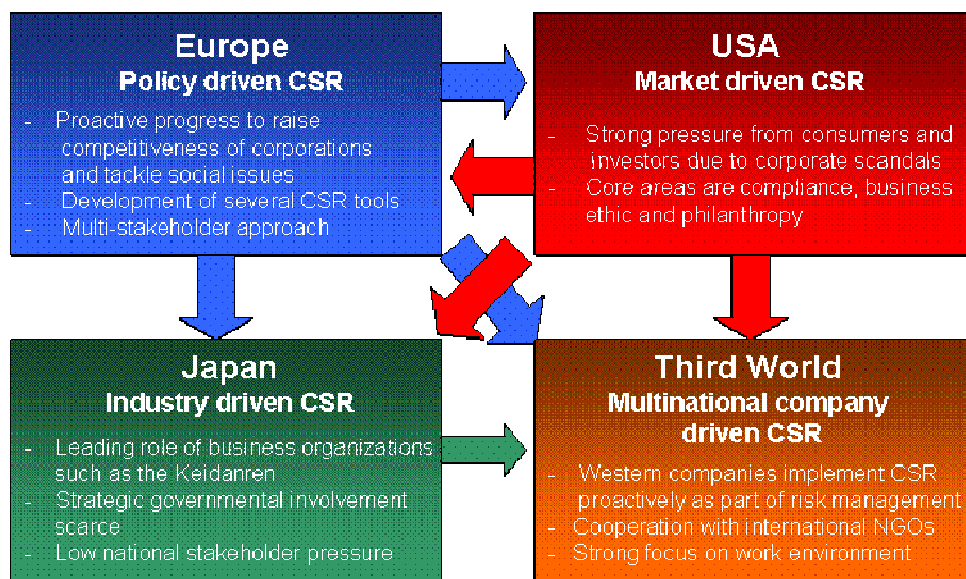


Chart 6: International drivers of CSR³²⁹

In the following section, some aspects of the economic drivers for the implementation of CSR policies will be explored. Due to the limited scope of this paper, only three main drivers will be discussed in more detail, namely, the increased influence of shareholders, the impact of SRI and CSR rankings, as well as the licence to operate on the Japanese market.

2.2.1.1. Increased shareholder influence and implications for corporate risk management

Firstly, the increased consideration of CSR aspects has been fostered by the growing influence of shareholders in Japan. As Taka puts it, the American (and generally Western) attitude towards the objectives of a company includes the following assumptions:

- “1.) A company is owned by its shareholders.
- 2.) Executives should lay off the employees whenever the layoff brings benefits for the shareholders.

³²⁹ Translated and slightly adapted from Ikuta, T. (2008), p. 6

3.) Executives should buy other companies and sell part of their own company whenever such a strategy brings benefits to the shareholders.”³³⁰

The general Japanese understanding of corporate objectives used to be quite opposite to this. Taking good care of the employees and not laying them off even in times of economic downturns used to be a fundamental aspect of Japanese management practices from the post-war period until the late 1980s.³³¹ Rather, companies were expected to either maintain their workers by shifting them to other departments within the company or to find an alternative job with some of their suppliers or other business partners. In the event of economic difficulty, before laying off workers, managers would first try to reduce other corporate expenses, cutting their own benefits or minimizing wage increases.³³² Even today, it is not very uncommon to see managers accepting drastic wage cuts when their corporations are not performing as well as planned.³³³ One impressive example of the application of such management practices is Canon Tokyo, which has, since its inception, never laid off a domestic worker or demanded to take early retirement.³³⁴ As a result, in its 60 years of operation, there has never been a strike at Canon Tokyo.³³⁵

Such corporate practices have been feasible for decades, because, traditionally, a majority of the stockholders of Japanese companies have been stable investors with a long-term focus, thus limiting the available amount of openly traded stocks to 25-35%³³⁶.³³⁷ Furthermore, managerial compensation is much closer to that of a standard employee than in other shareholder-oriented management systems and only rarely includes stock options as an incentive for work motivation. As a consequence, Japanese

³³⁰ Taka, I. (1993), p. 45

³³¹ Cf. Aoki, M.; Dore, R. (1996), p. 248

³³² Cf. Taka, I.; Foglia, W. D. (1994), p. 139

³³³ Cf. Süddeutsche Zeitung Online (2004)

³³⁴ Cf. Kaku, R (2003), p. 113

³³⁵ Cf. Ibidem, p. 114

³³⁶ Cf. Steadman, M. E.; Zimmerer, T. W.; Green, R. F. (1995), p. 31

³³⁷ The following two sentences refer to Jackson, G.; Moerke, A. (2005), p. 352

managers are said to be more focused on the long-term success of the company than on short-term financial profits. Since the Second World War, the economy relied upon state subsidies to business and the cross-shareholding of many Japanese companies to stabilize stakeholder relationships and prevent hostile takeovers.³³⁸ The fact that most of the stable investors used to have a long term focus consequently reduced some of the external pressure to produce positive short term financial results.³³⁹ The traditional Japanese system of corporate governance had been working smoothly during the high growth years until the early 1980s; however, after the bursting of the so-called “Bubble” during the late 1980s, the Japanese gradually became aware of the fact that their economy was not merely experiencing a temporary downturn, but also that the Japanese market had reached economic and demographic maturity, which therefore required a general change of strategy and management.³⁴⁰

Due to progressing globalization and internationalization, Japanese companies are now pressed to move towards a more market-oriented model of governance and to put more emphasize on shareholder profits.³⁴¹ Added to this has been a dramatic increase in Foreign Direct Investment (FDI) into Japanese corporations since the early 1980s,³⁴² which brought new business practices and management philosophies into the country as well as non-Japanese shareholders, who are, by nature, more demanding for short term profits than local investors.³⁴³ Japanese managers didn’t, as a rule, feel accountable to their shareholders in particular, but corporate governance was rather intertwined with them by “a complex system of responsibilities, reciprocal obligations, and trust”³⁴⁴. It was believed that shareholders are entitled to receive a fair return on their financial

³³⁸ Cf. Plender, J. (1998), p. 212

³³⁹ Cf. Steadman, M. E.; Zimmerer, T. W.; Green, R. F. (1995), p. 31

³⁴⁰ Cf. Abegglen, J.C. (2006), p. 8

³⁴¹ The following two sentences refer to Jackson, G.; Moerke, A. (2005), p. 352

³⁴² Cf. Cowling, K.; Tomlinson, P. R. (2000), p. F359

³⁴³ Cf. Ahmadjian, C. L.; Gregory, R. E. (2002), p. 8

³⁴⁴ Learmount, S. (2002), p. 3

investment; however, they didn't have any further claims towards the enterprise. In other words, the shareholders were viewed merely as one group of stakeholders without giving them preferential rights.³⁴⁵ In fact, institutional investors, as a result of the financial reform known as the "Big Bang in 1997," started using their voting rights fully only around the end of the 1990s.³⁴⁶ In the context of this strengthening of shareholders' rights, increasing corporate transparency and disclosure has been claimed for in Japan,³⁴⁷ which also entailed a stronger focus on risk management aspects, including social and environmental ones.

The shareholder focus was pushed forward even further in the 1990s, triggered by Japan's recession in 1991,³⁴⁸ which brought about a rising number of bankruptcies and small business failures during that decade.³⁴⁹ The economy rallied in 1996, but only to plunge again in 1997, for the first time in more than 20 years.³⁵⁰ The Asian crisis in 1997 caused a dramatic decline of foreign demand in particular from other Asian markets, which hit the Japanese economy hard and that decline, together with a lack of consumer confidence, forced Japanese companies to improve productivity and competitiveness.³⁵¹ According to Abegglen, the period from 1995 to 2004, often referred to as "the lost decade," was used to reshape corporate strategies and the traditional Japanese corporation vigorously and effectively.³⁵² In particular, a shift in perspective concerning who the main stakeholders of a corporation are has been taking place in the meantime, as described above. Besides, Japanese companies gradually opened up towards Western best practice management methods, including Corporate Social Responsibility too, as essential dimensions of business.

³⁴⁵ Cf. Abegglen, J.C. (2006), p. 12

³⁴⁶ Cf. Solomon, A.; Solomon, J.; Suto, M. (2003), p. 9

³⁴⁷ Cf. Jackson, G.; Moerke, A. (2005), p. 354

³⁴⁸ Cf. Lamming, R. (2000), p. 762

³⁴⁹ Cf. Cowling, K.; Tomlinson, P. R. (2000), p. F359

³⁵⁰ Cf. Lamming, R. (2000), p. 762

³⁵¹ Cf. Benson, J.; Debroux, P. (2004), p. 35

³⁵² Cf. Abegglen, J.C. (2006), p. 9

The fact that new kinds of risks, besides the classical economic ones, exist became apparent through a number of international and domestic corporate scandals. The literal disappearance of once prosperous companies like Enron in the US due to their ethical misconduct shocked the Japanese business world and created a favorable attitude towards the CSR concept.³⁵³ The emergence of stricter American Corporate Governance legislation, like the Sarbanes-Oxley Act, also gave a foretaste of the direction global ethical standards might be moving in the near future.³⁵⁴ Furthermore, the growing expansion of the internet and the resulting availability of data, which made the international society more sensitive towards aspects such as legitimacy and unfair practices,³⁵⁵ created higher information transparency in Japan as well.

Domestically, Japan has experienced a large number of corporate scandals within the last fifty years. Until the time of the first oil shock, most of the scandals were related to industrial pollution and/or environmental destruction and, therefore, were the side effects of originally well-intended business activities.³⁵⁶ However, one striking difference between these corporate scandals and those happening after the oil shock – ranging from bribery, unfair financing, illegal payoffs, mass food poisoning, and concealed damage of nuclear reactor to false records of annual reports – is that the latter clearly stemmed from unethical intentions and can be denounced on moral grounds.³⁵⁷

The issue of corporate responsibility appeared regularly in the 1980s in Japan and gained in momentum during the 1990s, when cases like the failures of financial institutions such as the Yamaichi Securities and Hokkaido Takushoku Bank rattled the business world.³⁵⁸ Consequently, the distrust towards corporate activities in Japan has

³⁵³ Cf. Sutō, M., Sugiura, T. (2005), p. 3

³⁵⁴ Cf. Takei, Y. (2005), p. 212

³⁵⁵ Cf. Tanabe, T. (2005), p. 114

³⁵⁶ Cf. Chapter 3.3.2.

³⁵⁷ Cf. Hirata, M. (2004), p. 76

³⁵⁸ Cf. Kawamura, M. (2003), p. 1

grown over the last decades, creating a base for a new consciousness towards corporate social responsibility.

In the specific background of such corporate scandals, combined with the increased influence of shareholders, it is apparent that social, environmental and ethical issues have become a topic of discussion, especially because the disclosure of risk information has been insufficient for investors' decision making in Japan for many years.³⁵⁹ In addition to that, there has been growing pressure from the financial community and CSR rankings published by a number of different institutions.

2.2.1.2. SRI and CSR rankings as drivers for social and environmental policies

Kim³⁶⁰ identifies the growing interest in Socially Responsible Investment (SRI) as further domestic motivation for the introduction of CSR policies in Japan. While SRI is still only a marginal form of investment in this East Asian nation,³⁶¹ it is undeniable that non-financial factors are increasingly being considered by banks and investment firms.³⁶² The first impulses concerning SRI entered Japan from the West: For example, eco-fund managers from US and European financial institutions have been screening Japanese companies and paying higher attention to social aspects than Japanese managements usually do.³⁶³ In fact, some SRI screening organizations have conducted questionnaire surveys among Japanese companies, yet many of those who were approached in the domestic market refused to respond to the inquiries, arguing that they are biased and based on Western ethical standards and social justice.³⁶⁴ Interestingly, however, internationally oriented companies showed much more openness. This finding

³⁵⁹ Cf. Solomon, A.; Solomon, J.; Suto, M. (2003), p. 14

³⁶⁰ Cf. Kim, K. B. (2004), p. 5

³⁶¹ Cf. Solomon, A.; Solomon, J.; Suto, M. (2003), p. 3

³⁶² Cf. Kawamura, M. (2003), p. 3

³⁶³ Cf. Ibidem (2003), p. 2

³⁶⁴ Cf. Solomon, A.; Solomon, J.; Suto, M. (2003), p. 8 f.

is in line with the research of Tanimoto and Suzuki,³⁶⁵ who suggest that, depending on whether a Japanese corporation has contact with foreign stakeholders, it may be more likely to adopt CSR guidelines, emphasizing the potential influence of international actors.

Therefore, it can be said that Japanese corporations, which engage on the international stage, are now under growing pressure to consider social, environmental and ethical factors, because they are measured in those dimensions, in comparison to their Western counterparts, by global financial institutions and analysts. Yet, SRI investment funds have started rather late in Japan, with the first issued SRI investment fund specialized in environmental and social issues.³⁶⁶ This kind of investment form is now spreading in Japan, albeit very slowly, triggered through the developments in countries such as the UK and the US, where SRI is already a main stream investment category. One reason for the delay is that the Japanese SRI market is now mainly supported by individual investors, who wish to use their private capital to support certain causes, such as the fight against global warming,³⁶⁷ and, therefore, available funding for large scale projects is limited.

Financial institutions are not alone now in screening Japanese corporations for their social and environmental performance. There are also a growing number of other actors, such as business magazines like *Newsweek Japan*³⁶⁸ and the *Weekly Toyo Keizai*,³⁶⁹ which are regularly publishing reports about the CSR activities of Japanese companies, as well as institutions such as the *Nippon Foundation*,³⁷⁰ which offer extensive databases about the CSR policies of Japanese corporations. While those rankings usually include only larger corporations, they, nevertheless, have become a dimension

³⁶⁵ Cf. Tanimoto, Suzuki (2005), p. 7

³⁶⁶ Cf. Solomon, A.; Solomon, J.; Suto, M. (2003), p. 18

³⁶⁷ Cf. Kawaguchi, M. (2007), p. 20

³⁶⁸ Cf. *Newsweek Japan* (2008), p. 35 ff.

³⁶⁹ Cf. *Weekly Toyo Keizai* (2009), p. 86 ff.

³⁷⁰ Cf. *The Nippon Foundation* (2009)

for reputation and image management in Japan and amplify the consideration of environmental and social business aspects within corporations.

2.2.1.3. License to operate on the Japanese market

Connected to the growth in the practice of CSR rankings is a growing public interest in the social and environmental policies of corporations. In other words, CSR aspects have become a reputational factor, and, therefore, part of a selling proposition for the consumers, internationally and also in the Japanese market.

Japanese companies have started realizing that CSR practices can and often do have a direct impact on sales, because the customers have become more sensitive towards social, environmental and health aspects. The textbook example for this is Toyota and its Hybrid car. According to the corporation's 2007 Sustainability report, the company's "designers build performance in every Toyota vehicle, and today this means not only driving performance, but also environmental performance"³⁷¹. This statement underlines the fact that CSR related aspects have become a factor for selling specific products in Japan. In particular, environmental features are recently heavily advertised upon. However, there are only few Japanese corporations that advertise the social benefits of their products yet. Those companies which do add a social dimension to their marketing strategy are usually foreign affiliated corporations, such as Starbucks, which promote high class coffee with sustainable procurement programs³⁷² or Volvic, having implemented a program promising to support the building of groundwater wells in Africa for every bottle of water sold in Japan.³⁷³

One reason why responsible marketing is a rather recent phenomenon in Japan is the fact that historically there exists a high level of trust among the consumers towards

³⁷¹ Toyota Motor Europe (2007), p. 28

³⁷² Cf. Starbucks Corporation (2008)

³⁷³ Cf. Danone Waters of Japan Corp. (2007) and see Chapter 4.1.3. in detail.

Japanese corporations, especially the larger, established ones.³⁷⁴ According to an Edelman study, Japanese customers trust businesses more than any other customers polled.³⁷⁵ For example, 91% of the respondents believed that Japanese corporations would do what is right.³⁷⁶ Another study conducted by Oligvy and Mather Japan found that after friends and family, it is the corporations that enjoy the highest level of trust in Japan, much more than what the NGOs, journalists and governmental institutions experience (see Chart 7 below).

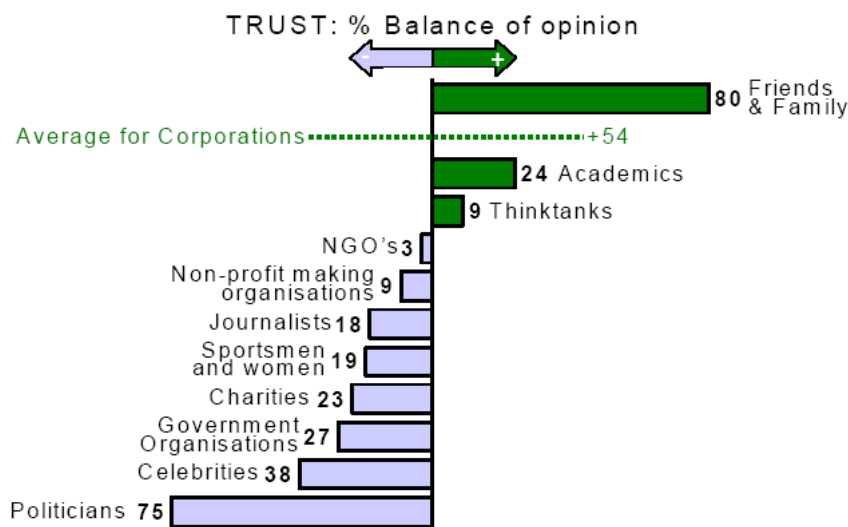


Chart 7: Trust of Japanese consumers in different institutions or individuals³⁷⁷

This leads to the inference that responsible marketing in Japan has only recently evolved because trust towards the business world used to be high even without such measures in this East-Asian market. Due to a rising number of nationwide corporate scandals, however, this trust has been diminishing and corporate reputation has become an asset more instrumental than ever. This new need for transparency of course varies

³⁷⁴ Cf. Solomon, A.; Solomon, J.; Suto, M. (2003), p. 10

³⁷⁵ Cf. Edelman Japan K. K. (2006), p. 3

³⁷⁶ Cf. Edelman Japan K. K. (2007), p. 6

³⁷⁷ Cf. Oligvy and Mather Japan (2005), p. 7

from industry to industry. In Japan, there are indications that polluting industries are more open and receptive towards the aspects of environmental protection and CSR,³⁷⁸ because they have a more pronounced necessity to establish legitimacy towards their key stakeholders.

Yet, there are also indications that sanctions for neglecting CSR activities are not very dramatic in Japan at this point of time. According to a study, 74% of the Japanese consumers believe that corporations should behave in a socially responsible manner,³⁷⁹ but only 35% of them would refrain from buying products of irresponsible corporations.³⁸⁰ Thus, in the light of the above fact, many corporations in non-CSR-sensitive industries might see social or environmental programs as an unnecessary burden for doing business in Japan.

However, Japanese corporations are more than ever involved in international business, which also brings about implications for CSR.³⁸¹ For example, in the Netherlands, where Sony Corporation sold its popular “Play Station” console in fall 2001, the poisonous substance Cadmium was found inside the cables of the gadget. Consequently, Sony had to recall all of its Play Station devices from the market. The cables, which had been produced in China, were manufactured in conformity with local environmental legislation, but did not comply with the stricter European regulations. This example shows that even though products might be produced legally in one location, global regulations as well as standards have to be taken into account in equal manner in today’s interconnected business. Furthermore, even though CSR sensitivity in one

³⁷⁸ Cf. Nakamura, M.; Takahashi, T.; Vertinsky, I. (2001), p. 43

³⁷⁹ For comparison: According to Page, G.; Fearn, H. (2005), p. 309 ff., in the United States, 87% of consumers believe that companies should behave responsibly, while 35% would not buy products from irresponsible corporations. In the U.K., the corresponding numbers are 86% and 31%. Interestingly, Japan shows the highest rate of consumers who “do not really mind whether companies behave responsibly or not,” and who would not let such considerations influence their purchasing decisions, as many as 26% of the interviewed people. In the U.S, only 12% (U.K. 15%) share the same opinion.

³⁸⁰ Cf. Page, G.; Fearn, H. (2005), p. 309

³⁸¹ The following paragraph refers to Taniguchi, M. (2005), p. 2

country might be lower than in another, it can be risky not to orient corporate strategy at the global best practice level.

Considering the developments outlined above, this trend can be expected to shift more towards an increasingly critical attitude towards business both among Japanese and international consumers. Corporations which are willing to use the opportunities to distinguish themselves from their competitors by promoting the environmental, social or ethical features of their products, are likely to gain a competitive advantage in the Japanese market in the years to come. To do so successfully, it is crucial to have an understanding of the local stakeholder surroundings, which shall be discussed below in connection with the implications for foreign affiliated companies in Japan.

2.2.2. The stakeholder dimension of CSR in Japan and its implications for foreign affiliated companies

To efficiently plan and execute a CSR policy, a company has to identify its most influential interest groups and examine their specific viewpoints, values and demands towards the firm. This is a very complex task: As “standard” business behaviour varies depending on the culture and political and social circumstances, so do the expectations of the different stakeholders a corporation is faced with.³⁸² Besides being dependent on external conditions, the interests and ethical expectations of stakeholders can develop and change over time as society evolves.³⁸³ Thus, every market setting has its specifications concerning the importance and composition of its interest groups. To grasp the situation of foreign affiliated companies in Japan, it is first of all crucial to gain an understanding of the stakeholder environment in this country.

³⁸² Cf. Harting, T. R.; Harmeling, S. S.; Venkataraman, S. (2006), p. 44

³⁸³ Cf. *Ibidem*, p. 60

The relationships of stakeholder groups and corporations in Japan differ in a variety of aspects from those typically found in other industrialized nations, such as Europe and the US. The Japanese relationship between corporations and interest groups beyond their shareholders was first publicly discussed as a result of environmental problems and corporate scandals in the 1950s³⁸⁴ and perceived mostly as antagonistic to the interest groups as the victims, who called for a regulation of the firm's activities.³⁸⁵ However, community groups and NGOs have not played a major role for Japanese corporate governance until the recent Corporate Social Responsibility boom. An indication that stakeholder management was just lately adopted in modern Japanese management and considered essentially a Western approach can be found in the fact that interest groups are usually referred to with the English term "*sutēkuhorudā*" (*stakeholders*) even though there is the synonym "*rigaisha*"³⁸⁶ in Japanese.

Localization, conscious interpretation and strategic handling of stakeholder interests as management tools, in particular for the modeling of CSR policies, are recent phenomenon in Japan. However, business literature often refers to the classical Japanese corporate governance model as "stakeholder governance model." This is because Japanese firms would traditionally take into account the concerns of various players³⁸⁷ much more than enterprises engaging in shareholder model dominated economies.³⁸⁸ For instance, business relationships in Japan are often dominated by implicit relationships, which is well-fitted for a stakeholder management approach.³⁸⁹ However, it would be wrong to assume that Japan has implemented stakeholder management as it

³⁸⁴ Examples include mercury, cadmium and nitrogen dioxide mass pollution during the 1950s and 1960s, causing the so-called Big Four Pollution Diseases (四大公害病): Minamata Disease, Niigata Minamata Disease, Yokkaichi Asthma and Itai itai Disease.

³⁸⁵ Cf. Tanimoto, K. (2004), p. 43

³⁸⁶ 利害者

³⁸⁷ Cf. Plender, J. (1998), p. 211

³⁸⁸ Cf. Jackson, G.; Moerke, A. (2005), p. 351

³⁸⁹ Cf. Plender, J. (1998), p. 215

is understood and executed in the West. Rather, there have been some prominent influential actors within the Japanese economic system, such as *keiretsu* networks, certain groups of employees and main banks, which can be considered as preferential stakeholders, while, on the other hand, groups like NGOs and local communities play a comparatively minor role in corporate management.

Apart from that, business literature frequently mentions the importance of long term oriented and trust based business relationships³⁹⁰ in Japanese business. To what extent do the trust and mutual exchange of benefits go, however, will depend heavily on the corporation's level of concern vis-à-vis the opponent. According to research undertaken by Lewin, A. Y. et al., the most crucial (corporate citizenship³⁹¹) concerns for Japanese companies are employees, followed by shareholders, suppliers/customers and finally community and environmental affairs in that order of importance.³⁹² In the following section, the particularities and trends concerning those and affiliated preferential stakeholder groups within the Japanese management system will be highlighted briefly.

2.2.2.1. Employees as stakeholders of the corporation

In Japan, employees have traditionally been a significantly influential, if not *the* most essential, stakeholder group.³⁹³ Their concerns are often integrated into corporate strategy by extensive use of joint labour-management consultation. Furthermore, in many cases lifetime employment is offered to employees in combination with intensive firm-specific on-the-job training. Indeed the corresponding term for such lifelong occupation in Japanese is “*Shūshin koyōsei*”³⁹⁴, usually translated into English as

³⁹⁰ See e.g. Yasutaka, S. (1995), p. 32 ff., and Graham, F. (2003), p. 64

³⁹¹ In the above mentioned study, companies were asked for the ranking of their corporate citizenship issues. It can be assumed that the level of concern for their most crucial stakeholder groups is almost identical.

³⁹² Cf. Lewin, A. Y. et al. (1995), p.88

³⁹³ The following two sentences refer to Jackson, G.; Moerke, A. (2005), p. 352

³⁹⁴ 終身雇用制

“lifetime employment.” There are claims that a more correct interpretation of the term would be “lifetime commitment”³⁹⁵, which implies an even deeper moral interdependence between the corporation and the employees. In recent years, both Japanese and Western scholars have been predicting the end of this classical employment pattern and a consequent shift towards a more flexible, Anglo-Saxon oriented model. Yet, a study undertaken by the International Labour Office in 2003³⁹⁶ found that the length of employment tenure during the 1990s in Japan has developed rather towards a prolongation of occupation with an increase of average employment length from 10.9 years in 1992 up to 11.6 years in the year 2000. Furthermore, the share of long time employees working for the same firm for more than ten years has also slightly increased by 0.7% (see Table 1 below).

Moreover, according to an OECD study, in 1995 the average length of tenure within one company was 12.9 years, the longest in comparison with other advanced industrialized nations.³⁹⁷ Therefore, while experts often claim that lifetime employment has ended available research data suggest that the actual situation in Japanese companies is in contrast to this.³⁹⁸

³⁹⁵ Cf. Abegglen, J. C. (2006), p. 74

³⁹⁶ Cf. Auer, P.; Cazes, S. (2003), p. 25 and Table

³⁹⁷ Cf. OECD (1997), p. 139

³⁹⁸ Cf. Abegglen, J. C. (2006), p. 10

		<i>Japan</i>	<i>US</i>
<i>Average job tenure (years)</i>	1992	10.9	6.7
	2000	11.6	6.6
<i>Change (%)</i>	1992 – 2000	6.4	-1.5
<i>Tenure under one year (% of labour force)</i>	1992	9.8	28.8
	2000	8.3	27.8
<i>Change (%)</i>	1992 – 2000	-15.3	3.5
<i>Tenure ten years or above (% of labour force)</i>	1992	42.9	26.6
	2000	43.2	25.8
<i>Change (%)</i>	1992 – 2000	0.7	-3.0

Table 1: Development of employment tenure in Japan and the US 1992 - 2000³⁹⁹

It is certainly arguable whether a couple of surveys, irrespective of their scale, can capture the complex trends and developments on the Japanese labour market and thereby make an emphatic statement about the present status of lifetime employment. This judgment has to be made case-specific, depending on the industry, corporation and type of employee examined. Admittedly, there are first attempts in some enterprises to modernize human resource management: for example, phasing out seniority based pay and promotion.⁴⁰⁰ Nevertheless, the above mentioned findings and other studies⁴⁰¹ give an indication that in a predominant portion of the Japanese economy, in particular in larger firms which could prevent lay-offs by restructuring or transfer of employees to subsidiaries,⁴⁰² lifetime commitment is still considered the norm both by the corporate and the employees.

³⁹⁹ Adapted from Auer, P.; Cazes, S. (2003), p. 25

⁴⁰⁰ Cf. Ornatowski, G. K. (1998), p. 79

⁴⁰¹ Cf. e.g. Takao, K. (2000) and Matsuzuka, Y. (2002) in detail

⁴⁰² Cf. Takao, K. (2000), p. 512

It has to be pointed out, though, that lifetime employment is only offered to certain groups of employees: in most cases male workers. Often female employees, who are hired for only a couple of years, act as a buffer for the male workforce and are first encouraged to resign in the event of economic downturns.⁴⁰³ The same is true for short time workers, so-called *freeter*, who are not expected to stay in the company in the long-term and are explicitly exempted from the non-firing clauses of the 1974 Employment Security Act.⁴⁰⁴ Thus, corporations can grant lifetime employment and protect the job security of the male workforce by adjusting the number of their temporary employees.

Employees' interests are represented by unions, which tend to be organized, not according to a certain industry or profession as common in the West, but around a certain company instead,⁴⁰⁵ resulting in a close and cooperative collaboration between the firm and the labour interest groups. While union activity has increased in recent years due to lay-offs, it is still problematic for employees to change sides, engage in union activities and actively take action against a firm which they used to consider their home and community.⁴⁰⁶ Usually, only full-time, permanent employees are allowed to join the union.⁴⁰⁷ On account of the long-term employment practice in Japan, it is easier for enterprise unions to demand benefits and a contribution from the corporate side for their workers.⁴⁰⁸

Certainly the above described particular relationship between corporations and employees in Japan also has its implications for foreign enterprises. Many Western multinational companies today engage in the Japanese market and maintain subsidiaries

⁴⁰³ Cf. Graham, F. (2003), p. 67

⁴⁰⁴ Cf. Schmidt, R. J. (1996), p. 71

⁴⁰⁵ Cf. Jackson, G.; Moerke, A. (2005), p. 352

⁴⁰⁶ Cf. Schmidt, R. J. (1996), p. 74

⁴⁰⁷ Cf. Benson, J.; Debroux, P. (2004), p. 44

⁴⁰⁸ Cf. Nakamura, M. (2003), p. 481

there, which are typically staffed mainly with Japanese employees.⁴⁰⁹ The issues of recruitment of personnel is crucial in so far as foreign-affiliated companies depend on qualified local personnel, for example, in areas such as marketing, where the in-depth knowledge of cultural and Japan-specific factors is essential.⁴¹⁰

Foreign affiliated companies were faced with major difficulties in the recruitment of qualified personnel, in particular during the late 1980s and the early 1990s, and this problem has been a reason why the level of foreign direct investment in Japan was comparatively low.⁴¹¹ As Hsu puts it, “hiring qualified personnel is the greatest difficulty that these firms encountered”⁴¹². Furthermore, considerable costs were involved in hiring bilingual people and training them in international standards, systems and intercultural communication.⁴¹³

As discussed above, long term employment prevails in Japan and there are few male workers wanting to change jobs voluntarily. This implies that the secondary labour market is relatively thin in comparison to Western industrialized nations.⁴¹⁴ Due to the fact that foreign affiliated companies tend to hire only experienced employees in contrast to fresh graduates, the selection process is extended only to a small share of all working adults - a situation which is becoming even graver because foreign affiliated companies would in most cases only hire Japanese with at least intermediate English skills.

Fresh Japanese graduates used to believe that joining a foreign company and thereby accepting uncertain, short-termed employment instead of having the guarantee of a life-

⁴⁰⁹ Cf. Strach, P.; Everett, A. M. (2004), p. 10

⁴¹⁰ Cf. Chiavacci, D. (2006), p. 35

⁴¹¹ Cf. Dunning, J. H. (1996), p. 47, and Hsu, R. C. (1999), p. 182

⁴¹² Hsu, R. C. (1999), p. 182

⁴¹³ Cf. Dodd, J. (2003)

⁴¹⁴ Cf. Nakamura, M. (2003), p. 485

long position within a Japanese corporation would imply a waste of all their financial and academic efforts for years, and, would consequently go for long term employment.⁴¹⁵ The attitude of employees toward foreign affiliated companies is divided. It is believed that while the Western companies offer more opportunities to the young and/or female workers, they have a very competitive working atmosphere. As reasons for joining a foreign company, Japanese employees usually cite greater individual responsibility and freedom, opportunities to upgrade one's own professional capabilities, higher wages, chances to go abroad, and objective evaluation of performance.⁴¹⁶ On the other hand, a recent career guide warned that there are some foreign companies which conduct performance checks every year and fire the 10% of the employees who score worst.⁴¹⁷ Also, reciprocal help among fellow employees and team work is said to be practically absent in foreign owned companies: "While it is common to go out to dinner, drinking and golf together, the focus of many employees is only their self-interest and what will help them to advance in their careers."⁴¹⁸ This kind of perception stands in clear contrast to the more team and consensus oriented working style in many Japanese corporations. Many of the latter have a more or less set policy against hiring anyone who has studied abroad. This policy is based on the belief that Japanese who become westernized are no longer emotionally or intellectually capable of fitting into the unique Japanese system. Employees who had once worked for a foreign company are assumed to have difficulties switching back to a Japanese one, because they were "spoiled" by individualism and equal treatment in contrast to team work and seniority promotion.⁴¹⁹

⁴¹⁵ Cf. Chiavacci, D. (2006), p. 38

⁴¹⁶ Cf. Khan, S.; Yoshihara, H. (1994), p. 126

⁴¹⁷ Cf. Aisaka, Y. (2006), p. 65

⁴¹⁸ Cf. Aisaka, Y. (2006), p. 68

⁴¹⁹ Cf. De Mente, B. (1988), p. 109

Interestingly, however, both Japanese and foreign affiliated companies seem to have converged concerning their human resource management during recent years. Watanabe demonstrates that local corporations which used to have a lifetime employment system and seniority based promotion, have now shifted towards higher labour mobility and a more performance based approach. Foreign companies, on the contrary, which used to have high fluctuations in their workforce and a performance based promotion system, have now increasingly implemented longer term employment and a less competitive working atmosphere (see Chart 8).

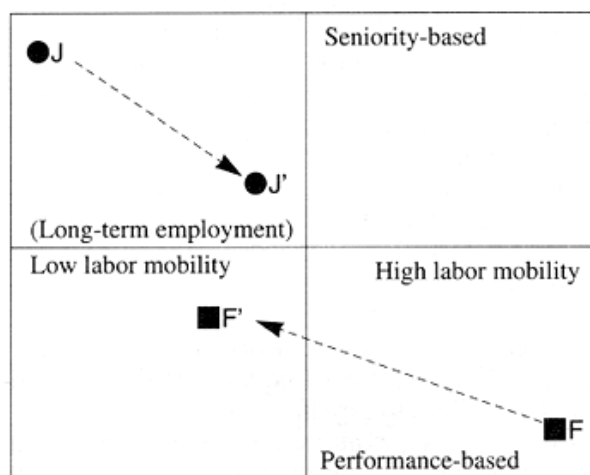


Chart 8: The relationship between Japanese companies and foreign-affiliated companies⁴²⁰

As a result, the popularity of foreign affiliated companies has been rising. Although foreign-affiliated companies had major problems during the 1980s and early 1990s in recruiting qualified personnel in Japan, their attractiveness as an employer has increased considerably since then. The most important reasons for this trend is the degradation of the positive image of Japanese companies in the context of economic stagnation, a

⁴²⁰ Watanabe, H. (1999), p. 11

decrease in labor market demand for new graduates, as well as a change in values, in particular among the younger generation.⁴²¹

Japan's younger generation is enjoying increasing freedom of choice not to enter full employment, but rather to earn their living by temporary jobs and working as so-called "Freeter".¹³⁴ This has given rise to the phenomenon of a growing group of under 35-year olds, mostly less educated, trying to avoid the constraints of lifetime employment-- a trend which is considered a social problem in the Japanese society. Such increasingly flexible working styles becoming popular in Japan tend to make foreign affiliated companies more attractive as employers.

2.2.2.2. Shareholders as stakeholders of the corporation

As explained above, since the post-war period, the Japanese economy relied significantly upon state subsidies and the cross-shareholding of many local companies to stabilize shareholder relationships and prevent hostile takeovers.⁴²² The largest shareholders of corporations tended to be banks and insurance companies, which often played the role of internal, collaborative and not of outside stakeholders.⁴²³ In general, a majority of the shareholders of Japanese companies are stable investors with a long-term focus.⁴²⁴

However, as described above, due to market pressures and increased internationalization, this situation is changing. Shareholders in general have become more proactive in voicing their concerns. For example, the number of shareholders suing corporations for alleged unfair or illegitimate management practices has been soaring during the recent years, even though shareholders generally have only remote chances of gaining out of derivative litigation in comparison to other national legal systems such as the American

⁴²¹ Cf. Chiavacci, D. (2006), p. 27

⁴²² Cf. Plender, J. (1998), p. 212

⁴²³ Cf. Hanazaki, M.; Souma, T.; Wiwattanakantang, Y. (2003), p. 23

⁴²⁴ Cf. Steadman, M. E.; Zimmerer, T. W.; Green, R. F. (1995), p. 31

one.⁴²⁵ Besides, as discussed above, shareholder rights are increasingly being emphasized. In accordance with global developments, the shift of emphasis in Japanese corporations to more short-term profits and internationally competitive returns of investments is likely to continue in the years to come.

The unique shareholder system brings about a unique challenge for foreign affiliated companies in Japan.⁴²⁶ On the one hand side, the influence of foreign investment in Japan is considerable. For example, foreigners possess nearly 20% of all corporate shares, in certain industries even up to 30 to 40%. Foreign direct investment is particularly large in the Japanese auto manufacturing and life insurance industries.⁴²⁷ On the other, foreign companies might be presented with a set of unusual challenges. Generally, successful Japanese companies are not for sale, because such a company is considered a social organization, a community and, therefore, cannot be purchased or sold. What is more, the majority of listed Japanese companies have a large share of stable shareholders, owning up to 70% of the outstanding shares.⁴²⁸ This is why mergers or acquisitions are extremely difficult to realize for foreign companies, not to mention the cultural issues involved in such practices.

In the past, when foreign companies acquired Japanese firms during financial difficulties, the new management was not able to successfully bring those corporations back on track. Examples of such failed acquisitions include, for example, General Motors and Isuzu,⁴²⁹ Merrill Lynch and Yamaichi,⁴³⁰ and Daimler and Mitsubishi Motors.⁴³¹ In short, foreign investment has helped to keep inefficient Japanese

⁴²⁵ Cf. West, M. D. (2001), p. 380

⁴²⁶ Cf. *Ibidem*, p. 20

⁴²⁷ Cf. Abegglen, J. C. (2006), p. 18

⁴²⁸ Cf. Nakamura, M. (2003), p. 494

⁴²⁹ Cf. Fackler, M. (2006), p. 17

⁴³⁰ Cf. Bremner, B. (2001)

⁴³¹ Cf. *Manager Magazin* (2004)

companies alive, but rarely proved to be a profitable investment.⁴³² In most cases foreign-affiliated companies have to start from scratch and develop their operations by organic growth or joint-ventures, because they are not able to purchase large Japanese firms.

Due to the maturing of the Japanese market at the end of the 1980s, many producers led to a number of exceptional consolidations during the mid-1990s, for example, in the oil, cement, industrial gas and steel industries. However, it has to be noted that those consolidations took place only through mergers, never through acquisitions.⁴³³

2.2.2.3. Keiretsu networks and suppliers as stakeholders of the corporation

One peculiarity of the Japanese economic system is the concept of the so-called *keiretsu*, groups “of companies linked by stable intercorporate shareholdings”⁴³⁴. The *keiretsu* “have been a key element in Japan’s rapid industrial development and transformation since the early 1950s.”⁴³⁵ While some experts believe that the influence and power of keiretsu has been overestimated in business research⁴³⁶ and that the benefits of belonging to a keiretsu have diminished in the context of deregulation and a transition towards more open markets and competition,⁴³⁷ the common consensus is that the impact of those intercorporate networks on the Japanese economy is still significant. Not only do many major enterprises, such as the Mitsubishi, Mitsui and Sumitomo groups belong to keiretsu, but they also play a crucial role in economic policymaking due to their close relationships with the government and often recruit a majority of first-class graduates from Japan’s top universities.⁴³⁸ In recent years, a trend among Japanese

⁴³² Cf. Abegglen, J. C. (2006), p. 21

⁴³³ Cf. Ibidem, p. 14

⁴³⁴ Morck, R.; Nakamura, M. (1999), p. 319

⁴³⁵ Calder, K. E. (1993), p. 142

⁴³⁶ Cf. Miwa, Y.; Ramseyer, J. M. (2002) in detail

⁴³⁷ Cf. McGuire, J.; Dow, S. (2005), p. 119

⁴³⁸ Cf. Chen, M. (2004), p. 139

corporations towards more flexible markets and an outreach to other firms outside of their networks for the building of strategic alliances could be observed,⁴³⁹ which might influence the traditional *keiretsu* philosophy in the future.

For the time being, there still exists a strong feeling of obligation within the *keiretsu* networks⁴⁴⁰ potentially resulting in decision making that can place personal business ties over considerations such as costs and profits. Accordingly, *keiretsu* members tend to grant each other reciprocal favours due to their affiliation with the same corporate network.

In many industries, suppliers still tend to belong to the same *keiretsu* as their customers,⁴⁴¹ thus enjoying preferential treatment. Japanese corporations usually prefer having a small number of long-term suppliers⁴⁴² and will only switch to new supply sources when they can achieve more than marginal cost reductions with unchanged product quality. However, it has to be pointed out that the relations of customers and suppliers can vary depending on the industry. Most studies concerning supplier relationships have been conducted in the automobile industry and there are indications that in other business areas, such as the computer industry, the typical Japanese supplier relationship characteristics, such as the existence of a sizable pool of external suppliers, the feasibility of *shukkō*⁴⁴³ and manufacturer-supplier shareholding as a means of strengthening supply relationships, are largely absent.⁴⁴⁴

⁴³⁹ Cf. Steadman, M. E.; Zimmerer, T. W.; Green, R. F. (1995), p. 32 f.

⁴⁴⁰ As Lincoln et al (1998), p. 318, phrase it: "Firms within a keiretsu are bound to one another in a web of obligation. Some such obligations may derive from assistance the group has rendered in the past. Others stem from a sense of duty to the industry and national economy of which companies are regularly reminded by the ministries and media that monitor their affairs [...]. Opting in or out of keiretsu commitments to troubled corporate kindred on the basis of unilateral calculations of advantage is generally not the Japanese way of business, and companies that try it risk a stern lesson in the importance of team play."

⁴⁴¹ Cf. Steadman, M. E.; Zimmerer, T. W.; Green, R. F. (1995), p. 31

⁴⁴² Cf. Hoetker, G. (2004), p. 188 f.

⁴⁴³ 出向 (exchange of personnel between companies)

⁴⁴⁴ Cf. Hoetker, G. (2004), p. 188

Clearly, one of the major challenges foreign affiliated companies are facing is the limit of their access to the Japanese market due to *keiretsu* networks. According to Nakamura “no clear-cut strategy for affected foreign firms to deal with this type of non-visible trade barrier has been found yet,”⁴⁴⁵ but he proposes that in some cases, successful operations could be established by simply “joining” the *keiretsu* through integration of a joint-venture with already existing Japanese firms. Even today, Japanese have “great difficulty [...] accepting foreigners as full-fledged members of the corporate family”.⁴⁴⁶ Due to the importance of trust-based and long-term relationships in Japan, it is often difficult for newcomers, like Western companies, to commence business.⁴⁴⁷ This long term focus might also constitute one reason why customers in Japan tend to be not very price-conscious, but rather prefer to stay with the business partners they know, trust and have made good associations with in the past. As a result, it is rather difficult to simply abandon a distributor or supplier, making business conduct in Japan problematic and less dynamic.⁴⁴⁸ Furthermore, a certain amount of time is required to build up such trust, but just having a clear CSR strategy can support the process by signalling to Japanese business partners that the corporation is pursuing a sound risk management strategy. It is crucial for a corporation to maintain the trust of its stakeholders by communicating on a daily basis through its business conduct that the enterprise is committed not only to the economic well-being of the company, but also to the well-being of the environment, to pro-active transparency of information, as well as to striving for social legitimacy.⁴⁴⁹ Moreover, *keiretsu* relationships can make it more difficult to become a supplier for a Japanese corporation. As pointed out above, Japanese companies are often sourcing their materials and supplies from within their network. Therefore, if foreign companies

⁴⁴⁵ Cf. Nakamura, M. (2003), p. 490

⁴⁴⁶ Wokutch, R. E.; Shepard, J. M. (1999), p. 535

⁴⁴⁷ Cf. Taka, I.; Foglia, W. D. (1994), p. 141

⁴⁴⁸ Cf. Koehn, D. (1999), p. 75

⁴⁴⁹ Cf. Taniguchi, M. (2005), p. 1

cannot offer considerably better and/or cheaper products, they might not be considered as a business partner. In this context, it can also be advantageous to possess internationally accepted certifications, such as the ISO standards, to guarantee up-to-date management practices and product quality.

2.2.2.4. Banks as stakeholders of the corporation

Connected with *keiretsu* networks is the concept of main banks, which have been playing an instrumental role in dealing with their client's financial issues.⁴⁵⁰ ⁴⁵¹ A Japanese corporation generally has a main bank, which acts as its main lender and holds the largest percentage of its equity among all the shareholders of the corporation. Banks in Japan function as the most influential external stakeholders on governance control by virtue of the various roles they play for corporations, such as being the provider of relational financing and other banking services, including the balancing between debt and equity. Corporate ownership is concentrated around those main banks and other industrial firms holding larger amounts of shares, which is in stark contrast to the corresponding situation in Western nations, such as the US and the UK, where ownership is mostly fragmented among individuals and institutional investors.⁴⁵²

Research indicates that even banks themselves display strategic thinking similar to *keiretsu* networks.⁴⁵³ Morck and Nakamura found that Japanese banks tend to act differently depending on whether their customer firms are members of a bank group or not. In the first case, the banks were designing their strategies more in tune with the wider interests of a larger range of stakeholders, including the shareholders. In the latter, the banks were acting mostly as per the short term interests of creditors. Hence,

⁴⁵⁰ Cf. Nakamura, M. (2003), p. 499

⁴⁵¹ The following two sentences refer to Morck, R.; Nakamura, M. (1999), p. 321

⁴⁵² Cf. Jackson, G.; Moerke, A. (2005), p. 352

⁴⁵³ This paragraph refers to Morck, R.; Nakamura, M. (1999), p. 319

affiliation with bank groups or main banks can have critical impact on corporate decision making in Japan.

However, while main banks remain crucial stakeholders of Japanese corporations, foreign affiliated companies will not generally be affected drastically by them. Most Western companies will use local banks for their running accounts when doing business in Japan, but are mostly financed and advised by the foreign banks of their headquarters. Therefore, the unique role of banks in Japan will have a major influence on their business activities only if they cooperate with Japanese companies, for example, in the form of joint ventures, when they will have to take into account the main bank of their business partner as essential stakeholder for management.

2.2.2.5. NGOs as stakeholders of the corporation

Japan is unique in that it has had “a rather weak private voluntary sector historically and also in the fact that various initiatives by the government, by the for-profit private sector and by the non-profit sector itself to build a stronger non-profit sector has been active only in the last 15 years or so”⁴⁵⁴. Till now, the influence of environmental NGOs has not increased substantially.⁴⁵⁵ Contrary to what happens in the United States and Europe, there is no “giving culture” in Japan and, therefore, individual contribution to NGOs has traditionally been very small.⁴⁵⁶ Consequently, the majority of the civil society interest groups were “small, local, and temporary.”⁴⁵⁷ As for the moment, NGOs and community interest groups are not playing a significant role in Japanese stakeholder management yet. It is still uncommon for Japanese corporations to cooperate with NGOs to work towards mutual objectives: According to a study undertaken by

⁴⁵⁴ Kuroda, K.; Imata, K. (2002), p. 2

⁴⁵⁵ Cf. Brucksch, S. (2004), pp. 103 ff.

⁴⁵⁶ Cf. Kuroda, K.; Imata, K. (2002), p. 8

⁴⁵⁷ Cf. Pekkanen, R. (2001), p. 1

Tanimoto,⁴⁵⁸ 64.8% of the polled firms have not yet considered collaboration with NGOs in the context of their Corporate Social Responsibility program. According to the Economic and Social Research Institute, the economic activities of NGOs accounted only for 1.9% of Japan's Gross Domestic Product in 2001,⁴⁵⁹ thus those organizations even collectively constitute only a minor player in the national economic system. Currently, indications are that the paucity of material resources of NGOs as well as the public and political disinterest at the national level remains mostly unchanged.⁴⁶⁰ On the one hand side, this relatively low pressure from interest groups in Japan towards the firms can even be considered as one of the competitive advantages of Japanese companies in contrast to their Western counterparts, as Japanese corporations are currently less pressured to utilize resources for CSR stakeholder management and programs.⁴⁶¹

On the other side, the globally growing demand for the social engagement of companies and the emergence of a more critical civil society are likely to contribute to both an increasing number of NGOs in Japan as well as a growing awareness about the importance of them as negotiation partners and stakeholders of companies in the future. It is now recognized that “the pre-existing system has serious limitations and cannot cope with the new and growing social needs”⁴⁶².

As Adachi explains, NGOs “are necessary to respond to the rising needs of Japan's aging society” and low birth rates, in particular, because public funds do not suffice to cover those needs.⁴⁶³ The strengthening of NGOs in Japan coincides with the global trend of giving NGOs more active roles in solving major international issues.

⁴⁵⁸ Cf. Tanimoto, K. (2004), p. 71

⁴⁵⁹ Cf. Economic and Social Research Institute (2003), own calculation with given figures

⁴⁶⁰ Cf. Vosse, W. (2000), pp. 66 ff.

⁴⁶¹ Cf. Steadman, M. E.; Zimmerer, T. W.; Green, R. F. (1995), p. 31

⁴⁶² Adachi, K. (2000), p. 10

⁴⁶³ Cf. Adachi, K. (2000), p. 1 and 10

In fact, many new organizations were established during the 1990s and they participated in the UN Conference of Environment and Development (UNCED) in Rio de Janeiro in 1992 and the Kyoto conference on climate change in 1997. Moreover, some improvements concerning the legal and institutional situation of NGOs have taken place in recent years. For example, the NPO Law, which was passed by the Japanese government in December 1998 (Law to Promote Designated Nonprofit Activities), simplified the establishments of NGOs and liberated their regulation.⁴⁶⁴ Before the NPO Law, for instance, it used to be very difficult for those groups to receive public funding, as government subsidiaries and grants were heavily restricted under Japanese Constitution Article 89.⁴⁶⁵ NPO friendly legislation is expected to increase the number of civil society groups with legal status.⁴⁶⁶ As Pekkanen explains, “the increasing vitality of Japanese civil society encouraged by the NPO Law will make Japan’s democracy decidedly more vibrant and accountable”⁴⁶⁷.

Due to this fact that an active civil society is only just about to emerge in Japan at this point of time, foreign affiliated companies are less likely to be criticized for social and environmental policies by interest groups than in their home countries. However, already existing NGOs could serve as valuable partners for the implementation of the corporations’ CSR programs, because local groups can contribute expertise and the familiarity with cultural standards and particularities.

⁴⁶⁴ Cf. Pekkanen, R. (2001), p. 1

⁴⁶⁵ Cf. Kuroda, K.; Imata, K. (2002), p. 6

⁴⁶⁶ Cf. Pekkanen, R. (2001), p. 3

⁴⁶⁷ Cf. *Ibidem*, p. 5

2.2.3. The social dimension of CSR in Japan and its implication for foreign affiliated companies

Japan can be described as a socially healthy society compared to other industrialized Western nations. For example, crime levels in Japan are extremely low and public safety is at a high level even in metropolitan areas like Tokyo and Osaka. In fact, according to a study⁴⁶⁸, the number of national criminal incidents in Japan is more than 100 times lower than in Germany. Besides, according to OECD studies, the Japanese education system is one of the most effective in the world, with Japanese teenagers scoring among the highest worldwide in the areas of mathematics and science respectively.⁴⁶⁹ Furthermore, Japan doesn't experience any major social strains based on significant ethnic, social or religious class divisions.⁴⁷⁰ Since the 1960s, when Japan was experiencing fast economic advancement, acknowledging for the first time that consumer articles became a part of everyday life for a majority of the population, the Japanese ideal society has been a socially and economically equal as well as homogeneous one. This image has been further fostered and projected by the government as the self-image of a harmonic society from the 1970s onwards.

⁴⁷¹However, Japan has started to experience social discontinuity since the late 1980s, triggered by the influence of factors such as globalisation, a shrinking and aging population, the eroding of the nuclear family, as well as the emancipation of women. As a result, there have been new issues and challenges evolving in Japanese society, for which feasible solutions have yet to be sought and found. Examples include, among others, the weakening of Japanese communities, increased homelessness, youth unemployment and suicide, increasing crime, truancy among school-age children, and a growing digital-divide between the younger and the older generations. These kinds of

⁴⁶⁸ Cf. Kühne, H. H. (1994), pp. 188 ff.

⁴⁶⁹ Cf. OECD (2007), pp. 19, 22 and 53

⁴⁷⁰ The following two sentences refer to Taira, K. (1993), pp. 181 ff.

⁴⁷¹ The following paragraph refers to SustainAbility et al. (2003), pp. 6-17

social challenges influence the characterization of today's CSR in Japan and are, in the context of eroding national security systems, likely to have an even larger impact in the years to come. Now, two crucial social drivers of change for CSR in Japan - the integration of women and minorities into the workforce due to an aging society as well as change in values and attitudes towards work - shall be explored below.

2.2.3.1. Integration of women and minorities into the workforce due to an aging society

As explained earlier, within the classic Japanese corporate governance system, male workers were considered one of the most important stakeholder groups and, consequently, companies avoided paying those employees off.⁴⁷² While male employees would enjoy such preferential treatment as “in-group” members, other individuals belonging to “out-side” groups would not.⁴⁷³ In clearer words, stakeholder groups such as women, foreigners, and certain minority groups (such as *Burakumin*,⁴⁷⁴ ethnic Koreans, indigenous Ainu, etc.) have not been treated equal to the usual male Japanese employee.⁴⁷⁵

However, as Benson and Debroux show, besides economic factors, larger societal developments such as an aging population, have predominantly brought about the recent changes in Japanese business practices and CSR.^{476 477} With birth rates at about 1.3% per woman, a figure well below the replacement level, Japan is facing a dramatic decline of its (working) population. In fact, in the year 2005, one-fifth of the Japanese were already 65 years or older. For the year 2050, this number is expected to rise to one third

⁴⁷² Cf. Nakamura, M. (2003), p. 479

⁴⁷³ Cf. Wokutch, R. E.; Shepard, J. M. (1999), p. 530

⁴⁷⁴ *Burakumin* is a euphemism for the descendants of the *eta* class of social outcasts in the Edo period. Due to social discrimination, they engaged in professions condemned by Buddhism such as executions, slaughter and leatherwork. Even today they are an invisible minority against whom covert discrimination continues.

⁴⁷⁵ Cf. Wokutch, R. E.; Shepard, J. M. (1999), p. 530 f.

⁴⁷⁶ Cf. Benson, J.; Debroux, P. (2004), p. 48

⁴⁷⁷ The following two sentences refer to McCreedy, A. (2003), p. 1

of the population.⁴⁷⁸ As opposed to other countries such as Canada or the US, where immigration has been practiced for a long time, in Japan, due to cultural homogeneity and a closed character of the country,⁴⁷⁹ foreign labourers are admitted to the country only hesitantly, with a strong preference there too for those with Japanese ethnic roots, such as, for example, *Nikkeijin*⁴⁸⁰ as temporary workers.⁴⁸¹ Japan is now under growing pressure to internationalize and integrate foreigners in its society. Increasing popularity of international marriages as well as the lack of workers, in particular for low-paying and unskilled jobs, have been bringing a larger number of non-Japanese people to come and earn their living in Japan. The Nippon Keidanren even explicitly considers it one of the country's major goals for the first quarter of this century to "make Japan a place where individuals from around the world want to spend their leisure time, invest their assets, build their careers and live their lives"⁴⁸². However, the organization does admit that there still exists a lack of tolerance towards diversity on the individual level as well as reluctance to integrate foreigners into the Japanese society from the administrative and governmental side.⁴⁸³

Due to this reluctance to support immigration beyond a certain level, integration of women into the workforce has become an increasingly urgent issue to tackle. While the need to immediately secure a large number of qualified workers is apparent,⁴⁸⁴ gender equality in the workplace is by far not as advanced in Japan as in other industrialized countries.⁴⁸⁵ According to a study by Rosenfeld and Kalleberg, there exists a larger income difference between female and male employees in Japan than in North

⁴⁷⁸ Cf. Oe, M. (2006), p. 7

⁴⁷⁹ Cf. Tanimura, C. (2000), p. 15

⁴⁸⁰ People of Japanese descent, for example Brazilians with Japanese roots

⁴⁸¹ Cf. Tanimura, C. (2000), p. 24

⁴⁸² Nippon Keidanren (2003), p. 3

⁴⁸³ Cf. Nippon Keidanren (2003), p. 7

⁴⁸⁴ Cf. Benson, J.; Debroux, P. (2004), p. 35

⁴⁸⁵ Cf. Chiavacci, D. (2005), p. 107

American and European nations.⁴⁸⁶ In many companies, female workers are regarded as “a secondary labour source supplementary to men.”⁴⁸⁷ The term *shomohin* (roughly translated as “consumables”), which describes female workers, indicates the low status of women and the derogatory attitude that exists in some Japanese companies towards their female staff.⁴⁸⁸ Kurosawa and Genda even found that in Japan – as against in Western industrialized nations – it is harder for women with a higher level of education to find regular employment than for those with less qualification.⁴⁸⁹ This surprising correlation can be explained by the fact that female employees are likely to be hired for easy office tasks, such as secretary work, which does not require a sophisticated degree. Consequently, there are fewer chances for them to be considered for top level management and administration jobs, for which usually male applicants are given priority. Furthermore, the percentage of females in high level positions in legislature, corporate management and governmental positions is clearly lower than in Western countries.⁴⁹⁰ Some Japanese corporations are still hesitant to promote female workers to higher positions because, as a result, those positions would no longer be available for the male staff.⁴⁹¹ Traditionally, women were confined to their role as housewives and mothers⁴⁹² and expected to fulfil their potential by raising a happy family and performing household tasks effectively.⁴⁹³ Such traditional attitudes are embraced not by the older generations alone. For example, the World Youth Survey found that among Japanese young people aged between 18 and 24 years, the acceptance of the belief that “Men should work, women look after the home” is clearly more distinct in Japan than in

⁴⁸⁶ Cf. Rosenfeld, R. A.; Kalleberg, A. L. (1991), p. 214

⁴⁸⁷ Cf. Chiavacci, D. (2005), p. 111

⁴⁸⁸ Cf. Wokutch, R. E.; Shepard, J. M. (1999), p. 531

⁴⁸⁹ Cf. Kurosawa, M.; Genda, Y. (2001), pp. 10 f.

⁴⁹⁰ Cf. United Nations Development Program (2002), p. 226

⁴⁹¹ Cf. Wahlin, W. (2007), p. 62

⁴⁹² Cf. Chiavacci, D. (2005), p. 108

⁴⁹³ Cf. Taka, I. (1993), p. 51

other industrial societies.⁴⁹⁴ Even if female employees are able to get into the rare career track positions, their daily work schedule is often not easy: Many times they are confronted with a male-dominated management and working environment, which can also be seen as one of the main reasons for the high dismissal rates of female managers.⁴⁹⁵ Furthermore, the quasi absence of a secondary labour market results in a problematic situation for female workers, who often quit their companies after child birth, but wish to continue working afterwards.⁴⁹⁶ Due to such difficulties, the general challenge for women to reach top executive positions in Japan is referred to as a “Concrete Ceiling”, alluding to the Western expression of a “Glass Ceiling.”⁴⁹⁷

Yet, with a growing number of women choosing to have a career and raise a family at the same time,⁴⁹⁸ and because of the presence of issues like low birth rates and an aging society as pointed out earlier, Japan is now forced to no longer neglect women as a valuable part of their workforce.⁴⁹⁹ The Japanese labor market as a whole is little by little opening up to female employees also in higher ranking position, as well as to other minorities, such as the disabled and handicapped workers, older employees and foreigners.⁵⁰⁰ As the Nippon Keidanren emphasizes, the creation of an environment that allows employees to balance their work with child rearing will constitute one of the main social challenges for Japanese business and society in the coming years.⁵⁰¹ Furthermore, Japanese government is now starting to admit the link between falling birth rates and missing gender equality within the working system and has made

⁴⁹⁴ Cf. Management and Coordination Agency (1999), p. 124

⁴⁹⁵ Cf. Kawashima, Y. (1999), pp. 529 ff.

⁴⁹⁶ Cf. Nakamura, M. (2003), p. 485

⁴⁹⁷ Cf. Wahlin, W. (2007), p. 58

⁴⁹⁸ Cf. Makita, T. (2000), p. 18 f.

⁴⁹⁹ Cf. Wahlin, W. (2007), p. 58

⁵⁰⁰ Cf. Nakamura, M. (2003), p. 484

⁵⁰¹ Cf. Nippon Keidanren (2003), p. 10

prominent efforts in constructing a “gender-equal” society during the past decade, however still lacking behind other industrialized nations.⁵⁰²

Some corporations, which are frontrunners with their CSR policies, such as Nissan, have already embraced the idea of promoting women at the workplace. As explained in their Sustainability Report, Nissan is helping for example women to develop their careers and to strike a work-life balance by providing childcare, nursing care and home-based telecommuting programs.⁵⁰³ Shiseido, one of the largest Japanese cosmetics companies, also has taken a proactive approach towards gender equality and is planning to increase its percentage of female managers, which in 2007 was at around 20%, to 25% in 2010 and 30% in 2013.⁵⁰⁴ While this kind of gender focused initiatives are still quite rare in Japan at the moment, it can be expected that companies will increasingly have to focus on issues such as the establishment of child care facilities, promoting of women in the workplace and diverse other programs to secure the most qualified human resources. Contributing to this is also a change in values and attitudes towards work, as will be shown now.

2.2.3.2. Change in values and attitudes towards work

The Japanese working style traditionally used to emphasize harmony and equality versus a competitive spirit and individuality, but those attitudes are in the process of transition.⁵⁰⁵ For example, income redistribution and income equality used to be even more strongly supported in Japan than in any other industrialized country. Many Japanese feel that in a fair society, there should exist only a small gap between the salary levels of executives and ordinary workers. Accordingly, the high salaries of American executives are perceived as unethical from the viewpoint of the Japanese

⁵⁰² Cf. Huen, Y. W. P. (2007), p. 373 ff.

⁵⁰³ Cf. Nissan Motor Co. Ltd. (2008), p. 61

⁵⁰⁴ Cf. Shiseido Co. Ltd. (2007), p. 1

⁵⁰⁵ The following two sentences refer to Chiavacci, D. (2005), p. 107

business community.⁵⁰⁶ According to the World Bank, Japan is in fact one of the countries with the greatest income equality worldwide.⁵⁰⁷ Lately, however, there has been criticism concerning the small income gap in Japan, the argument being that it would hinder the development of a healthy spirit of competition and give no incentive for employees to work harder than their peers.⁵⁰⁸ The equality system has been criticized for being an obstacle to faster economic and social development, as it discourages individuals from giving their very best, referring to the Japanese preference for homogeneity as *akubyōdō* (evil egalitarianism).⁵⁰⁹ Consequently, in recent years, there is a visible transition taking place in Japan from the system of seniority and teamwork towards more meritocracy and individual performance.

One of the drivers for this change happens to be the fact that a growing number of the Japanese, in particular young people, do not want to devote their life to the classic corporate system anymore. Within the context of the economic stagnation of Japan, many do not believe that Japanese corporations can maintain their traditional style of management, but that they will have to adapt to more Anglo-Saxon-style practices, which are considered to be the system of the future.⁵¹⁰ Young people are increasingly putting pressure on the traditional Japanese HRM system, as the well-qualified ones are now frequently favoring pay and promotion, which is based more on merit and performance, and demanding varied and challenging work at a young age. Job security as well has lost its importance as a criterion for employer's choice.⁵¹¹ As Chart 9 shows, the preference among young people for a performance based employment system has been rising drastically since the beginning of the 90s in comparison to a preference for a seniority based system. Seeing this kind of high figures, it might surprise one why

⁵⁰⁶ Cf. Taka, I. (1993), p. 46

⁵⁰⁷ Cf. World Bank (2001), pp. 282 f.

⁵⁰⁸ Cf. Chiavacci, D. (2005), p. 108

⁵⁰⁹ Cf. Dore, R. (1996), p. 13, and Miyano, M. (2000), pp. 85 f.

⁵¹⁰ Cf. Chiavacci, D. (2006), p. 44

⁵¹¹ Cf. Benson, J.; Debroux, P. (2004), p. 47

Japanese corporations have not been changing faster and more radically. However, given the makeup of the system with older male workers usually in charge of major corporate governance decisions, it becomes clear that they might be reluctant towards change and would have no interest in adjusting remuneration and promotion too quickly in a way that could possibly be unfavorable to themselves.

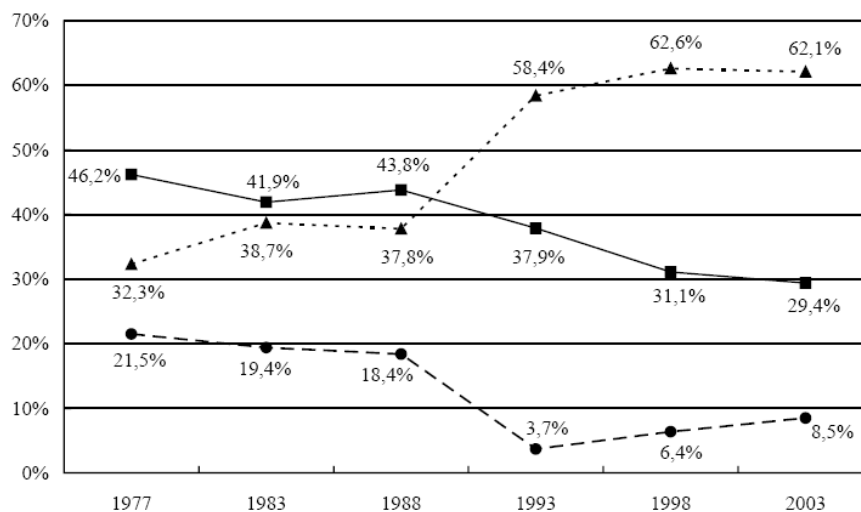


Chart 9: Preferences in personal management system among the Japanese youth⁵¹²

Square: Preference for seniority system, Triangle: Preference for performance based system, Circle: No answer

Furthermore, the reluctance of Japanese employees to work for more than one single company in one's lifetime has been diminishing: As Chart 10 indicates, the preference to be employed at several firms has risen from 23.9% in 1999 to 26.1% in 2004 and the wish to work at one company has also risen 2.4% points during the same period. On the other hand, the popularity of being self-employed has been shrinking by 2%. These figures indicate that while there is still a large group of employees who wish to maintain the classic lifetime employment, there is also a considerable, albeit smaller percentage, which are slowly becoming more open towards changing jobs during their career.

⁵¹² Cabinet Office, Government of Japan (2004), p. 39

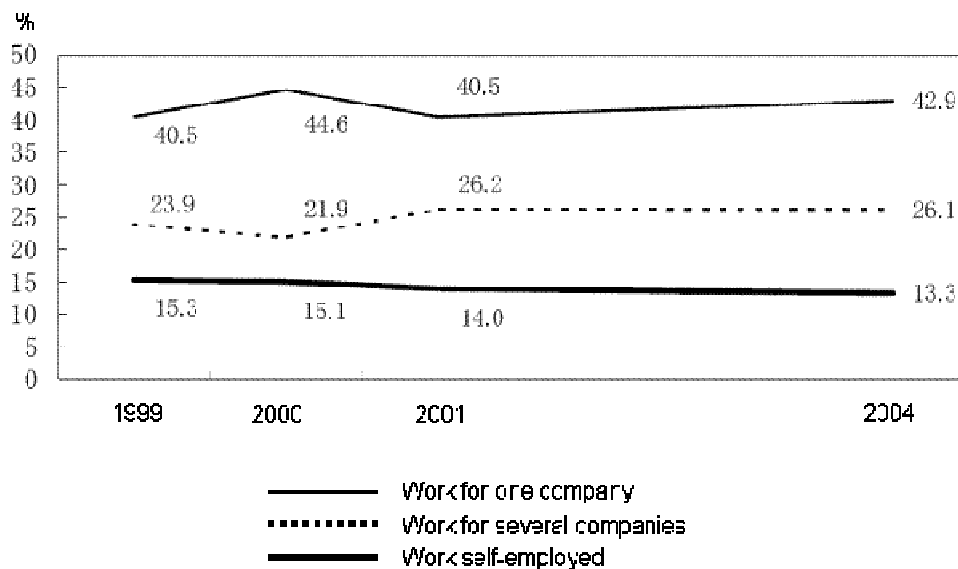


Chart 10: Japanese work practices⁵¹³

Moreover, a growing number of Japanese are seeing the obvious downsides of the traditional working system for their health and personal life. For example, several cases of death caused by overwork (*karōshi*) show what harmful effects unconditional obedience towards the company can bring about.⁵¹⁴ Japan has one of the highest suicide rates in the world, approximately twice as high as in most European countries and the United States.⁵¹⁵ ⁵¹⁶In the year 2007, more than 32,000 people, of whom a little more than 70% were men, took their own lives. The official statistics of the Japanese Police Agency give the respective reasons for those suicides. While for the majority of people health reasons were cited as the main reason for taking their lives, for close to 7% “problems at work” were the cause. Certainly, those dramatic suicide figures cannot exclusively be blamed on the Japanese work ethic. Some experts explain these high numbers mainly by relating them to an increase in corporate bankruptcies.⁵¹⁷ However, in a system where the job often constitutes the main meaning in one’s life and is

⁵¹³ Ministry of Health, Labour and Welfare (2004), p. 13

⁵¹⁴ Cf. Taka, I. (1993), p. 55

⁵¹⁵ Cf. Curtin, J. S. (2004)

⁵¹⁶ The following two sentences refer to Japan Police Agency (2007), p. 2

⁵¹⁷ Cf. Hills, J. (2006), p.3

sometimes valued even higher than family, a failure at work or a loss of the position can easily result in a psychological breakdown. Obviously, the degree of stress which an employee experiences at work can have negative influences on his or her mental health. As for the moment, only a minority of Japanese companies are tackling the issues of health related psychological problems as part of their CSR activities. For example, a study undertaken by Kawashita et al.⁵¹⁸ found that about a third of Japanese companies report on the issue of mental health within their CSR reports, including depression, burn-out syndrome and death due to overwork.

On the positive side, as Chart 11 illustrates, a slight, continuous decrease in working hours can be observed in Japan. While this indicates that Japanese people are now increasingly emphasizing their private lives, working hours are still among the highest in the industrialized world.

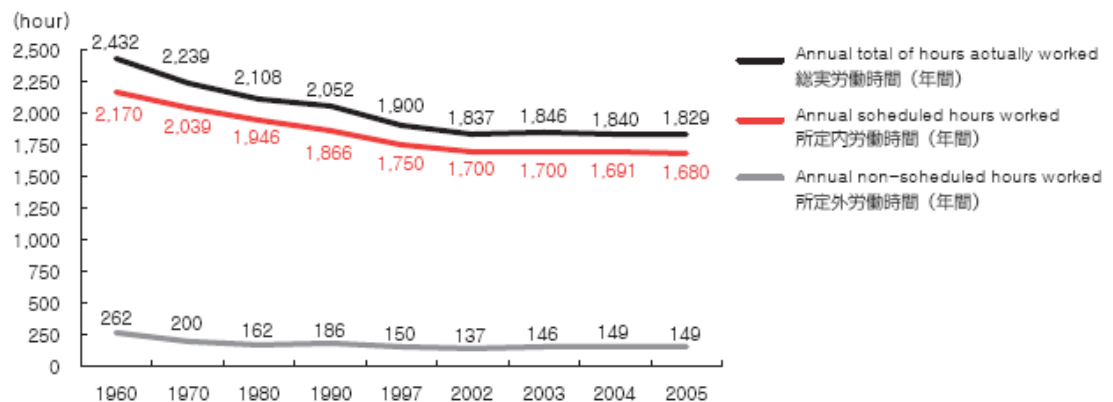


Chart 11: Trends in hours actually worked and non-scheduled hours worked⁵¹⁹

Due to the above outlined challenges in society, CSR management in Japan has been shifting towards social aspects lately. It is noteworthy that there seems to be a small but noticeable change in perception of the role of corporations in society: Compared to the year before, in 2005 an 8% increase in corporations implied that their CSR activities

⁵¹⁸ Cf. Kawashita, F. et al. (2005), p. 538

⁵¹⁹ The Japanese Institute of Labour Policy and Training (2007), p. 56

were driven by their sense of “responsibility for society”, whereas the numbers for other drivers, such as communication, PR, and educational measures, have remained almost unchanged.⁵²⁰

This is also in line with the trend both in Japan as well as in most parts of the Western world to change the name of the original “Environmental reports” into “Sustainability reports” or “CSR reports,” thereby underlining the widened focus on including the social dimensions under the name of “Triple Bottom” line besides the environmental and economic one.⁵²¹

Considering especially the social challenges Japan is currently faced with, the following implications can be drawn for foreign affiliated companies. As discussed before, there is still reluctance among a part of the Japanese to work for Western companies. This makes recruiting in Japan more difficult or at least more expensive than in the corporations’ home countries. On the positive side, women are increasingly looking for job positions where they enjoy the same career chances as their male peers and the Japanese youth, in general, are becoming more open towards Western style working environments and practices. However, with the Japanese society aging at a tremendous speed, the pool of available workers will be shrinking and corporations will see themselves in the position of having to fight in a “war for talents”⁵²².

In this context, CSR programs have a considerable potential to make a Western company the employer of choice for Japanese applicants. First of all, they can profit from their reputation of being non-discriminatory towards different categories of employers, as it is widely believed in Japan that foreign affiliated companies bring with

⁵²⁰ Cf. Ministry of the Environment (2006), p. 95

⁵²¹ Cf. Hanada, M. (2006), p. 25

⁵²² The term “War for talents” was first coined by the book of Ed, M.; Handfield,-Jones, H.; Axelroth, B. (2001): *The War for Talent*. Harvard University School Press, Boston 2001, and has since been used as a buzzword for the strategic importance to secure high qualified personnel for corporate management.

them the famed hiring policies of their home companies in the West, and that Japanese women who work for them will be treated on a par with men.⁵²³ In fact, the majority of women who master English or complete a period of study or work abroad, return to Japan hoping to find a position with a foreign affiliated firm,⁵²⁴ where they generally occupy higher positions of authority than in most Japanese corporations.⁵²⁵ Until recently, Japanese men tended to stay away from foreign affiliated companies, leaving avenues for promotion relatively open for women. For men, the insecurity of employment, the foreign language and cultural differences seem to be more of a challenge than for females.⁵²⁶ Therefore, for many Western companies, women will comprise the majority of their employees and will be the companies' best access to first class, educated candidates.⁵²⁷ Given the fact that foreign corporations are increasingly becoming the target of young men unsuccessful or uninterested in mainstream Japanese companies, this condition might, however, be in a flux.⁵²⁸

By offering their workers not only an appropriate remuneration but also a contract which can guarantee them a work-life-balance, foreign affiliated companies could attract and retain highly qualified human resources. Examples for social programs include career support and mentoring for female employees, part time work and work sharing models, as well as the establishment of facilities to care for children and/or the elderly.

⁵²³ Cf. Matsubara, J. (1989), p. 14 and Chiavacci, D. (2005), p. 108

⁵²⁴ Cf. Kashima, T. (1989), p. 189

⁵²⁵ Cf. Kelsky, K. (2001), p. 114

⁵²⁶ Cf. Ibidem, p. 115

⁵²⁷ Cf. Huddleston, J. (1990), p. 30 and 42

⁵²⁸ Cf. Kelsky, K. (2001), p. 115

2.2.4. The environmental dimension of CSR in Japan and its implications for foreign affiliated companies

While social issues have only recently become a topic of discussion for corporations in Japan, environmental problems caused by business activities came to the focus of Japanese corporate governance much earlier. As Yamada⁵²⁹ points out, the Japanese understanding of CSR is linked with the country's history of industrial pollution and the consequently evolved national environmental movement as well as civil society organizations. High economic growth – one of the main political goals in postwar Japan – had resulted in massive environmental pollution during the 1960s and 1970s, leading to the so-called *kōgai* (environmental pollution) incidents.⁵³⁰ The cases of Yokkaichi-asthma, and Minamata or Itai-Itai disease are infamous examples of the effects environmental pollution can have on the population.⁵³¹ In particular, during the 1950s and early 1960s, industrial development was given priority over environmental conservation by Japanese politics, a fact which was amply demonstrated by the extremely poor environmental protection standards existing in Japan in those years. As a result, pollution victim interest groups started a formidable grass roots movement⁵³² with the primary objective of increasing the environmental accountability of companies and sued the responsible companies.⁵³³ In several cases, as for example in the Minamata lawsuit, corporations were convicted and condemned to pay compensation to the victims and advocacy groups.⁵³⁴ Those costly court trials and the following environmental clean-ups made the corporations realize that preventive measures were much more cost-effective than running uncalculated environmental risks as a result of

⁵²⁹ Cf. Yamada, S. (2006), p. 341

⁵³⁰ Cf. Yamada, S. (2004), pp. 298 ff. and Kerkmann, U. (1998), pp. 9 ff.

⁵³¹ Cf. Imura, H. (2005), p. 23, and Yamada, S. (2006), p. 236

⁵³² Cf. Schreurs, M. (2002), p. 68

⁵³³ Cf. Imura, H. (2005), pp. 27 ff.

⁵³⁴ Cf. Osiander, A. (1998), p. 220

their uncontrolled business activities.⁵³⁵ At the same time, increasing public protest initiated an era of environmental legislation which forced companies to take into account and tackle their ecological impacts. During the late 1960s and early 1970s alone, fourteen anti-pollution laws concerning air and water conservation were adopted by the central government.⁵³⁶

The environmental movement in Japan was the main driving force towards an increased corporate awareness concerning the needs of social stakeholders beyond employees and shareholders. For the first time, the responsibility of companies beyond pure profit creation and the enhancement of core competences became a dimension for business governance and public acceptance. The organizational change concerning environmental accountability and corporate social responsibility has since the 1990s gained enormous speed and impact in Japan. Both environmental groups and corporations have been shifting their attention towards more global environmental problems and sustainability ever since. Environmental conservation policies have, as a result, moved from end-of-pipe-approaches towards more preventive measures. The investments in pollution control by the Japanese industry had peaked in 1975 but have been gradually declining ever since.⁵³⁷ This does not have to mean that corporations have become less concerned about environmental issues in course of time. In fact, the figures for other industrialized nations, such as Germany for example, also show a downward trend in the corresponding period.⁵³⁸ During the early stages of environmental awareness, also there investments had to be mostly in end-of-pipe technologies, such as the installation of filters, cleaning measures for sewage water, etc. However, since environmental corporate management has become a mainstream management function, environmentally benign production processes are more and more

⁵³⁵ Cf. Yamada, S. (2006), pp. 348

⁵³⁶ Cf. Kerkmann, U. (1998), p. 11

⁵³⁷ Cf. Nakamura, M.; Takahashi, T.; Vertinsky, I. (2001), p. 24

⁵³⁸ Cf. Statistisches Bundesamt Deutschland (2007)

automatically integrated into the design, as well as strategic and operative planning, thereby not showing up as exclusive “environmental expenditures” in the financial bottom line anymore.

This trend towards sustainability and global environmental issues was accompanied with an increase of direct claims targeting companies for more environmental protection.⁵³⁹ As a result, Japan has been strong for years in the implementation of environmental corporate management tools and, according to one study, 43.1% of Japanese corporations have implemented an environmental accounting system.⁵⁴⁰ In fact, within CSR efforts of Japanese companies, the environmental measures usually make up the large majority of all activities.⁵⁴¹

Many large Japanese companies have been reporting on their environmental performance for years, publishing information concerning their environmental policies mainly out of accountability considerations, but also, to a lesser extent, as part of their risk management.⁵⁴² The number of companies publishing environmental reports in Japan can serve as an insightful indicator for the general environmental awareness in the industry. Unlike in the United States or France, where the law requires environmental reporting to be included within the annual report, in Japan there exist only certain guidelines from the Ministry of Environment, but no binding legislative obligations,⁵⁴³ so the publishing of environmental report can be seen as a direct indicator of stakeholder pressure. In the “Global 100” analysis in which the world’s most sustainable companies are identified annually and presented at the World Economic Forum in Davos, 13 of the top ranked 100 companies in 2008 have been Japanese.⁵⁴⁴ Environmental awareness among Japanese corporations was boosted through the

⁵³⁹ Cf. Vosse, W. (2000), pp. 66 ff.

⁵⁴⁰ Cf. Ministry of the Environment (2008), p. 4

⁵⁴¹ Cf. Kawashita, F. et al. (2005), p. 533

⁵⁴² Cf. Goo Research (2002)

⁵⁴³ Cf. Hanada, M. (2006), p. 22

⁵⁴⁴ Cf. Global 100 (2008)

COP3⁵⁴⁵ conference in December 1997, after which the number of companies becoming certified with the ISO14001 standards skyrocketed.⁵⁴⁶ Now, the number of companies having implemented the environmental management standard ISO14001, which was introduced in the late 1990s, is remarkably high in comparison to the international scenario.⁵⁴⁷ While it can be argued that the adoption of the ISO standard is only a cosmetic strategy to satisfy customers, as it does not require absolute environmental performance,⁵⁴⁸ the rapidly growing numbers, nevertheless, underline a paradigm shift towards the increased importance of environmental issues. Concerning the ISO standard adoption in Japan, an interesting phenomenon can be observed:⁵⁴⁹ The number of corporations adopting the ISO14001 standard has continually been rising from 1996 to 2004, yet during the last few years it has slowly been decreasing again. According to the findings of Nakamura et al., there exist different motivations for Japanese corporations to adopt ISO certifications, such as the financial costs and benefits associated with such voluntary actions, but also the environmental values and beliefs of the key managers in charge for such decisions.⁵⁵⁰ In other words, while purely rational factors such as the financial bottom line are playing a major role in environmental corporate decision making in Japan, the same is true for other, less tangible factors such as moral and personal attitudes. This rise and fall in the number of companies which went for ISO certification has most likely been taking place because many companies felt pressured to introduce the ISO14001 standard around the turn of the millennium, but after a number of years with the constant need to improve their environmentally friendly

⁵⁴⁵ COP3 = The Third Conference of the Parties, Climate Change Conference held in Kyoto, Japan, from 1st to 10th December 1997

⁵⁴⁶ Cf. Hanada, M. (2006), p. 15

⁵⁴⁷ Cf. Ibidem, p. 24

⁵⁴⁸ Cf. Witt, C. E. (2008), p. 3

⁵⁴⁹ Cf. Ministry of the Environment (2008), p. 2

⁵⁵⁰ Cf. Nakamura, M.; Takahashi, T.; Vertinsky, I. (2001), p. 42

performance, some companies decided that maintaining the standard requires more effort than expected and did not see sufficient benefits from holding the certification.

Today, it is common consensus in Japan that there exists a clear relationship between the environmental performance of a company and its pursuit of financial profits.⁵⁵¹ Tashiro and Yoshida⁵⁵² remark that, due to a borderless international trade pattern and the increasing influence and production of the BRIC⁵⁵³ countries, the costs of environmental preservation can threaten the competitiveness of Japanese manufacturers. On the other hand, they also acknowledge that if stakeholders will base their buying decisions on aspects concerning the environmental features of products, it will be easier for corporations to justify investments in that area to their shareholders and to the market.

According to a study undertaken by the Japanese Ministry of the Environment in 2007,⁵⁵⁴ Japanese corporations have been changing their thinking about environmentally friendly corporate behaviour. The large majority of the respondents (77.5%) said that they regarded environmental policies first of all as a part of the social responsibility of corporations. However, compared to the results obtained in the past, a growing number of surveyed companies (14.3% in 2007, compared to 9% and 8.3% in 2006 and 2005 respectively) perceived environmental activities as a crucial part of corporate strategy. This indicates that environmental protection is not only PR, but more and more perceived as essential for the business survival of the firm. In recent years, companies started to realize that environmentally benign management can also improve their competitiveness⁵⁵⁵ and a growing percentage of firms began to regard investment in environmentally friendly products and processes rather as a strategic move than as

⁵⁵¹ Cf. Nakamura, M.; Takahashi, T.; Vertinsky, I. (2001), p. 24 f.

⁵⁵² Cf. Tashiro, H.; Yoshida, M. (2006), p. 43

⁵⁵³ "BRIC" stands for the emerging economic superpowers of tomorrow: Brazil, Russia, India and China.

⁵⁵⁴ Cf. Ministry of the Environment (2008), p. 1

⁵⁵⁵ Cf. Tanabe, T. (2005), p. 115

costs.⁵⁵⁶ Moreover, many Japanese corporations have started realizing that environmental preservation can have very positive effects on strategic management and revenues. The potential benefits of engagement in environmentally benign procurements, production processes and products include lower environmental risks, the establishment of an environmental friendly brand, the improvement of supply chain activities concerning environmental aspects, and an increase of employees' motivation and loyalty towards the company.⁵⁵⁷

The investment in environmental preservation measures in Japan is particularly high in the automotive industry, usually making up around 2% of corporate revenues while the investment in environmental research accounts for about 5% of the revenues. The chemical and energy sectors show similar investment rates. This can be explained by the fact that these industries market their products directly to the end consumer and have fierce competition within their industry, so that they have to put a lot of effort into coming come up with innovative solutions.⁵⁵⁸

Hanada⁵⁵⁹ suggests that industries in Japan which have a higher need for environmental awareness, preservation measures and reporting, share the following characteristics:

- The buyer is also the consumer of the product, which means a very close relationship between the corporations and the consumer.
- Corporate activities impose a heavy burden on the environment and, therefore, the corporation has a need for accountability towards its stakeholders.
- The industry recognizes a direct connection between the environment and its corporate activities.

⁵⁵⁶ Cf. Nakao, Y. et al. (2006), p. 107

⁵⁵⁷ Cf. Hanada, M. (2006), p. 15

⁵⁵⁸ Cf. Tashiro, H.; Yoshida, M. (2006), p. 45

⁵⁵⁹ The following paragraph refers to Hanada, M. (2006), pp. 31 and 37

In her studies, Hanada found that the food, electricity, and chemical industries have outstanding environmental measures and standards because those industries share the above mentioned characteristics and, therefore, are CSR conscious.

It is now widely recognized in Japan that it should be one of the core goals of Japanese business and society for the next two decades to promote environmental awareness, an ecologically sound corporate management, and to create a recycling society.⁵⁶⁰ The largest issue connected to environmental business, according to a study by the Ministry of the Environment, is the fact that the level of awareness among consumers is still low (31.1%).⁵⁶¹ Furthermore, as discussed above, NGOs haven't started playing a role as important as in the Western world. Due to the fact that they failed to institutionalize on the national level,⁵⁶² environmental groups have not yet succeeded in establishing themselves as instrumental stakeholders for corporations. Even today, they often lack organizational strength, know-how, sufficient number of members and staff, public recognition, and sufficient financial resources. Moreover, the concentration on local issues, hindered them from participating in a larger scale corporate accountability debate. Having their focus mostly on urban areas and local issues, environmental interest groups in Japan have not been attacking corporations openly and aggressively as those in Europe and the US.⁵⁶³

Western companies in Japan will have to anticipate the stakeholder expectations towards them in the context of environmental issues. As discussed above, the pressure to consider environmental aspects is coming mostly from the industrial side, typically in requirements to comply with certain standards (e.g. the environmental ISO standards) or to provide other official certifications. This is especially true if the company is dealing

⁵⁶⁰ Cf. Nippon Keidanren (2003), pp. 5 and 10

⁵⁶¹ Cf. Ministry of the Environment (2008), p. 7

⁵⁶² Cf. Schreurs, M. (2002), pp. 69 ff.

⁵⁶³ Cf. Yamamura, T. (1998), pp. 55 f.

with environmental frontrunners, who demand extensive data and compliance with up to date best practice methods from all their suppliers.

While the end customers in Japan are not as concerned about environmental aspects as many of their Western, especially European counterparts, general awareness is rising. The Japanese government is also trying to actively stimulate the end consumers to buy environmentally friendly products, for example with the system of the so-called “Ecopoints”⁵⁶⁴, which allow financial incentives for choosing energy saving electronic goods. The government is also experimenting with other incentive programs, for instance to stimulate the purchase of solar energy units, which could halve the costs of for solar panel installations in private households.⁵⁶⁵

Having said this, Japanese consumers are likely to become increasingly sensitive towards the environmental dimension as part of their purchasing decisions, which can generate advantages for corporations positioning themselves and their products as environmentally superior. In fact, Western European countries, in particular Germany and Northern European nations such as Denmark, Finland, Sweden and Norway, are enjoying the reputation of being environmentally more developed than Japan among Japanese customers. Some companies originating from those countries are using this general image as their unique selling proposition in Japan and promote their products emphasizing their European origin. Examples include the “Frosch” cleaning products⁵⁶⁶ or the “Hauschke” natural cosmetics⁵⁶⁷. Interestingly, those products are often sold without even adjusting the packaging in order to emphasize their import character and the fact that the customer is actually purchasing an original European product. In many cases, selling environmentally friendly products in such niche markets can be highly profitable. For instance, the cleaning products of Frosch in Germany are usually sold for

⁵⁶⁴ Cf. Japan Times Online (2009)

⁵⁶⁵ Cf. Negishi, M. (2008)

⁵⁶⁶ Corporate website: <http://www.froschclub.com/index.html>

⁵⁶⁷ Corporate website: <http://www.dr.hauschka.de/>

around 2 Euros, while in Japan selling for approximately 1000 Yen⁵⁶⁸. This example illustrates that utilizing the environmental dimension of a corporation's product, emphasizing its features together with its European origin, can – in combination with effective brand positioning and management – generate interesting niche and high margin business opportunities in Japan.

2.2.5. The voluntariness dimension of CSR in Japan and its implications for foreign affiliated companies

As outlined in the first chapter, Corporate Social Responsibility should, by the nature of its characterization, be undertaken voluntarily. CSR should go beyond the simple observation of laws and regulations and comprehend a concern for the most instrumental concerns of the corporation's stakeholders.⁵⁶⁹ However, if not by personal initiative out from the business founders, corporations will only actively implement social and environmental programs and policies, if there are actual benefits to be achieved also from the strategic perspective of their corporate governance.

As for the case of Japan, as mentioned above, there exist a number of corporations with leading edge approaches to sustainability aspects, including Canon and Ricoh.⁵⁷⁰ For others, such as Toyota, which aspired to become and stay an innovative frontrunner in the area of hybrid cars as discussed earlier⁵⁷¹, environmental measures were actively supported as part of their strategic positioning and integral pillar of their business model. For the large majority of the corporations, however, environmental measures seem to be mostly implemented like quasi-regulation, because it is demanded from them by their

⁵⁶⁸ At the time of the writing of this thesis (June 2009), 1000 Yen were an equivalent to 7.25 Euro. Even considering the additional costs for importing, this indicates a profit margin of over 200%. See above mentioned website for current product prices.

⁵⁶⁹ Cf. Palacios, J. J. (2004), p. 393

⁵⁷⁰ See the respective Sustainability Reports, Ricoh Co. Ltd. (2008) and Canon Inc. (2009), in detail

⁵⁷¹ Cf. Toyota Motor Europe (2007), p. 28

business customers or as part of their supplier terms, both within Japan and when trading internationally. Furthermore, as mentioned earlier, the government is in some areas supporting environmental and social goals, which might also be an incentive to Japanese corporations to increasingly integrate those dimensions in their business strategy.

As with corporations in other countries as well, for the external observer, it will be difficult to judge what the genuine reason for the implementation of social and environmental programs within a corporation has been. In their corporate brochures, many companies refer to their pronounced feeling of responsibility towards society and nature, and this might or might not be true. Fact is, however, that as for the moment, certain pressures do exist within the Japanese market, which might – depending on the individual case of the corporation – generate the necessity for companies to “voluntarily” comply with social and environmental demands, even if they are not mandated by the law to do so officially.

In comparison to this, foreign affiliated companies in Japan are usually bound to the CSR guidelines of the headquarters in their home countries. Having said this, to what extend their engagement for social and environmental programs will be “voluntarily” depends in large parts on their individual corporate practices. Some might only be demanded to comply with a general Code of Conduct, others might be able to choose from a catalogue of possible activities to be adapted to the local settings or still others might be given the freedom to develop their very own programs for the Japanese market. Generally speaking, however, most foreign affiliated companies will also be presented with the same or similar pressures and influences concerning social and environmental aspects, which their Japanese counterparts are. Differently put, regardless of their

individual internal regulations, setting up CSR programs or policies might simply make good business sense as a strategic move within the Japanese market.

As there is not much material available about the specific situation especially of Western European companies in Japan and their perceived need to model and implement CSR programs for the local market in this East Asian nation, as a next step, a number of qualitative interviews with the management of such corporations have been conducted. The following chapter will elaborate on the findings gained in those interviews and discuss the thereof resulting implications.

Chapter 3:

Empirical insights into CSR practices of Western European companies in Japan

Based on the insights gained through the theoretical research about CSR in Japan, the current state of Western European companies in Japan and their strategic approach to CSR policy modeling was investigated through a series of qualitative interviews by the author. As the below elaborations will show, based on the information gained through the interviews, most corporations are feeling a comparatively low pressure from their Japanese stakeholder surroundings to implement social or environmental measures. In fact, most companies seem to pursue a global rather than a local approach, in other words their CSR programs are mostly designed and decided upon in their respective home countries' head quarters and are then mostly unchanged imported for the Japanese setting. Furthermore, the discrepancy between the sensitivity for CSR aspects was observed to be significant, depending on the industry the corporation engages in. While for some corporations social and environmental aspects were clearly high on the strategic agenda, others would follow a rather defense and passive approach.

Following the discussion of the findings gained during the interviews, in this chapter a CSR Evaluation Model will be proposed, which shall shed light onto the various characterizations of the social and environmental policies found within Western European companies in Japan.

3.1. Qualitative interviews with Western European companies in Japan: Method, assumptions and results

Interview partner companies were identified by the author mostly through internet research and personal introduction by friends and acquaintances. In all, around 100 companies and institutions were contacted, of which 15 agreed to an interview. Most of the contacted companies did not respond at all and 3 of them informed that they would

as a general practice never accept student interview inquiries. The qualitative interviews lasted for around 1 hour and were conducted using a list of lead questions. Interview partners were CSR managers, presidents and CEOs, managers of the marketing and environmental departments and others. The method applied in assessing the outcomes of the interview can be characterized as hermeneutical.⁵⁷² It was with the following companies and institutions that the interviews were held (see list of conducted interviews at the beginning of this thesis for details):

BASF Japan Ltd., Manager, Corporate Communications

BMW Japan Corp., BMW Motorbike Director

Bundesverband mittelständische Wirtschaft e.V., Director of the BVMW in Japan

Chanel K. K., General Manager, Fragrance & Beauty Product Division

Henkel Japan Ltd., President

IKEA Japan K.K., President & CEO

Kirin Mc Danone Waters Co. Ltd., Director, Marketing Department

Merck Ltd. Japan, President

Ministry of Economy, Trade and Industry Japan, Director, WTO Compliance and Dispute Settlement as well as author of the book *CSR in Japan and Europe*

Nestlé Japan Ltd., Manager

Nippon Boehringer Ingelheim Japan Ltd., Corporate Environmental Manager

Nissan Motor Co. Ltd., Corporate Vice President, Global Communications and CSR Division

Roland Berger Strategy Consultants, Partner

Standard Chartered Bank Tokyo Branch, Head Corporate Affairs, Japan

TUEV Rheinland Japan Ltd., CSR Manager

⁵⁷² For deeper insights into this method, see for example Kurt, R. (2004).

3.1.1. Assumptions before the interviews

Based on the theoretical insights the author has been gaining through prior research and discussed in Chapter 2, the following assumptions were made about CSR policy modeling of European companies in Japan before the interviews were conducted:

- 1.) Considering that the majority of the above companies have extensive CSR programs in their home countries, it was assumed that **they had a clear and extensive CSR strategy for the Japanese market.**
- 2.) Based on the fact that there has been a considerable CSR boom taking place in Japan in recent years, it was assumed that **foreign affiliated companies would increasingly feel the pressure to implement and communicate a clear CSR strategy.**
- 3.) Consequently, it was furthermore assumed that **CSR was perceived as a crucial business dimension for the top management.**
- 4.) Considering that finding well-qualified personnel still seems to be an issue for foreign affiliated companies, it was assumed that **they would use CSR programs to make their corporations more attractive as an employer** for Japanese applicants.
- 5.) Due to the fact that European and Japanese cultures differ greatly in their value sets, it was assumed that **the interviewed companies would adjust their CSR program to the different stakeholder surroundings found in Japan.**
- 6.) With CSR being an originally Western concept, it was assumed that **Western European companies in Japan were usually more advanced in their CSR approaches compared to their Japanese counterparts.**

The above assumptions were used as a basis for the interviews with the listed companies and institutions during a research trip to Japan from September until October 2007.

3.1.2. Results of the interviews

The conducted interviews led to the following overall results.

1.) “Foreign companies have a clear and extensive CSR strategy for the Japanese market.”

One of the most surprising findings of the interviews was how low CSR is on the agenda of most domestic companies in Japan. In fact, the majority of the interviewed European based corporations reported that they did not feel the urgent need for CSR from the Japanese market or stakeholder surroundings. Rather, in most cases, CSR was implemented because it was part of the general corporate governance system delegated from the European headquarters. Consequently, the existing CSR programs are usually just a less extensive copy of those existing in the corporation’s home country and thus only slightly adapted to the local conditions. Those companies with extensive CSR programs, such as, for example, IKEA and Nestlé, often referred to the global need and pressure for social and environmental policies, rather than to demands from specific Japanese stakeholders.

Most companies’ CSR reports are not translated at all into Japanese, usually only offering an international English language edition. Considering that still a large part of the Japanese population has difficulties understanding complex texts in English, it can be said that the written CSR stakeholder communication of these European companies is still rather limited in Japan. Even in those cases where Japanese translations are available, they are mostly direct copies of the European originals, not adjusted to the Japanese situation.

Consequently, it can be concluded that rather than having an extensive and clear CSR strategy for the local Japanese market, European companies seem to be driven by international motivators concerning their social and environmental activities, which is reflected in their global approach to CSR.

2.) “Foreign companies increasingly feel the pressure to implement and communicate a clear CSR strategy.”

Accordingly to the above finding, outside pressure to implement CSR policies in Japan is reported to be very low and much less pronounced than in Europe. For example, the BMW Motorbike Director reported that environmental awareness of consumers in Japan is surprisingly low. He cited, among others, the large number of drink vending machines, which are cooled and heated 24 hours a day, as well as the lack of housing isolation, even in modern buildings. He consequently explained this by the fact that in contrast to Europe, where there are mainstream opinion leaders for environmental causes, such as the Green Party in Germany, there are no such large influential institutions or interest groups in Japan yet. Moreover, the Director of the WTO Compliance and Dispute Settlement Department of the Ministry of the Economy and Trade in Japan outlined that even internationally influential groups, such as Greenpeace, are having difficulties establishing themselves in Japan. He believes that this is because their way of expressing their concerns such as for instance, organizing large scale manifestations, is perceived as too extreme and aggressive in Japan.

Consequently, due to the lack of active NGOs, none of the interviewed corporations reported that they had ever experienced confrontations with interest groups. This is in line with the fact that NGOs do not have a major impact on the Japanese business world yet.⁵⁷³ However, it is insightful to observe that those interest groups which do exist in Japan are mostly targeting local corporations and seem not to be focusing on Western companies at present. In the few cases where the interviewed corporations did have cooperation agreements with NGOs (for example Standard Chartered Bank supporting a

⁵⁷³ See Chapter 2.2.2.5. in detail

blind running group⁵⁷⁴), it were the companies who had initiated the contact with the interest groups and not vice versa.

3.) “CSR is perceived as a crucial business dimension for the top management.”

In line with the finding that CSR seems not to play a major role for foreign corporations in Japan yet, the planning, implementation and control of the CSR policies, if existent, is in the majority of cases not the responsibility of the top management. Only a small number of the interview partners pointed out that CSR was absolutely crucial for the survival of the company and also high on corporate governance agenda⁵⁷⁵, because, as one representative phrased it: “You can’t do business on a dead planet.”⁵⁷⁶

According to the nature of the programs, the handling of CSR policies is usually assigned to the employees in the respective departments (for example marketing, environmental management, communication, etc.). Most companies do not have a specific CSR manager employed in Japan, as their subsidiaries are generally quite small compared to the organization’s size in their home countries and, therefore, confined to core functions such as sales and marketing. In some cases, the interview partners reported that it was difficult for them to convince the top management about implementing certain CSR policies, if those did not result in any direct cost savings.⁵⁷⁷

⁵⁷⁴ Personal communication with the Head of Corporate Affairs, Japan of Standard Chartered Bank Tokyo Branch

⁵⁷⁵ For example personal communication with the President and CEO of IKEA Japan K. K.

⁵⁷⁶ Personal communication with the Head of Corporate Affairs, Japan of Standard Chartered Bank Tokyo Branch

⁵⁷⁷ For example, personal communication with the Corporate Vice President, Global Communications and CSR Division of Nissan Motors Co. Ltd.

4.) “Foreign companies use CSR programs to make their corporations more attractive as an employer.”

In the light of the difficulties encountered in finding suitable personnel in Japan, as often reported in academic business literature, it was assumed that foreign companies would use social programs for example supporting females in management positions or during child rearing, to make the company a more attractive place to work. However, the majority of the interviewed companies reported that it has become much easier today to find personnel than only a couple of years ago. Apparently, the popularity of working at a foreign affiliated company has increased perceptibly. As explained in the previous chapter, foreign companies have the reputation of being more focused on performance and giving younger as well as female employees more opportunities to develop their careers than most local employers. They offer higher salaries compared to what is given by Japanese companies, but, on the other hand, do not provide lifetime employment.⁵⁷⁸ As many of the company representatives reported, the general preferences, in particular of younger people, concerning their employers of choice is in the course of transition. Many Japanese now believe that working for a local company cannot guarantee them a position for life, because economic downturns and an increased internationalization of the Japanese economy have been forcing both foreign and Japanese companies to lay off workers occasionally. Therefore, foreign affiliated companies can now be ranked almost at par with local Japanese ones in their popularity as an employer.⁵⁷⁹ In particular, those corporations with a long history in Japan and an established brand name, such as Nestlé and Merck, or those offering highly competitive salaries, such as Roland Berger,⁵⁸⁰ did not experience any issues in recruiting suitable personnel anymore.

⁵⁷⁸ See Chapter 2.2.2.1. in detail

⁵⁷⁹ Personal communication with the Corporate Environmental Manager of Boehringer Ingelheim Japan

⁵⁸⁰ Personal communication with the Partner of Roland Berger Strategy Consultants Japan

Major problems in securing well-qualified personnel were reported only by small and medium-size companies, which have no prestigious reputation in Japan, and, therefore, are not seen as the employer of choice for most applicants.⁵⁸¹ Furthermore, BMW, with its Japanese head quarters in Chiba, about one hour from downtown Tokyo, experienced difficulties in finding employees, as applicants usually preferred working closer to the city center.⁵⁸²

The majority of the corporations pointed out that they are supporting female managers in their careers more than the average Japanese corporation, but they are not explicitly communicating such practices publicly. The President of Merck Ltd. Japan even preferred hiring females to hiring males, because in his experience women in Japan were generally brighter and more motivated.⁵⁸³ On the other hand, the fact that only one of the interview partners encountered by the author was female gives an indication that even within foreign companies higher ranking positions are not generally filled with female workers. The Corporate Vice President of the Global Communications and CSR Division of Nissan Motor Co. Ltd., one of the few companies which have clear goals towards the promotion of women in the workplace, said that even those objectives (three per cent of females promoted to top management by 2011) were admittedly very small compared to Europe. He added that due to cultural reasons, gender equality in Japan is still in its infancy.⁵⁸⁴ Furthermore, the representative of Boehringer Ingelheim in Japan admitted that during the last 5 years not only did the number of females in management positions rise considerably, but the company became more international as well, with many foreigners now working for their subsidiary in Tokyo.⁵⁸⁵

⁵⁸¹ Personal communication with the Director of the BVMW in Japan

⁵⁸² Personal communication with the BMW Motorbike Director

⁵⁸³ Personal communication with the President of Merck Ltd. Japan

⁵⁸⁴ Personal communication with the Corporate Vice President, Global Communications and CSR Division of Nissan Motor Co. Ltd.

⁵⁸⁵ Personal communication with the Corporate Environmental Manager of Boehringer Ingelheim Japan

CSR is, however, seldom linked with employment issues by the interviewed corporations. Only a minority did associate CSR with corporate identity and employee satisfaction. One of them was the Head of Corporate Affairs from Standard Chartered Bank, who believes that money is not the most instrumental motivator for people to work hard and give their best. On the contrary, he pointed out that the personal identification with a company people can be proud of can be crucial and that employees who see that they can help a good cause feel better about themselves and are more highly motivated.⁵⁸⁶

To sum up, it can be stated that the majority of foreign affiliated companies interviewed do not use CSR aspects for their recruiting or human resource management. This can be explained by the fact that most of them do not feel the need to put additional effort into increasing their appeal as an employer, as Western corporations have become more popular in general and enjoy the reputation of being non-discriminatory in their promotion systems. However, considering the rapidly aging society in Japan and the future lack of young workers, foreign affiliated companies still have a large potential to use more effective communication and implementation of CSR policies in order to attract qualified personnel when the war for talents becomes more competitive in the years to come.

5.) “Foreign companies adjust their CSR programs to the different stakeholder surroundings found in Japan.”

Most of the companies interviewed adapt their CSR programs to local conditions only slightly and have not yet implemented a unique Japanese strategy as expected. Those corporations with a very far-reaching CSR approach, such as, for example, Nestlé, has very high international standards, which apply to every nation the company is doing

⁵⁸⁶ Personal communication with the Head of Corporate Affairs, Japan of Standard Chartered Bank Tokyo Branch

business in.⁵⁸⁷ Furthermore, it was also reported that the legislative environment is becoming increasingly similar: While, for example, German environmental regulation used to be stricter than the Japanese one, the extent and content of the environmental legislation is today almost identical.⁵⁸⁸ Considering that Western European countries and Japan are all industrialized nations, it is obvious that laws concerning environmental protection are converging.⁵⁸⁹ The general trend for multinational corporations seems to be having global standards and strategies as a general risk management tool, which usually does not vary dramatically from nation to nation.⁵⁹⁰ For instance, Standard Chartered Bank has internationally decided to focus on the two areas of supporting the blind and educating about the HIV/AIDS issue. These topics are then translated into actual programs appropriate to the national context of the countries the bank is engaging in. For example, in Japan, Standard Chartered is promoting a “Seeing is believing” program to raise money for the prevention of curable eye diseases. Furthermore, the bank is also promoting a local blind running club. To support AIDS education, its CEO has appeared four times on the MTV music channel to talk about the HIV issue and generate higher awareness, in particular among younger people. Apart from that, a panel discussion about AIDS was organized at Waseda University, one of the most prestigious as well as renowned higher education institutions in Japan. Some adjustments of the interviewed companies’ local CSR policies can only be observed in the context of local natural conditions, such as earth quake and typhoon warning and emergency case management systems, for example existing at Henkel Japan Ltd., Merck Ltd. and Boehringer Ingelheim Japan.⁵⁹¹ Careful employee trainings

⁵⁸⁷ Personal communication with the Manager of Nestlé Japan Ltd.

⁵⁸⁸ Personal communication with the Corporate Environmental Manager of Boehringer Ingelheim Japan

⁵⁸⁹ In this context, it would be insightful to compare the corporations’ strategies in other nations belonging to Second or Third World countries. Possibly, greater inconsistencies could be found when the legislative and social environment differs greatly from that of a company’s home country.

⁵⁹⁰ Personal communication with the Head of Corporate Affairs, Japan of Standard Chartered Bank Tokyo Branch

⁵⁹¹ Personal communication with the respective corporate representatives

for the case of emergency as well as security equipment, such as helmets, are provided at every workplace.

In only one case were problems reported regarding adjustment with the policies of the headquarters, namely, in the case of working contracts, which have to be closed according to Japanese legislation. For example, in Germany every worker is granted a certain number of medical leave days, which are not available in Japan.⁵⁹²

In short, it can be stated that the majority of the interviewed companies have not at least yet adjusted their CSR policies sufficiently to the local Japanese conditions. In most cases, existing templates or programs of the headquarters were simply introduced in Japan, not taking care to develop a unique approach or independent programs specifically for this nation.

6.) “Western European companies in Japan were usually more advanced in their CSR approaches compared to their Japanese counterparts.”

During the author’s interviews and the research in Japan, it became clear that CSR is defined differently in Western Europe and Japan. As described in the previous chapter, Japanese corporations stress environmental and compliance aspects, but are still putting less focus on social aspects besides those considered in the traditional management system.⁵⁹³ Furthermore, as the Head of Corporate Affairs of Japan of Standard Chartered Bank explained, Japanese corporations historically tend to practice lifetime employment and consider this system as part of their social responsibility towards their employees. Considering new and innovative approaches to CSR, Japanese corporations are now “taking links and cues from how Western companies are doing it.” The Director of WTO Compliance and Dispute Settlement of the Ministry of Economy,

⁵⁹² Personal communication with the Corporate Environmental Manager of Boehringer Ingelheim Japan

⁵⁹³ Personal communication with the Head of Corporate Affairs, Japan of Standard Chartered Bank Tokyo Branch

Trade and Industry in Japan observed the tendency of Japanese companies to copy European approaches, since Western practices are considered most advanced, and as a result of extensive governmental support, more far reaching in Europe than in Japan, in particular concerning environmental regulations.⁵⁹⁴

However, due to the general differences in definition of CSR in the West and in Japan, it is problematic to directly compare the level of development of corporate policies in both regions. Both systems have their strengths and weaknesses and it is almost impossible to weight them up against each other without implying a cultural bias. Besides, it has to be considered that comparing foreign affiliated companies in Japan with local corporations is not appropriate due to the limited size of the former. To further explore the extent of CSR programs with Japanese and European corporations, more in-depth research comparing, for example, Japanese subsidiaries abroad in comparison to Western companies in Japan will be needed.

3.1.3. Analysis of the interviews

Summing up, it can be concluded that the interviewed foreign companies in Japan have mostly some kind of CSR program or social and environmental policies, but in most cases do not use CSR strategically for the Japanese market yet. Often, the existing programs were decided upon and implemented more randomly than with a clear plan about their objectives. Having said this, even though the majority of foreign companies reported that they have not experienced any major issues in their Japanese business operations, it can be assumed that there is still much potential for the strategic utilization of CSR policies to improve the position of these corporations in this East-Asian nation.

⁵⁹⁴ Personal communication with the Director of WTO Compliance and Dispute Settlement, Ministry of Economy, Trade and Industry in Japan

This finding corresponds with that of O'Brien, who suggests a more strategic approach for CSR policies. He believes that many companies⁵⁹⁵ are not using the full potential of CSR yet and lack a practical framework for implementation as well as strategic alignment.⁵⁹⁶ He then proposes that they shift their traditional CSR program model towards a "Socially Anchored Competencies Program Model." Accordingly, he characterizes the traditional and more innovative program models as follows.

Program components	Traditional CSR Program Model	Socially Anchored Competencies Program Model
<i>Goals</i>	Related to strategic theme and focus on social impact that is often not measured.	Designed to deliver social and business impact that is measured and attributed to project.
<i>Strategies</i>	Vary greatly from project to project and tend not to take advantage of company skills.	Built on core competencies and includes blend of skills from both company and its partners.
<i>Beneficiaries</i>	Broadly defined and usually constituents of the partner organization(s).	Targeted to stakeholders strategically linked to the company and its businesses.

⁵⁹⁵ O'Brien's research was undertaken for North American companies, but his findings can be applied to the situation in Japan effectively.

⁵⁹⁶ Cf. O'Brien, D. (2001), p. 6

<i>Resource Mix</i>	Mix of cash grants and products donations; sometimes employee volunteerism.	Creative mix of cash, product, people, and other company assets that leverage maximum impact.
<i>Management</i>	CSR staff approves projects and maintain a reporting relationship with partners.	Cross functional management teams that participate in design, oversight, and evaluation.

Table 2: Traditional vs. SAC Models of CSR⁵⁹⁷

As the author has found during the interview series among foreign companies in Japan, the majority of the corporations have implemented the “traditional system”, in which CSR policies are undertaken more or less randomly, without a strategic approach and without clear measurement systems. In fact, when asked about the evaluation of their CSR program results, the majority of corporate representatives answered that they were “impossible to be measured”. It is clear that some effects of successful CSR policies, such as the improvement of reputation or the motivation of the employees due to higher personal identification with the corporate values, are indeed difficult to express in figures. However, on the other hand, there are a large number of other indices, which can be measured and quantified. Examples include environmental emissions, revenues of products promoted with responsible marketing, number of complaints towards the company, number of different job applicant groups, etc. Therefore, it seems surprising that most companies have at least not yet implemented tools, such as environmental or

⁵⁹⁷ O’Brien, D. (2001), p. 14

social score cards,⁵⁹⁸ in order to grasp the effects of a number of CSR policies. Reasons why the strategic potential of CSR policies is not being fully exploited yet might include the following:

- The concept of CSR is still a rather new notion and measurement tools are in their infancy. Many tools have been developed in theory in academia, but have not been tested and implemented in real business surroundings yet. For most companies, CSR remains a hard-to-grasp concept, to which a certain budget is assigned, but without following up its effects.
- Knowing that some factors of CSR, such as image improvement and brand recognition, are very hard to measure, it is often believed that CSR policy results in general are not measurable.
- For most managers and executives who could implement CSR measurement tools, there is no feeling of urgency to do so. Especially for the Japanese setting, where environmental legislation is already established at a very high level and social issues are not as pronounced as in many other countries, usually managers have other priorities in their daily business conduct than implementing CSR evaluation tools.
- Moreover, due to the fact that the subsidiaries of Western companies in Japan do not generally have a large number of staff, there is mostly no “CSR Manager” assigned specifically to socially or environmental policies. Rather, such functions are managed by other departments, such as marketing, communication, Health and Safety, etc., which might not be familiar with available evaluation systems.
- Finally, some managers might not be aware that some issues they encounter on the Japanese market could be solved or at least abated by CSR programs. For example, a manager might be aware that it is difficult to find well-suited personnel; he or she does not, however, perhaps realize that offering a flexible working environment could make

⁵⁹⁸ Cf. e.g. Pandey, I. M. (2005), Kaplan, R. S.; Norton, D. R. (2005) and Epstein, M. J.; Wisner, P. S. (2001) for background information

the company more attractive as an employer. In this context it may be remembered that best practice sharing, also on the international level, could raise the awareness about the potential of social and environmental issues.

While a general lack of strategic approach was apparent with the majority of the interviewed companies, it was insightful to see the considerable importance assigned to CSR policies. Differently put, some companies have a very high awareness of social and environmental issues, while others consider such aspects only marginally. Therefore, it is difficult to make generalizations about the strategic use of CSR policies by Western companies in Japan. During the interviews, certain patterns and drivers for CSR became apparent, which shall be modelled into a CSR evaluation scheme in the next session.

3.2. Factors influencing the characterization of CSR programs in Japan

During the author's research in Japan, it was observed that a number of factors seem to influence the characterization of CSR programs in certain companies and industries. Though not exhaustive, seven instrumental factors have been identified and are discussed below, namely environmental and social impact, frequency of corporate scandals, degree of pending legislation, importance of feature selling, amount of national production, and level of consumer awareness.

3.2.1. Environmental and social impact as drivers for CSR policies

Not only in Japan, but in the whole world, industries which have the largest impact on environmental and social issues tend to be the frontrunners when it comes to CSR programs.⁵⁹⁹ This can be explained by the fact that interest groups and NGOs tend to attack, in particular, those industries with considerable negative external effects caused

⁵⁹⁹ Cf. Hanada, M. (2006), pp. 31 and 37

by their business activities. Therefore, corporations in such business areas have to establish accountability towards their stakeholders more readily and elaborately than those industries with less environmental or social influences. Industries with a large impact include, among others, the automotive industry, the transportation industry, the chemical and petrochemical industry as well as all those industries which have shifted their production to third world countries, such as the apparel industry.

On the other hand, there are a number of business areas, which, by the nature of their product, do not have any, or only indirectly have some, impact on the environment and social issues. Such industries are usually offering some kind of service, rather than a physical product. Examples of such industries include the financial industry, the IT (in particular software industry) as well as the consulting industry.

For instance, one of the corporations interviewed was IKEA with the most far reaching CSR program.⁶⁰⁰ Most of the corporation's products are manufactured mainly out of natural materials, such as wood and fabrics, and are, therefore, affecting the environment considerably during sourcing and production. Due to the fact that a lot of the wood is imported from Russia for IKEA furniture production, the company has to deal with issues such as the deforestation of the Siberian forests and illegal logging in China, which is often linked to the Russian wood industry. IKEA is currently trying to get licenses for the wood which it imports, among other nations, also to Japan. At the moment the company knows the exact origin of about 30% of its wood materials, but is planning to raise this figure considerably in the future. IKEA is also working together with Green Peace and the World Fund to identify forest areas which require environmental protection. Apart from that, IKEA's supply chains frequently include child labor sensitive areas. For instance, fabric products, such as blankets, carpets, cushions, etc., are often produced in countries such as India and Vietnam. However, as

⁶⁰⁰ Personal communication with the President of IKEA Ltd. Japan

the President of IKEA Ltd. Japan pointed out, the challenge does not merely lie in controlling factory work and avoiding sweat shop conditions. Rather, checking on child labor practices is much more complex, because a lot of the work is done at home in families and, therefore, almost uncontrollable. Yet, he made it clear that simply leaving those countries is not an option either due to the fact that in that case the families and children would be jobless, forced into poverty and in the end even worse off than before. To solve the issue, the company provides free schooling for the employees' children, to make sure that minors receive an education before joining the workforce even in those countries where child labor is a concern.

On the other side, companies in industries with less environmental and social impact, for example, Chanel as a representative of the luxury goods industry (see Chapter 4 in detail), showed almost no CSR programs for their global and local Japanese business. Consequently, it can be concluded that the degree of social and environmental influence a corporation is having through its business activities can be positively linked to the extent of its CSR policies.

3.2.2. Frequency of corporate scandals as driver for CSR policies

Whether a corporation has experienced any social or environmental scandals in its corporate history can have a considerable influence on its CSR sensitivity. Usually, a corporate scandal brings about critical media coverage, consumer outrage and boycott, which can all lead to a significant drop in sales as well as negative influences on the company image. Such experiences can force the corporation to implement stricter quality checks and the management to consider social and environmental implications more seriously than before. Of course, companies also tend to learn from case studies of other corporations within their own or other industries. Differently put, if corporate

scandals in one industry concerning certain aspects of environmental or social impacts are frequent, competitors of the affected corporations will usually try not to repeat such mistakes and put higher emphasis on the respective problem areas. In this sense, a high frequency of corporate scandals can elevate an industry's sensitivity for CSR considerations as a whole.

Furthermore, prominent corporate scandals are often followed by stricter legislation. The text book example in this context is the case of Enron and the Sarbanes Oxley Act which was passed shortly after the corporate misconduct was revealed. Companies might generally anticipate stricter legislation after scandals shake the business world and try to adjust their management accordingly in order to avoid conflicts with legal requirements. Apart from that, the public discussion of corporate scandals makes the existence of social and environmental risks more visible and tangible. Many managers might be aware that there are risk areas beyond the purely economic ones, but are tempted to ignore those as long as business can be undertaken smoothly on a day-to-day basis. Due to the fact that the consideration of social, environmental and ethical risks is a rather new phenomenon, its evaluation is still not well established. However, if a corporation observes a competitor struggling with CSR-related issues, those aspects of business will shift more into their intermediate focus.

As far as the foreign affiliated companies are concerned, corporate scandals have been scarce until now. However, the drastic example of the Swiss company Schindler Elevator K. K. shows what kind of impact one incident can have on business in Japan. In summer 2006, a 16-year old boy was killed in an accident when a Schindler-made elevator malfunctioned and moved up with the doors open. The accident occurred due to a technical problem which is frequent with all elevator manufacturers.⁶⁰¹ However, the Japanese press heavily attacked and blamed the corporation for the incident, with

⁶⁰¹ Cf. Shimizu, K. (2006)

Schindler not being able to tackle the issue with appropriate press work. As a result, the image of Schindler Elevator K.K. suffered tremendously and orders decreased, due to one single accident, which was badly communicated towards the corporation's stakeholders. The president of Schindler had to leave the corporation after the incident,⁶⁰² because, if a company CEO does not resign after a serious corporate scandal has occurred, in Japan this gives the impression that the company is not showing enough remorse.⁶⁰³

This case makes clear how vulnerable foreign affiliated companies can become once issues related to the security of their products are revealed. In the majority of the cases they lack the kind of media and business connections well-known Japanese companies possess and are, therefore, not capable of tackling issues effectively and protect their positive reputation. On the other side, Japanese corporations will, due to their established position, be able to control the negative effects of scandals to a much higher degree. For example, there has been a recent corporate scandal within Toyota, revealing the exploitation of employees, in particular guest workers from China and Vietnam, who in some cases were forced to work 16 hours a day for 7 days a week.⁶⁰⁴ However, as the author has learned from an independent Japanese publisher and journalist,⁶⁰⁵ the case was uncovered late and only reported on hesitantly, because most media in Japan is dependant on Toyota for running costly advertising campaigns and would lose its support if it reported negatively about the corporation. In fact, the scandal was only revealed after the foreign press picked up on the issue, which forced the Japanese media press to report about the incident. As this example illustrates, corporate scandals can become urgent issues for both foreign affiliated companies as well as Japanese companies. However, the weaker positioning of the former makes corporate scandals an

⁶⁰² Cf. *Ibidem*

⁶⁰³ Cf. Hoel, J.; Harris, P. (2008), p. 22

⁶⁰⁴ Cf. Abowd, P. (2008) and Briggs, B. (2008)

⁶⁰⁵ Personal communication with Japanese journalist

even higher risk for Western companies in Japan than for their local counterparts and, therefore, should be given appropriate consideration in corporate risk management and CSR policies.

3.2.3. Degree of pending legislation as driver for CSR policies

The level of existing and pending governmental legislation can have a significant impact on the implementation of CSR programs. The anticipation of legislative requirements to be passed in the near future often has stimulating effects on corporate CSR measures. As Bakan puts it, “corporate environmental efforts that go beyond the law can serve to anticipate and shape future legislation or even circumvent legislation through voluntary codes of conduct. This process, called “regulatory capture” by economists, serves to control regulatory agencies through extensive lobbying and “selective information sharing”⁶⁰⁶. Therefore, rather than waiting for (possibly strict) governmental regulation, in many cases the corporations will prefer implementing higher social and environmental standards than demanded by the current law in the hope of avoiding the creation of regulation or at the very least converging their behavior to future requirements. Anticipating environmental or social regulation and outperforming them even before the laws are passed can, therefore, result in strategic advantage in comparison to the competition, which might not plan with such long term focus. The highest standard in the industry can become the level against which all other corporations are measured; thus, being a frontrunner can force other companies to catch up. As for Japan, environmental and social legislation is already quite advanced in comparison to the international situation, with stricter regulations to be expected only in minor and specific areas. This fact can be interpreted as one of the reasons why many of

⁶⁰⁶ Bakan, J. (2004), p. 152

the interviewed companies are not engaging in extensive CSR activities beyond the measures prescribed by the law.

On the other hand, Japan's government tends to implement legislation as it exists in Europe with a time lag of a couple of years, especially in environmental matters. In some areas European legislation is stricter than the Japanese one - for example concerning chemical regulation, which is organized under the framework of REACH in the European Union⁶⁰⁷. Therefore, it can be an opportunity for foreign affiliated corporations to adjust themselves to this high level of environmental standard in Japan and thereby become the technical or technological frontrunners in their business area.

3.2.4. Importance of feature selling as driver for CSR policies

In general, European products are marketed and sold in Japan via two means - either the image/brand name or the individual features of the product. The more a foreign affiliated company can rely on its already existing (country) image, the less it might be inclined to market environmental and social features. This finding obtained during the interviews has been somewhat surprising, as it stands in sharp contrast to the situation of local Japanese enterprises.

⁶⁰⁸For the general Japanese market, CSR is important especially in areas where brand image matters. In particular, those Japanese corporations which sell to the end consumer usually have implemented elaborate CSR policies. The more a Japanese corporation is selling to the end consumer, the more elaborate its CSR policies tend to be. Besides, Japanese companies have the inclination to emphasize their CSR activities more towards the end consumers than towards other business partners. In catchwords, CSR matters more in B-to-C than B-to-B business.

⁶⁰⁷ Personal communication with the President of Henkel Japan Ltd.

⁶⁰⁸ The following paragraph refers to personal communication with the Corporate Environmental Manager of Boehringer Ingelheim Japan.

When consumers purchase products and are using them directly - for example eat food, use cars or buy toys for their entertainment - they are first of all directly affected by the impact of the product. In case the usage or consumption of the product has negative effects due to contamination with chemicals or other harmful substances, they feel those impacts immediately and personally. Besides, as it is they or their close family members who are using the product, it can be assumed that they are more likely to feel a responsibility towards the product and the implications of its consumption. In this sense, end consumers might be more open to ethical arguments.

In B-to-B business, on the other hand, CSR aspects are usually of minor importance. First of all, the purchase of products is in many cases not done directly by the user of the product, but via a global purchasing department. The interests of the different players in the company involved in the purchasing of a good, ranging from the department manager who can decide about the order, to the purchasing department in charge of the budget, over to the factory worker who uses the product on a day to day basis, may vary considerably. As other, mostly monetary, factors are also playing an important role in the B-to-B business, purchasing decisions might tend to be less influenced by “emotional” factors, in particular, for those who are not directly related to the product. Therefore, rather than brand image and CSR factors, the actual features and the price of the product are instrumental for the marketing in B-to-B business.

Concerning the interviewed European companies in Japan, an insightful phenomenon could be observed. In general, the image of European-made products in Japan is extremely positive, as the reputation of Western European countries is that of style and high social and environmental awareness. By marketing the country image as an important feature of the product, many companies are taking advantage of the positive attributes associated with those countries. For instance, beer and automotive corporations stress their “German-ness”, perfume and fashion companies their roots in

France, and wine corporations their home country of Italy. Differently put, by profiting from an already existing, extremely positive environmental or social reputation, under certain circumstances those companies would not see the need to enhance their image in this area. For example, German cars already have the implied reputation of being environmentally benign in Japan. As a result, German car commercials in this East-Asian nation rarely stress that the vehicles are environmentally friendly, but rather emphasize luxury and fun aspects.

⁶⁰⁹As the BMW Motorbike Director explained, European products, in the case of his business unit motor bikes, are often perceived as “toys” for the customer. Consequently, the exotic European image of the brand rather than the technological features, are important for selling in the Japanese market. Important in Japan is the image of the brand, rather than the actual technology. BMW is, for example, shaping their image through direct contact with journalists and invitations to particular events, such as adventurous tours through Siberia under extreme conditions.

Another industry where the dominance of brand reputation could be observed is the luxury goods industry. The interviewed manager from Chanel Japan, for example, remarked that most luxury goods companies are not even publishing CSR reports, since focusing on environmental aspects, such as the recyclability of their products, would degrade the luxury image and clash with their overall marketing strategy⁶¹⁰ (see also Chapter 4.2.2. in detail). As the President and CEO of IKEA Japan K. K. phrased it, CSR aspects are usually less important in Japan than price, style and design.⁶¹¹

Yet other industries, where the brand and the European image of the product are not playing a dominant role, such as Nestlé, are showing much higher concern for social and environmental policies. This is because those corporations have to compete directly

⁶⁰⁹ Personal communication with the BMW Motorbike Director of BMW Japan Corp.

⁶¹⁰ Personal communication with the General Manager, Fragrance & Beauty Product Division of Chanel K. K.

⁶¹¹ Personal communication with the President and CEO of IKEA Japan K. K.

with Japanese competitors for market share and cannot exploit a special position due to their dominant national image.

3.2.5. Amount of national production as driver for CSR policies

Another important factor to be considered is the location of the production sites. A majority of European companies design and manufacture their products in their home countries and then ship the finished goods to Japan, where only the marketing, sales and distribution take place. An instrumental part of social and environmental aspects becomes crucial in the production stage, including, for example, extraction of natural resources, the polluting effects of manufacturing, the treatment of waste and emission, as well as social impacts, including employment and work conditions. If the product is offered in a country where the production didn't take place, social and environmental issues are obviously easier to be overlooked.

Stakeholders tend to be the first and foremost element concerned about effects which they instantly feel themselves, in their own communities, cities or country. Whatever happens in other nations, for example, in remote regions like Europe, which might literally feel like "the other end of the world" to them, is, therefore, not a high priority on their individual agendas. The conditions in a foreign country remain, for the majority of the Japanese stakeholders, a very abstract concept, which they might only hear about, while the circumstances in their own nation might affect them directly, personally and instantly. Even the information about what happens in foreign countries cannot be obtained as easily as information about one's own nation, due to language barrier and the lack of media coverage.

This is why having no local production in Japan can have a negative impact on the implementation of CSR programs in the case of foreign affiliated companies. If there is

no pressure and no interest from the stakeholder side about the social and environmental impacts of sourcing, production and manufacturing, for the corporation it can seem a waste of resources to invest actively in those areas. What is more, a large part of European companies in Japan maintain only a relatively small subsidiary within the country, as pointed out earlier. Due to the limited number of personnel, many of them do not employ someone in charge of CSR related issues. This is particularly apparent with medium size companies in comparison to multinational corporations.⁶¹²

As the BMW Motorbike Director explained, most of the Japanese subsidiaries of German companies, for example, consist only of about 2 to 3 people, who are mainly in charge of sales activities. Usually they gather information about the minimum legislative standards in Japan concerning CSR issues and comply with them, but are not interested in going beyond them as a strategic step. Also, it has to be considered that small and medium size enterprises are not internationally approached by interest groups such as NGOs as frequently as larger multinationals, which is another reason why most of them would not consider CSR a fundamental topic.

On the other hand, those European companies interviewed which had a long history in the Japanese market and a considerable size of national production, such as Nestlé and Merck, were actively involved in several CSR programs.⁶¹³ For example, the interviewed Manager from Nestlé Japan Ltd. stressed that as a foreign affiliated company, it is essential to gain the trust of the local communities and to establish oneself as a good corporate citizen.

In short, the more influential a corporation becomes as a player in the national economy, the more it will also be confronted with claims from stakeholders, simply because of its higher visibility. A multinational corporation, which is mass-producing goods, will

⁶¹² Personal communication with the Director of the BVMW in Japan

⁶¹³ Personal communication with the respective corporate representatives

simply by the very nature of the definition of its activities extract more resources out of the environment, have more extensive manufacturing processes, affect more lives through employment and its existence in the local community, than a small company in the same industry would. As such a corporation will, therefore, have a larger impact it will need to attain a higher level of legitimacy from a wide variety of different stakeholders. Not only will such a corporation be more noticed by the public, but also by governmental institutions, which might consider shaping laws and regulations under the close monitoring of the enterprises' activities. Thus, for a large scale and well-known corporation, image issues may play a more instrumental role. As a result, explicit CSR – meaning policies which are *explicitly* articulated by companies, in comparison to *implicit* responsibility practices, reflecting wider policy arrangements that are not articulated towards the different interest groups⁶¹⁴ - will become more crucial when the scale of the organization increases. Hence, it can be said that the larger the local production of a foreign affiliated company, the more likely the corporation will engage in CSR activities, due to its fundamental impacts on the local stakeholders.

3.2.6. Level of consumer awareness as driver for CSR policies

Possibly one of the most instrumental factors which influence the degree of CSR activities observed in one particular industry is the level of consumer awareness concerning social and environmental aspects. The nature of a free market pushes corporations to automatically adjust to the wishes and demands of their customers, because it is they who decide to purchase the product or service a company is offering. Therefore, if a significant amount of consumer preference exists for products which are manufactured taking into consideration social and environmental factors, this kind of

⁶¹⁴ Cf. Matten, D.; Moon, J. (2008), p. 405

customer preference will become a crucial aspect to consider from the corporate side in the planning, design, production and marketing of the good. Certainly, the awareness of the consumer about such “soft” product features is a rather recent phenomenon in most industrialized nations, where the average consumer has the freedom to choose from a variety of products and often sufficient financial resources, not to confine the choice to the cheapest product available.

For the Japanese market, consumer awareness has been rising in recent years, but has not quite reached the level yet of some European countries, such as, for example, Northern Europe, the UK or Germany.⁶¹⁵ One indicator for the relatively low consumer interest or awareness is the virtual non-existence of consumer boycotts. While the decision of consumers to boycott a corporation’s product out of political reasons is a frequent phenomenon in Western countries, this kind of protest is almost unheard of in Japan. This can, as well, be related to the Japanese culture of trying to avoid open, aggressive confrontation. Moreover, individual awareness still seems to be on a low level in Japanese society, where fewer consumers would boycott the purchase of irresponsible companies than in other nations, such as the US. or the UK, as pointed out earlier. For the corporation side, this means that in many industries in Japan, an immediate widespread threat on sales figures is rather unlikely even if social and environmental policies are not actively implemented, unless the product has direct negative effects on the consumer.

However, as discussed earlier, Japanese consumers are now increasingly starting to take into account environmental considerations also for their purchasing decisions, either out of personal reasons or stimulated by governmental incentive programs.⁶¹⁶ Furthermore, one area which has experienced high consumer attention in the new millennium is the

⁶¹⁵ Personnel communication with the respective interview partners at BMW Japan Corp., Chanel K.K. and the BVMW Japan

⁶¹⁶ Cf. e.g. Japan Times Online (2009) and Negishi, M. (2008)

food industry, because a significant number of food product related scandals have raised the sensitivity of Japanese consumers concerning purchasing choices (see also Chapter 4.1. in detail).

Connected to the relatively low consumer interest and the apparent avoidance of direct confrontation is the low level of NGO engagement in Japan. As outlined earlier, the global emergence of CSR can be attributed, among other factors, to the active involvement of interest groups and non-governmental institutions as critical members of the civil society. In Japan, due to legislative restrictions, NGOs are a rather recent phenomenon and still quite non-aggressive in their way of interacting with corporations.⁶¹⁷ A very recent phenomenon in Japan is the cooperation of corporations with NGOs. For example, a number of the interviewed companies are working together with NGOs, such as Nestlé with interest groups related to nutrition education, Standard Chartered Bank with a blind running group and Henkel Ltd. with sport clubs for the handicapped.⁶¹⁸ The concept of cooperation between companies and NGOs is originally a notion developed in Western countries and the interviewed companies were applying this CSR practice as an extension of the programs existing in their European headquarters. For Japanese corporations, on the other hand, working together directly with NGOs is not very common yet, as discussed earlier. In this sense, foreign affiliated companies can generate a strategic advantage compared to their local competitors, as they can utilize their access to NGOs in order to gain local knowledge and support for their CSR programs in Japan. In many cases, their Western headquarters already have extensive experiences with such collaborations. In this sense, best practice work patterns, which have been developed within the company in the home countries and in their international subsidiaries, can be utilized for the adaptation to the Japanese setting.

⁶¹⁷ Cf. Chapter 2.2.2.5. in detail

⁶¹⁸ Personal communication with the respective corporate representatives

In some cases, such as for example Volvic/Danone and its "1 L for 10 L" program,⁶¹⁹ the already existing cooperation with UNICEF could be expanded to the local Japanese market. Working together with NGOs can constitute a smart strategic move as such interest groups are often looking for partners and financial resources and will therefore in many cases be open to corporations proposing collaboration. For a Western company, the contact to a locally established NGO can not only grant access to knowledge about the conditions in Japan, but also help the company to generate trust in the community because such activities signal interest in dimensions beyond pure profit generation.

Although cooperation with NGOs offers high strategic potential only a portion of the interviewed companies had already implemented such collaborative programs. This can be explained by the fact that civil society interest groups in Japan still tend to be small and less aggressive than their counterparts in the Western world and are usually not considered a threat to business conduct and consequently not high on the priority agenda as a stakeholder for most corporations.

3.3. CSR Evaluation Scheme as a tool for strategic corporate analysis

Based on the above described factors, a CSR Evaluation Scheme for foreign affiliated companies in Japan will now be proposed. Concretely speaking, conclusions about the level of CSR pressure in the stakeholder surrounding of a certain industry or corporation can be drawn for a specific point of time by classifying the internal and external conditions according to the above assessed dimensions environmental and social impact, frequency of corporate scandals, degree of pending legislation, importance of feature selling, amount of national production, and level of consumer awareness. The various dimensions are then roughly ranked using an approximate scale ranging from "very low" through "average" to "very high" (see Chart 12 below).

⁶¹⁹ For the characterization of this program in detail see Chapter 4, paragraph 4.1.3.2.

	Very Low		Average		Very High
Environmental impact	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Social impact	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Frequency of corporate scandals	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Degree of pending legislation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Importance of feature selling	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Amount of national production	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Level of consumer awareness	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Chart 12: CSR Evaluation Matrix

Using this kind of classification, it is possible to illustrate why certain industries have the tendency to show more extensive CSR activities than others and why some corporations implement wide-reaching CSR programs in specific geographic regions. Moreover, the Evaluation Matrix can be used to explain shifts of CSR awareness before the background of a changing stakeholder surrounding over time. However, it has to be underlined that above proposed matrix is by no means a figure-based ranking model, in which the different features can be calculated exactly. In theory, it is conceivable to develop such a quantifiable approach, in which the various indicators could be mathematically aggregated. For example, for the aspect of environmental impact, in order to do so it would be necessary to get exact numbers about the damages and influences an industry or a corporation is having globally or in the studied local surroundings. Moreover, features such as consumer awareness could be measured by the amount of press coverage, frequency of consumer protests and boycotts in comparison to other industries. Unfortunately, in the context of the limited scope of this thesis, it is not feasible to gather such an extensive database in order to develop a

system comparable to a Balance Scorecard approach and undertake the necessary calculations accordingly. Due to the not available quantified database and the rather small amount of company interviews undertaken by the author for this research project, the here presented Evaluation Scheme can not raise the claim to exactly calculate the degree of CSR pressure in the observed cases. Rather, the goal of the model is to constitute a graphic illustration of approximate tendencies, which can be interpreted as supporting or hindering factors for the emergence of CSR awareness. While a certain degree of subjectivity in the approach can not be denied, the author is applying the ratings in the matrix based on information received during the qualitative interviews as well as the researched background and industry data. Therefore, the rating for each feature can certainly only give a rough indication towards characteristic tendencies, which are attributed in the degrees of “very low” to “very high” in comparison to the situation of the observed aspect in other business areas. For example, in the case of the food and beverage industry, both the interviews with the corporate representatives as well as the extensive press coverage and literature background pointed towards a pronounced consumer interest level in comparison to other industries, therefore this feature is displayed as “very high” in the Evaluation Scheme.

Moreover, as discussed in the preceding chapters, the influences on what shapes CSR policies are rather complex and wide-reaching. As a result, many dimensions which might also have impacts on the CSR awareness in an observed case could not be considered in a simple Evaluation Scheme. Thus, without claiming completeness or precise calculability, the objective of the CSR Evaluation Scheme is to illustrate graphically certain inclinations which support or discourage social and environmental policies within corporations, in order to give potential explanations for the CSR strategy in the examined company cases.

3.3.1. Potential application of CSR Evaluation Scheme

To illustrate the application of the CSR Evaluation Scheme, now the two examples of the fictional companies A (French wine producer) and B (British tire manufacturer) will be discussed briefly.

Example 1: French wine producer Company A

Company A is an assumed large French wine producer, which cultivates red wine in France mainly for the export market, including Japan. It employs around 400 staff members in its home country France and maintains a small sales subsidiary of 3 employees in Tokyo. Due to the high level of competition in the industry, Company A is promoting its products in France mainly by feature selling, for instance underlining the wine's exquisite bouquet and fruity taste. In Japan, most marketing is done focusing on the French origin of the brand, thereby relying heavily on the country image. Consumers in France are conscious about beverage safety and quality, but Japanese clients tend to show an even higher awareness concerning impeccable wine products. In both countries, frequency of corporate scandals as well as the degree of pending legislation can be classified as low. Consequently, the situation of Company A on the French and on the Japanese market can therefore be depicted in the CSR Evaluation Matrix as follows:

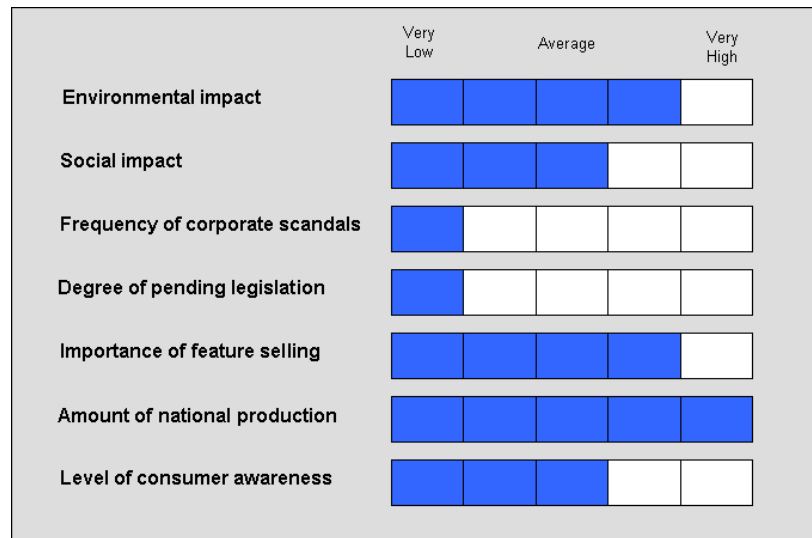


Chart 13: Situation of Company A in France

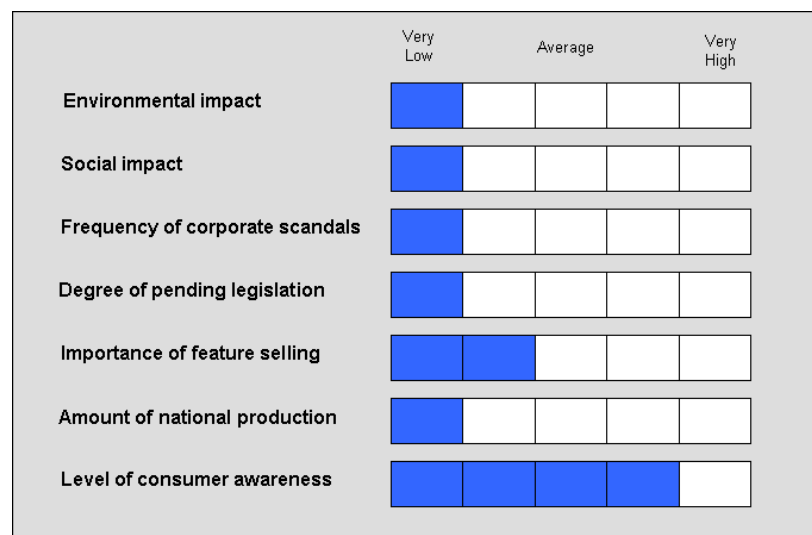


Chart 14: Situation of Company A in Japan

Due to the fact that Company A is cultivating its wine and is employing most of its staff in France, the company scores high for the factors environmental and social impact as well as amount of national production in Europe, but low for those dimensions in Japan. As the wine products are mainly promoted using image selling in Japan, it also scores low concerning the importance of feature selling in this East-Asian nation. Consumer awareness is observed to be higher in Japan than in France. For the case of the

Company A, frequency of corporate scandals and degree of pending legislation are assumed to be very low in both countries, therefore resulting in only minor scores in the CSR rating chart. Summing up, it can be concluded that these CSR drivers are much less pronounced in Japan than they are in the company's home country.

Consequently, Company A can be expected to show more extensive CSR activities in France than in Japan due to the different stakeholder surroundings and corporate positioning in both regions. In other words, from a strategic corporate angle, while the pressure to implement CSR measures in Europe might be high, there is not much incentive to develop an extensive number of social and environmental activities in Japan. While this example illustrates the discrepancy of CSR pressures in different geographic locations, in a second case, the potential shift of CSR awareness over time can be highlighted.

Example 2: British tire manufacturer Company B

Company B is an assumed British tire manufacturer with production sites in several countries, including Great Britain, Poland and China. It exports its tires to Japan, where it maintains a subsidiary of 15 people in charge of marketing and sales. Competition in the tire industry in Japan is fierce and products are sold mainly via feature selling, for instance, by emphasizing the outstanding quality and specific features of Company B's tires. Until recently, consumer awareness used to be on an average level.

Now, assuming that a major corporate scandal occurs in the industry in relation to harmful substances found in a variety of tires by different producers, the situation of Company B can be impacted drastically.

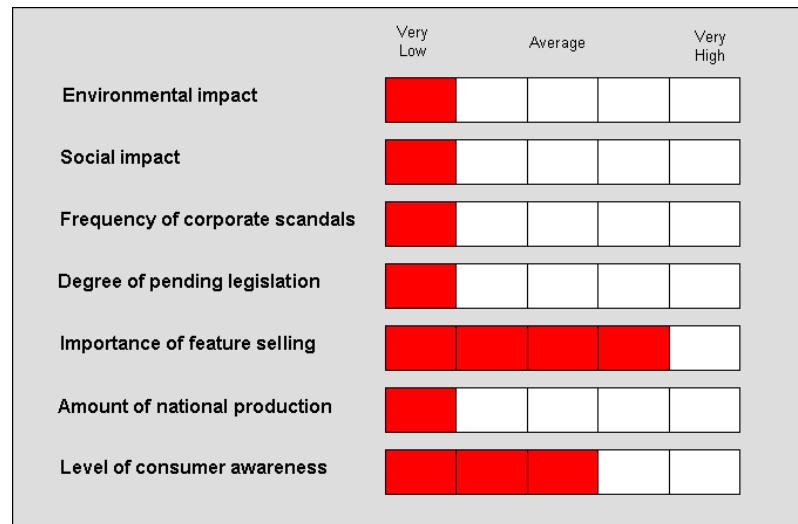


Chart 15: Situation of Company B in Japan before corporate scandal

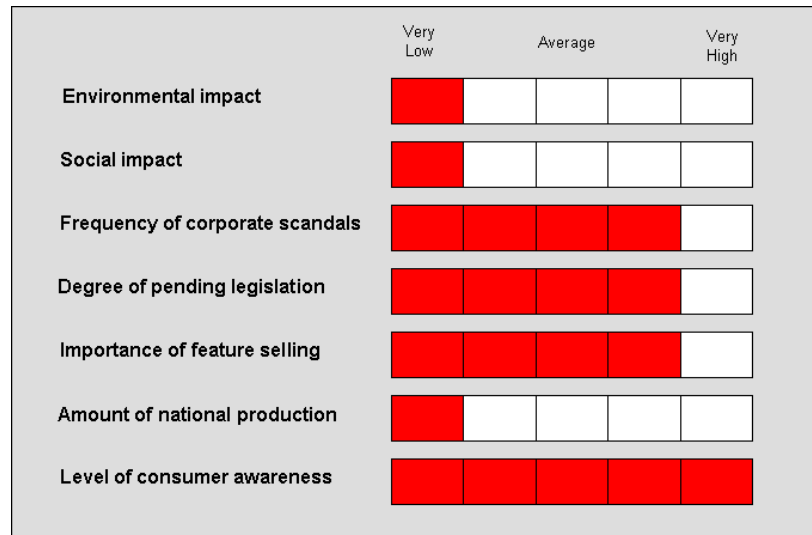


Chart 16: Situation of Company B in Japan after corporate scandal

Before the corporate scandal happened, Company B found itself in a surrounding of low CSR sensitivity, due to its exclusive production outside of Japan, environmental and social impact as well as national production scored low. There was not much pending legislation and consumer awareness on an average. Now, assuming that the postulated major scandal related to the safety of tires emerges on the Japanese market, the impact on the CSR surrounding of Company B will change as follows. While certain dimensions will, in the matrix, remain unchanged (social and environmental impact,

amount of national production), others might be influenced considerably. The perceived frequency of corporate scandals will increase, as well as consumer awareness and the amount of pending legislation as well, as the government might feel pressured to avoid similar scandals in future by passing stricter regulations.

Therefore, one single event like a significant corporate scandal in the industry can potentially change the CSR awareness of a stakeholder surrounding in a short period of time. In the case of Company B, the management might feel pressured after the corporate scandal in the industry to establish trust in its products and legitimacy towards its customers and interest groups by engaging in CSR activities related to the safety issues. This should be kept in mind in the following. Moreover, the presented CSR Evaluation Matrix can be used as a general indicator about the pressure concerning social and environmental aspects in a certain stakeholder surrounding.

3.3.2. Utilization and limitation of the CSR Evaluation Scheme

Considering that up to date, to the best of the knowledge of the author, no structured systems exists either in academia or in the business world to help foreign affiliated companies evaluate and analyze their CSR position in the Japanese setting, the matrix can serve as a valuable tool to roughly characterize the current situation in a certain industry. Furthermore, anticipating future changes, it can also be used to help plan CSR modeling for the coming years. For instance, if a corporation anticipates that one of the matrix dimensions will shift towards a higher degree in the coming years, this might give an indication that from a strategic point of view social and environmental programs might increasingly be needed as part of risk management. In this sense, the CSR Evaluation Matrix can help understand the current positioning of a company within its industry and stakeholder surroundings in greater detail and help model future strategy.

However, there are also a number of issues connected to this system. Certainly, as explained earlier, the classifications in this scheme are rough, can include a certain amount of subjectivity and do not necessarily cover all impacting factors. Therefore, for the actual application in the business world, certain adaptations might be recommendable. First of all, for their individual cases, corporations might benefit from developing a quantifiable system to calculate more precisely how the degree of the scheme dimensions have been shifting. Moreover, they might add further dimensions, such as media or *keiretsu* influences, if those should be influential factors for their businesses. The here proposed model should be seen as a first rough foundation for a CSR Evaluation Scheme to build upon in corporate risk management, rather than a full-fledged developed system. For the purpose of the utilization in the following chapters however, the CSR Evaluation Scheme will be used as presented above as a tool to shed light on a number of different industries in Japan and compare their specific level of awareness concerning social and environmental factors.

Chapter 4:

Industry comparison of CSR sensitivity

Now, based on the CSR Evaluation Matrix developed and introduced in the previous chapter, different industries and their CSR sensitivity in Japan will be shed light upon. As outlined earlier, one phenomenon observed during the research in Japan was a significant discrepancy of the extent of the corporate social and environmental policies between the different interviewed Western companies. In order to further explore the reasons for this wide variety of strategic specifications, in the following section, the particular situation in the food and beverage industry as well as the luxury goods industry will be highlighted, as these two industries can serve as model examples for industries with considerable high and low CSR awareness. As the analysis will show, depending on the business area and the stakeholder surrounding, the consequent CSR sensitivity can differ greatly between industries, calling for appropriately adjusted measures from the corporate side.

4.1. Industry examples: The food and beverage industry

Using the CSR Evaluation Matrix, the characterization of the Japanese food and beverage industry is outlined briefly, followed by the discussion of the two corporate case examples— Nestlé and Volvic (Danone).

4.1.1. Characterization of the industry

According the feature environmental impact, the food and beverage industry is one of the industries with the highest impact on the environment due to its scale and the nature of its products. For example in Europe the food and drink sector has the highest turnover as a manufacturing industry, even higher than that of the automotive and

chemical sector.⁶²⁰ To manufacture its products, this industry has to use a wide variety of raw materials, including plant and animal products, as well as water, all of which either have to be raised, grown or extracted from the environment. The product lifecycle in the food and beverage industries, therefore touches a variety of environmental issues, including soil and habitat loss as well as polluted runoff in cultivation as well as the generation of emissions and waste in manufacturing, followed by waste residues after consumption.⁶²¹ In particular, in-process leftovers are by far the greatest source of waste, and energy as well as water is often used inefficiently during the manufacturing process.⁶²² Many of the industry's products, especially instant food, are sold in individual portions with extensive packaging (for example, plastic bottles, packed candy, etc.), which generates large amounts of waste that is often not recycled. For instance, the bottled water industry has been under criticism for contributing to the volume of plastic going into landfills,⁶²³ an issue which could be avoided by the implementation of more sophisticated recycling systems.

While the trend in Europe in the food and beverage industry is shifting clearly towards a reduction of waste, smarter packaging and increased recycling, the Japanese market seems to lag behind. For instance, the Food Industry Sustainable Strategy of the British government has decided that carbon dioxide emissions should be cut by 20% by 2010 and by 30% by 2030 as well as to eliminate food packaging waste going to landfills by 2015. Furthermore, the Confederation of the Food and Drink industries of the EU published the second edition of its Sustainability Strategy for the Drink and Food Sector in November 2008, in which it discusses future strategies for the implementation of sustainable management into the food and drink product lifecycle.⁶²⁴ In Japan, to the

⁶²⁰ Cf. ElAmin, A. (2007)

⁶²¹ Confederation of the Food and Drink industries of the EU (2008), p. 4

⁶²² Cf. Bravington, C. (2005), p. 21

⁶²³ Cf. Roehl, C. (2008), p. 18

⁶²⁴ Cf. Confederation of the Food and Drink Industries of the EU (2008)

knowledge of the author, there exist no such self-commitment programs of the food and beverage industry. Furthermore, it is common in Japan to see food products wrapped in several layers of packaging to keep them fresh and appetizing. Moreover, as mentioned earlier, almost at every street corner, vending machines for cold and warm drinks as well as snacks can be found in Japan, which, from a European point of view, constitutes an enormous waste of energy.⁶²⁵ At the moment, it seems however that the average Japanese consumer is willing to accept those burdens on the environment for the sake of convenience and constant availability of products.

According to the feature social impact, apart from environmental considerations, the global food industry is not only demanded to provide nourishment, but also bears some responsibility for the health effects of its products. Since 2000, a number of movies and books about the negative effects of mass-produced, mass-consumed food products, including programs like “Supersize Me”⁶²⁶ or “Fast Food Nation”⁶²⁷, have become blockbusters worldwide and raised the awareness of the general public about health issues related to food consumption. For example, in the movie “Supersize Me”, a real-life documentary, the amateur filmmaker Morgan Spurlock decides to live one full month only on McDonald’s products and picks the “Supersize Option” of the meals whenever it was offered to him by the restaurant staff. As a result, he gained 9 kilos during the month of the experiment and experienced dramatic effects on his health, like mood swings and an almost catastrophic liver damage.⁶²⁸ McDonalds reacted directly to this movie by banning the enormous, unhealthy Supersize Options from its menus.⁶²⁹

⁶²⁵ Personal communication with the BMW Motorbike Director of BMW Japan Corp.

⁶²⁶ “Supersize Me” is a movie produced in 2003 by director Morgan Spurlock in cooperation with Kathbur Pictures

⁶²⁷ “Fast Food Nation” is a movie produced in 2008 by director Richard Linklaker in cooperation with BBC Films

⁶²⁸ Cf. Scott, A. O. (2004), p. 18

⁶²⁹ Cf. Martin, R. (2005), p. 20

This example shows the fragility of the food and beverage industry and how, in an extreme case, one single art project distributed globally could force a multinational corporation to implement immediate action.

Moreover, at “a time of nutritional hyper-awareness”⁶³⁰, focusing exclusively on customer tastes and ignoring the health implications of one’s products could turn out to be a high-risk strategy for a food corporation. Oliveira points out that “the food and drink industries will be increasingly concerned with litigation from individuals who suffer the results of abused ingestion of particular ingredients or food components and claim not to have been warned of limits and effect of excess ingestion”⁶³¹. In fact, in many industrialized countries, which suffer from obesity and other nutrition linked diseases, there have been a number of court cases of consumers suing food and beverage companies for the negative health effects their products have. For example, two parents in the US sued McDonalds for the obesity of their two teenage children, who consumed three to five meals a week at McDonalds. In particular, the youth-oriented advertising was criticized, on the valid ground that it did not acknowledge that an overconsumption of the fast food could lead to weight gain and other potential health problems.⁶³² Even though the outcome of such food related court cases has been in favor of the companies so far, from the corporate perspective, the potential risks related to getting involved into a lawsuit are considerable.

According to a study by the University of London,⁶³³ which examined the reporting of the world’s largest food companies, most of the global food manufacturers are reporting on their Corporate Social Responsibility. However, the majority of them do not appear to focus on health as a core consideration. As the researchers found, most of the reports of the food corporations make general statements, but rarely give clear figures and

⁶³⁰ Martin, R. (2005), p. 20

⁶³¹ Oliveira, J. (2003), p. 6

⁶³² Cf. Martin, R. (2005), p. 20

⁶³³ Cf. Lang, T.; Rayner, G.; Kaelin, E. (2006), p. 4

measurable goals on their strategies to produce healthier food. Apparently, for a majority of the large food and beverage manufacturers, CSR appears to be not more than a part of product marketing.⁶³⁴

In Japan, issues such as obesity are not quite as pronounced as in other industrialized nations yet. This can be explained by the well-balanced, healthy Japanese diet, which is low-fat and consists mainly of rice, fish, soy products and vegetables. However, due to a radical change in diet towards a higher consumption of Western style food as well as more fat and sugar, obesity has been on the rise in Japan too, in particular among middle-aged people, with males aged 55-59 being the group with the highest risk of obesity.⁶³⁵ Under buzzwords such as “metabolic syndrome”⁶³⁶, more and more Japanese people are concerned about becoming overweight and many corporations have implemented mandatory yearly health checks to monitor the physical condition of their employees.⁶³⁷ While, to the best of the knowledge of the author, there have not been any food related court cases in Japan till date, the increase of health issues related to food consumption will also raise the awareness concerning this topic among the general Japanese public. Therefore, it might be only a matter of time until food companies in Japan will be confronted with responsibility issues as they already are overseas.

According the feature frequency of corporate scandals, while food related court cases due to overconsumption have not been occurred in Japan for the moment, nevertheless there have been a wave of corporate scandals occurring in the food and beverage sector

⁶³⁴ Cf. Lang, T.; Rayner, G.; Kaelin, E. (2006), p. 4

⁶³⁵ Cf. Isshiki, Y. et al. (2002), p. 256

⁶³⁶ Cf. Chavez, A. (2008)

⁶³⁷ How those mandatory checks are interpreted as aspects of Corporate Social Responsibility themselves depends on the viewpoint: Western observers might argue that his or her health status is part of the employee's privacy. The majority of Japanese employees however to which the author has talked to would rather see it as a service from their corporation to give them the opportunity to have free health checks during their working time, for which they would have to pay and use their vacation to undertake on their own.

during the last couple of years,⁶³⁸ ranging from false labeling, use of out-of-date ingredients, and the sale of low quality meat, to pesticide laced dumplings and melamine residues in milk.⁶³⁹ Due to the fact that food and beverage products are used directly by the consumer, who must quite often feel the impact of the product quality instantly, corporate scandals in the food industry can have drastic and immediate effects on the companies in question. Consumers tend to be extremely sensitive towards quality issues and many will immediately stop purchase if negative health effects of the product's consumption become public, not mentioning the reputational harm corporate scandals can bring about. For example, after it was reported that the Japanese confectionary manufacturer Fujiya had used expired dairy products for its cakes, its share price fell by 18% in only three days,⁶⁴⁰ due to the fear of negative consumer sanctions. Therefore, a major corporate scandal in the food and beverage industry can literally threaten the very survival of a company and, therefore, constitutes an even higher risk than in other industries.

According to the feature degree of pending legislation, governmental regulation in relation to the food and beverage industry is extensive in Japan and has been becoming stricter in recent years due to consumers becoming increasingly concerned about food safety.⁶⁴¹ Considering the immediate impact of the product's consumption on the consumer's health, new regulations will be implemented as soon as new medical evidence becomes available about the harmful effects of food and beverage products.

Referring to the importance of feature selling of food and beverage products, Western European companies in Japan sell their goods both via image and feature selling

⁶³⁸ Cf. Hoel, J.; Harris, P. (2008), p. 21

⁶³⁹ Cf. Tabuchi, H. (2007)

⁶⁴⁰ Cf. Hoel, J.; Harris, P. (2008), p. 21

⁶⁴¹ Cf. Asia Food Journal (2008), and Negishi, M. (2001)

strategies. Some producers emphasize strongly the geographic origin of their products, in particular for certain food specialities from regions with an acknowledged reputation, such as wine or cheese from France and Germany. On the other hand, mass produced goods, such as confectionary, are sold exclusively via feature selling, with the taste and packaging of the products playing the most crucial role in the purchasing decision.

According to the feature of amount of national production, Japan is the world's largest net importer of food products.⁶⁴² Due to its geographic proximity to China, today a large part of Japanese food, such as fresh fruit and vegetables as well as processed goods, are manufactured in China. However, as quality checks and standards in Asian countries including Japan are often not very high, frequent issues related to the import of food products are the result. Consequently, many Japanese consumers have developed a preference for nationally manufactured food products over those of foreign origin.⁶⁴³

As for Western European companies, those which rely on the image factor of their geographic manufacturing location (see above) are mostly importing their products from overseas. However, mass food producers, which market mostly via feature selling, tend to have higher rates of national production. For instance, Nestlé is producing most of its products within Japan to guarantee a stable and impeccable quality, as strict control is difficult to implement on products manufactured abroad.⁶⁴⁴

Regarding consumer awareness, as pointed out above, concerning food and beverage products this feature is very pronounced in Japan. Certainly, safety and health considerations are seizing the largest amount of public interest. While consumers might not, for instance, show significant concern about how much CO₂ is emitted during the

⁶⁴² Cf. Worsley, K. (2008), p. 54

⁶⁴³ Cf. Tabuchi, H. (2007)

⁶⁴⁴ Personal communication with the interviewed Manager from Nestlé K.K. Japan

manufacturing process of a product, because emissions are perceived as an abstract and intangible concept, health effects and their immediate impact may be perceived as instrumental. In particular, women in Japan, for who being thin is considered a beauty ideal,⁶⁴⁵ are very conscious about their diet and pay attention to features such as calories and low-fat product content.

4.1.2. CSR Evaluation Matrix of the food and beverage industry

Summing up the essence of the preceding, the food and beverage industry can be characterized as follows using the CSR Evaluation Matrix:

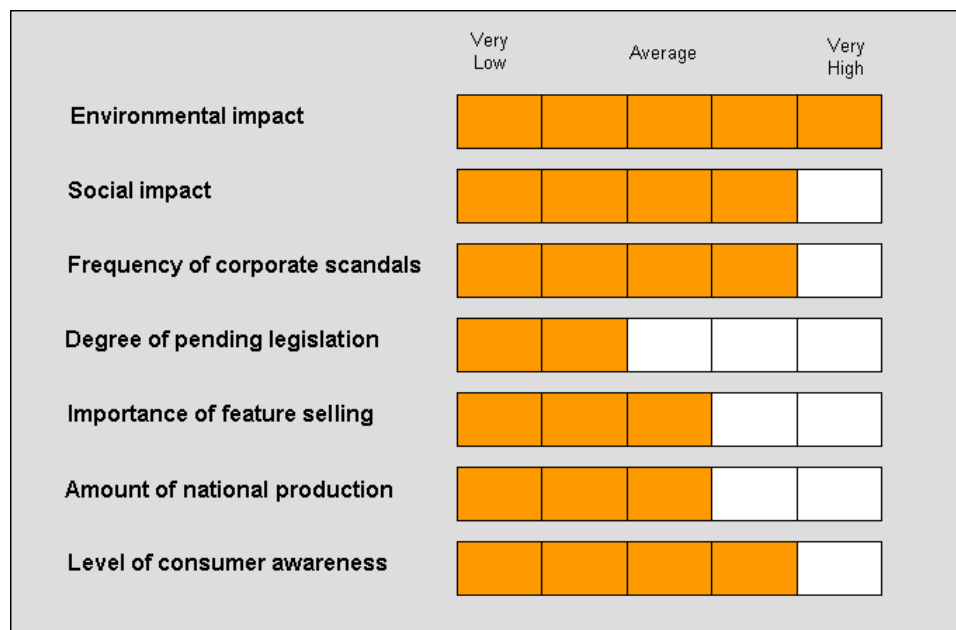


Chart 17: CSR Evaluation Matrix of the food and beverage industry in Japan

As the matrix depicts, the majority of the identified CSR drivers score highly for the food and beverage industry in Japan. As outlined above, the environmental impact of the industry is very high due to the fact that the cultivation, production and recycling of food products and its packaging require a large amount of natural resources and create

⁶⁴⁵ Takimoto, H.; Yoshiike, N.; Kaneda, F.; Yoshita, K. (2004), pp. 1592 ff.

considerable waste. The social impact of the industry can be judged as significant, because the health and well-being of the consumers is directly affected by the consumption of the products. What is more, the corporations dealing with fast and manufactured food have been criticized for being responsible for diet related health issues, such as obesity in industrialized nations. The frequency of corporate scandals is also significant compared to other industries. Not only have a number of corporations in the food and beverage industry been facing serious scandals during recent years both globally and on Japanese national level, but those cases seized wide media attention and were often followed by consumers' boycott. As a consequence, the consumer awareness for food and beverage products in Japan can be rated as significantly high. The degree of pending legislation is observed as extensive, but stable, and therefore hardly constitutes a main driver for CSR policies. As discussed above, Western food and beverage corporations are marketing their products both via feature and image selling strategies, therefore the score for this aspect can be evaluated as average. Moreover, food and beverage products are manufactured both within Japan as imported from abroad, giving the feature of amount of national production an equally average rating. With these findings as the foundation, the two corporate cases of Nestlé and Volvic (Danone) in Japan are now explored in more detail.

4.1.3. Case Studies of the food and beverage industry

4.1.3.1. The case of Nestlé K. K.

Nestlé, the world's largest food company, based in Switzerland, is taking a proactive approach to sustainability.⁶⁴⁶ Nestlé is producing different kinds of food products, but is mostly known for its confectionary goods, in particular chocolate. As for Japan, the

⁶⁴⁶ Cf. Roehl, C. (2008), p. 18

confectionary market has been expanding at the rate of around 1% since 2003 and is expected to continue this kind of growth until 2012.⁶⁴⁷ The market can be described as almost saturated in Japan.

However, with a share of around 37% in Asia-Pacific in 2007, it is still one of the largest markets in this region.⁶⁴⁸ The trend within the Japanese confectionary market is shifting towards healthier product lines, for instance, food items without artificial colors or features such as low sugar or added vitamins.⁶⁴⁹

Nestlé's CSR strategy is based on the following three principles:⁶⁵⁰

1. Nestlé does not favor short-term profit at the expense of successful long-term business development.
2. Nestlé recognizes that its consumers have a sincere and legitimate interest in the behavior, beliefs and actions of the company behind the brands in which they place their trust.
3. Nestlé embraces cultural and social diversity and does not discriminate on the basis of origin, nationality, religion, race, gender or age.

In detail, those principles are implemented in the following environmental and social programs.

In the context of its environmental policy, Nestlé is putting its focus on restricted water consumption and waste water generation as well as improved environmental performance in manufacturing.²⁹ For example, in its Japanese operations, Nestlé has been recycling its coffee grounds since 1965 in its Himeji Factory (Hyogo Prefecture) and its fluidized bed coffee grounds boiler, said to be the first in Japan, was installed in the Shimada Factory (Shizuoka Prefecture) as early as 1983. Furthermore, a methane fermentation waste water treatment system was installed in the Shimada Factory in

⁶⁴⁷ Cf. Datamonitor (2008), p. 8

⁶⁴⁸ Cf. Ibidem, p. 12

⁶⁴⁹ Cf. Ibidem, p. 14

⁶⁵⁰ Cf. Nestlé Group (2008a)

2004, leading to substantial energy saving and the effective use of generated biogas as fuel. Since then the company has continued to make steady efforts aimed at preserving the environment, such as introducing a cogeneration system at both factories and introducing non-freon cascade refrigeration systems at its Himeji Factory. As a result, there has been a significant reduction in the amount of water, energy, and other natural resources consumed during the manufacturing processes.

Nestlé is also taking care to remind the consumers of their own responsibilities.⁶⁵¹ For example, the company is trying to support recycling by increasing messaging on the packages and bottles of their products, reminding the users to recycle the waste afterwards. The corporate goal is to increase plastic recycling to 60% by 2013.

Regarding social activities, Nestlé clearly states that one of its business objectives is to “develop nutrition and wellness as a value-added dimension in our mainstream food and beverage business”⁶⁵². Therefore, as part of its social activities, Nestlé is supporting, among other programs, dietary education.⁶⁵³ For instance, in order to encourage people to learn more about a healthy diet, the company conducts a food education program called the Nestlé Kids Challenge on its website, as well as jointly-run dietary education programs with various NGOs and customers under the MILO brand⁶⁵⁴. In addition, Nestlé offers full-fledged nutrition education for all its employees based on the concept that “dietary education starts first inside the company.” On a global level, Nestlé has been publishing a response to the WHO Global Strategy about food formed in 2003 and has set up a website where it discusses its values concerning nutrition products and its responsibility towards the health of growing children.⁶⁵⁵

⁶⁵¹ The following two sentences refer to Roehl, C. (2008), p. 18

⁶⁵² Cf. Lang, T.; Rayner, G.; Kaelin, E. (2006), p. 24

⁶⁵³ Cf. Nestlé Group (2008c)

⁶⁵⁴ For details about the MILO brand and related activities, see also www.cocoa-malt.nestle.co.jp/milo/

⁶⁵⁵ Cf. Lang, T.; Rayner, G.; Kaelin, E. (2006), p. 50

Moreover, Nestlé supports and promotes artistic, musical, and cultural activities. For example, in Japan the company has been supporting the Sado Yutaka Young People's Concert for small children with conductor Sado Yutaka, as well as Kobe Luminarie, which was begun after the Hanshin-Awaji Earthquake in 1995, inviting people with disabilities to a "Heartfelt Day" event. Nestlé furthermore supports young professional chefs by sponsoring the Nestlé Toque d'Or Cooking Contest organized by the All Japan Cooks Association, an event that has been held every year for nearly 20 years. Apart from that, the Nestlé Nutrition Council, Japan, which was founded in 2005, lends financial support to research efforts, especially those conducted by promising young scientists in the fields of nutrition science and sensory science regarding taste and aroma, with the aim of supporting advances in nutrition science in Japan.

While Nestlé is not officially publishing its expenditure for marketing, advertising and sponsorship,⁶⁵⁶ it is obvious that the company has an extensive and comprehensive approach to Corporate Social Responsibility, not only in Japan, but globally as well. In fact, among the companies that the author interviewed in connection with the research for this thesis, Nestlé was one of the corporations with the most developed and well-communicated strategy concerning its social and environmental activities.

This can be explained by combining the above Chart 17 with the individual case of Nestlé as a corporation, as shown below in Chart 18. As discussed in the preceding, Nestlé is engaging in the very CSR sensitive food and beverage industry in Japan, with a considerably high environmental as well as social impact and significant consumer awareness. Adding to this challenging external market surrounding is the fact that Nestlé is mainly doing its marketing in Japan usually via feature selling, i.e., not emphasizing the geographic origin of the brand, but rather the individual specifications of the product. Moreover, Nestlé has been facing major corporate scandals in its recent

⁶⁵⁶ Cf. Lang, T.; Rayner, G.; Kaelin, E. (2006), p. 3

history, with the infant formula case being the most prominent one,⁶⁵⁷ which have sensitized the corporation as regards global social and environmental risks and put CSR policies high on the corporate strategic agenda. Finally, the corporation is manufacturing all of its products within Japan, giving it a very high score for the feature of amount of national production. Only the degree of pending legislation can be evaluated as not very pronounced.

Having said this, it becomes clear why a corporation like Nestlé is putting considerable efforts into developing and maintaining a sound CSR strategy for their activities both in Japan and internationally. With a market environment which includes significant risks in various areas as well as a corporate strategy that further increases the corporation's scores in several features of the CSR ranking, Nestlé can be considered a textbook example for a firm for which social and environmental considerations are essential as part of their overall risk management in order to tackle stakeholder expectations and market demands appropriately.

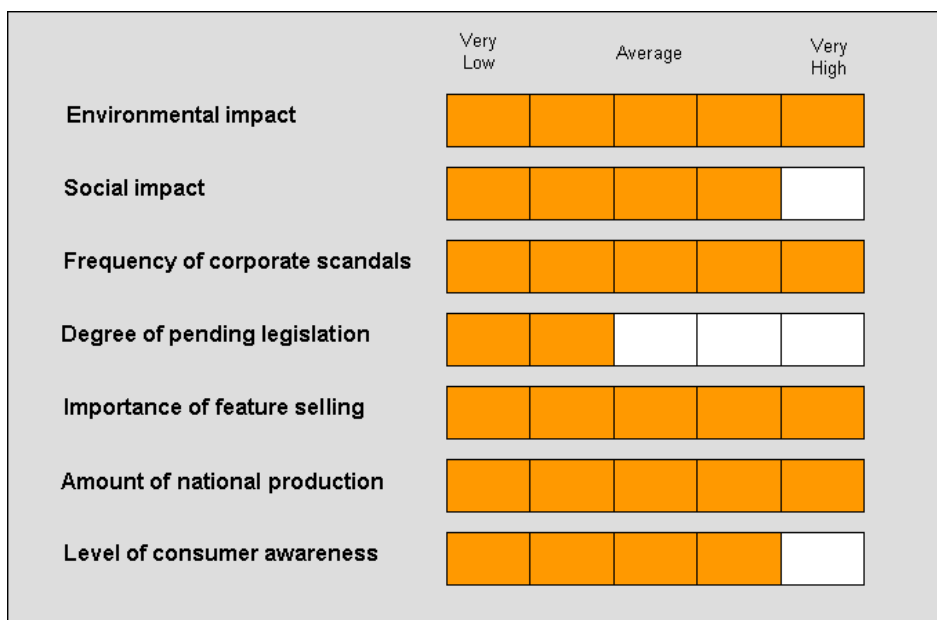


Chart 18: CSR Evaluation Matrix for the corporation Nestlé in Japan

⁶⁵⁷ Cf. Newton, L. H. (1999), p. 367, and Baker, J. C. (1985), pp. 181 ff.

4.1.3.2. The case of Volvic (Danone Waters Ltd.)

Yet another insightful case study to be discussed in greater detail is that of Volvic in Japan. The DANONE group, which, under the brand name of “Volvic” is selling imported bottled water from France, has, as already mentioned earlier, implemented the “1L for 10L” program, one of the best known recent CSR initiatives in Japan.⁶⁵⁸ To speak in concrete terms, for every one liter of Volvic water sold in Japan during a four month long program from 1 June to 30 September 2008, the company is promising to secure 10 liters for the population in Malawi, Africa, by building groundwater wells. According to one press release, Volvic is at the same time trying to raise the awareness and understanding for the water hygiene problem in Africa. The program includes a picture drawing contest for elementary school children, who are also provided with materials about the water situation in Africa. Moreover, in 2008 a special mobile phone service has also been set up through which the consumers can register and track the effect of their individual purchases of Volvic water and thus measure their personal impact in Africa.

According to the Marketing Manager in charge of the program in Japan, the 1 L for 10 L initiative was started in Japan because local employees had heard that a similar initiative exists in France, the home country of Volvic. As a result, the employees suggested making a comparable contribution in Japan and starting a corresponding CSR program.⁶⁵⁹ For the implementation of the program, the company had actively sought support from independent institutions, which function as an objective third party. For example, the company is collaborating with UNICEF, thereby involving a globally accepted and experienced NGO as an important stakeholder. Furthermore, the program was also discussed, evaluated and refined by a CSR seminar under the supervision of Prof. Umezū of Keiō University, adding input and feedback from the academic side.

⁶⁵⁸ The following paragraph refers to Danone Waters of Japan Ltd. (2009)

⁶⁵⁹ Personal communication with the Marketing Manager of Volvic Japan

According to the Manager, one of the most crucial points in the credibility of Volvic's program has been transparency and honesty. For example, the 1 L for 10 L program promotion shows many smiling African children, who are happy about the new-built wells. The corporation however admits openly to the press that those pictures were taken purposely as marketing material and are not necessarily an exact depiction of the conditions on site.⁶⁶⁰

In the case of Volvic, it is interesting to note that the initiative to start the "1 L for 10 L" program originated "bottom-up" from the employees of the company, who wanted to make a philanthropic contribution. The Marketing Manager admitted that the program had also positive effects on the company's sales revenues. However, he pointed out that it is difficult to evaluate the direct linkage of the campaign with sold bottles of water, as the summer during which the program was introduced was an especially hot one, making bottled water sales shoot up. Considering that fact that Volvic is only maintaining a small office for its Japan operations with employees in charge of marketing and sales, the implementation of the "1 L to 10 L" program can illustrate how CSR policies can be initiated even for foreign affiliated companies with limited representation and staff in this East-Asian nation. Certainly, it would be too much to demand from a sales team like that of Volvic to set up a CSR policy as extensive as that of, for instance, the above discussed Nestlé. However, within the frame of its means and possibilities, the "1 L for 10 L" program illustrated that social or environmental programs can bring about positive results both for the corporation as well as for the society at large. Again, combining Chart 17 with the individual case of Volvic, the following situation presents itself for the corporation.

⁶⁶⁰ While such an open communication about the obvious marketing focus of the initiative might somewhat decrease the effectiveness of the program with the consumer because the shown pictures are not "authentic", such transparency is nevertheless essential in order to maintain credibility as a corporation. The potential risk of non-communicating such facts and latter having them possibly exposed by a third party like the media constitutes a much larger risks than admitting them up front.

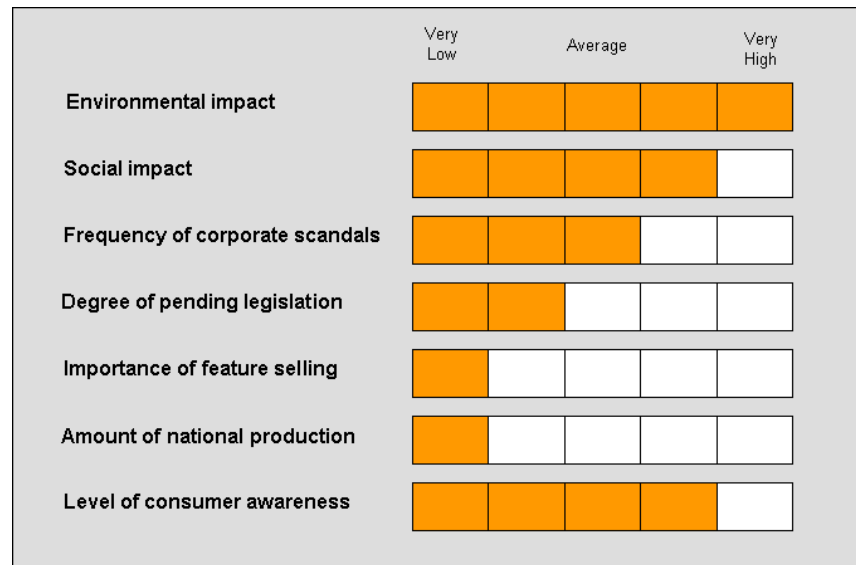


Chart 19: CSR Evaluation Matrix for the corporation Volvic in Japan

Environmental and social impact, degree of pending legislation and level of consumer awareness can - as part of the external industry surroundings - be considered as given and unchanged to Chart 17. While the frequency of corporate scandals is generally high in the food and beverage industry, Volvic has no such history of any scandals. Consequently, the according feature can be ranked as only average. Moreover, the company is marketing its products in Japan mainly using the European image, i.e. emphasizing the French origin of the water, giving Volvic a low rating for feature selling. Finally, its products are all imported from abroad, therefore ranking the amount of national production as insignificant.

Summing up, a mixed picture concerning the CSR environment for the case of Volvic can be identified. While some external features are supporting a high consideration of environmental and social aspects, the individual situation of the corporation is not making CSR strategy as crucial as for example in the case of Nestlé. This is why it makes sense for Volvic to use a social marketing program as part of their business activities in Japan, but on the other hand side it also explains why the company is not

working on a more extensive CSR strategy. Without a doubt, using above evaluation matrix alone as a tool to explain the extensiveness of a corporation's CSR policy would be inadequate due to its shortcoming to include all deciding factors. However, it can nevertheless give an indication for the level of importance that is assigned to social and environmental programs as part of corporate strategy. In order to underline this argument even further, now the conditions in another industry, namely the luxury goods business, shall be elaborated upon.

4.2. Industry examples: The luxury goods industry

⁶⁶¹ The characterization of what the luxury goods industry includes can vary, as the definition of a “premium” or a “luxury” item depends on the product category in question and can change over time. For example, Quelch distinguishes four kinds of luxury products: “affordable indulgences” (such as Starbucks and Häagen-Dazs ice cream), “tasteful gifts” (luxury handbags, jewelry or accessories), “smart investments” (high quality household appliances or high tech equipment), and “status symbols” (luxury cars, such as Rollce Royce). Other definitions regard luxury as “something expensive or hard to obtain”⁶⁶². In contrast to most other industries, products in the luxury sector are sold with the appeal of being expensive and by definition luxury brands have to be the highest priced in their product category.⁶⁶³ For the purpose of this thesis, the industry for high class apparel, accessories and jewelry shall be discussed.

The luxury goods industry, totaling a global market of \$ 220 billion,⁶⁶⁴ is said to be rather immune to economic swings, due to the fact that the very wealthy buy premium items no matter how dramatic the economic climate may be.⁶⁶⁵ With a volume of about

⁶⁶¹ The following two sentences refer to Quelch, J. A. (1987), p. 40

⁶⁶² Hader, S. (2008), p. 28

⁶⁶³ Cf. Ritson, M. (2008), p. 20

⁶⁶⁴ Cf. Hader, S. (2008), p. 28

⁶⁶⁵ The following two sentences refer to The Economist (2008), pp. 79 f.

\$10.2 billion in 2007, Japan still accounts for around 15% to 25% of the global luxury goods sales, depending on the data source.⁶⁶⁶ In Japan, the “world’s only mass luxury market,”⁶⁶⁷ highly expensive luxury products are enjoying considerable popularity. One reason for this is that the number of items in which the working population can invest their salary for enjoyment, are quite limited, in particular, in the large metropolises like Tokyo, Yokohama and Osaka.

⁶⁶⁸Due to the high price of land, it is out of reach for an average employee to buy his own house or apartment. Most people do not own a car owing to a very well developed public transportation system and also because the rent of a parking lot can cost as much as US\$300 a month. Furthermore, most salaried workers in Japan have very limited vacation, often not more than one week in total, which makes it difficult to go on longer international travels. As a result, in contrast to North Americans and Europeans who tend to spend a large portion of their salaries on their homes, cars and travel, the Japanese often invest this part of their income in other status symbols like expensive clothes, jewelry, handbags and other small brand items.

⁶⁶⁹Statistics show that, internationally, most luxury purchases are made by men, even though only 20% of the products are men’s products. This implies that often men are buying the items as gifts to give to their wives or girlfriends. However, in Japan, almost half of the Japanese luxury brand and fashion accessories are bought by young Japanese office ladies, who spend their income on their personal entertainment. Stagnating salaries, an increasingly non-permanent workforce and a shrinking pool of affluent

⁶⁶⁶ Cf. Gumbel, P.; Mero, J.; Saraswat, S. (2008), p. 70

⁶⁶⁷ Carter, D. (2008), p. 44

⁶⁶⁸ The following two sentences refer to personnel communication with the interviewed Manager at Chanel K. K.

⁶⁶⁹ The following three sentences refer to Nueno, J. L.; Quelch, J. A. (1998), p. 61

consumers in their 20s and 30s have been contributing to a marked decline in Japan's luxury goods market.⁶⁷⁰

Yet, as Snipes phrases it, "luxury consumption is deeply ingrained in the social fabric of Japan, a fact that does not seem likely to change anytime soon. Having the "right" brands is an important method of broadcasting social position and level of sophistication for both the upper and middle classes"⁶⁷¹. In this sense, the luxury goods industry as an instrumental business sector in Japan is worth shedding light upon in the context of environmental and social issues.

4.2.1. Characterization of the industry

Regarding the feature of environmental impact, the luxury products and their raw materials can be linked to several environmental issues, for example, the use of animal products, such as furs and hides of endangered species⁶⁷² as well as harmful material sourcing, for instance gold mining being blamed for threatening biodiversity, degradation of water quality and the extinction of natural forest.⁶⁷³ On the positive side, some luxury goods corporations seem to start considering environmental issues as part of their corporate governance strategy.⁶⁷⁴ For example, Louis Vuitton implemented a carbon inventory in 2004 and the elimination of plastic wrapping for shipped goods saved the company 20 tons of plastics a year. Moreover, through an innovative lighting concept in new stores, energy use could be cut by 30%. However, even though the industry has begun to realize the marketing and cost saving effects of environmentally friendly manufacturing, compared to other business fields, the care for environmental causes does not seem to be a high priority in this industry yet. One possible explanation why such concerns seem not to be tackled in a proactive manner by the respective

⁶⁷⁰ Cf. Carter, D. (2008), p. 45, as well as Gumbel, P.; Mero, J.; Saraswat, S. (2008), p. 69

⁶⁷¹ Snipes, S. (2009), p. 19

⁶⁷² Cf. Bendell, J.; Kleanthous, A. (2007), p. 27

⁶⁷³ Cf. *Ibidem*, p. 26

⁶⁷⁴ The following two sentences refer to Brooke, S. (2007)

corporations is the fact that using materials which are in short supply can contribute to the attractiveness of the brand.⁶⁷⁵ As Catry points out, luxury companies struggle with the concept that they sell their products with the appeal of scarcity. In other words, the customer is willing to pay a premium for precious, not readily available articles.

While this argument is still valid for many luxury products today, there are indications that such notions are in transition. The British World Wildlife Fund has published an analysis of the Corporate Social Responsibility of luxury product corporations in 2007 in which it points out that the consumers of expensive brand items belong to a global elite, who more and more want the goods they purchase to contribute to a better world.⁶⁷⁶ With luxury good customers expecting “an emotionally rewarding and affirmative experience with each and every premium brand interaction, from introduction to acquisition and beyond”⁶⁷⁷, not considering the ethical aspects of the item’s production could turn out to be a high risk strategy. As Catry⁶⁷⁸ argues, in the course of an expansion of the industry, luxury good corporations might move away from natural rarity (rare ingredients such as diamonds, fur, etc.) to a more information based scarcity; in other words marketing which is based on the design of trendy, famous artists and limited editions. Furthermore, through the emergence of new economic superpowers, such as China and India, where a growing middle and upper class can now afford luxury products, the industry might increasingly be confronted with the natural limits of world resources and forced to adjust its strategy accordingly.

Referring to the feature of social impact, moreover, the luxury goods industry is frequently linked to a number of social issues, such as the working and political conditions related to material sourcing, especially in connection with diamond mining,

⁶⁷⁵ Cf. Catry, B. (2003), p. 11

⁶⁷⁶ Cf. Bendell, J.; Kleanthous, A. (2007), p. 2

⁶⁷⁷ Hader, S. (2008), p. 30

⁶⁷⁸ Cf. Catry, B. (2003), p. 11

as well as teen prostitution (so-called Enjō Kōsai) in Japan, which will be outlined shortly.

With regard to diamond mining activities, the luxury goods industry has been criticized for “the use of conflict diamonds in products, poor compliance with supply chain requirements and lack of reported environmental monitoring.”⁶⁷⁹ Movies such as “Blood Diamond”⁶⁸⁰ have been seizing public attention towards the issues connected with diamond mining, as it has been disclosed that the trade of those precious stones has provided new finance and impetus for conflicts in Africa, resulting in civil wars and the displacement of millions of African people.⁶⁸¹ The luxury brand industry was reproached for “misleading the public [...] by falsely suggesting that there remained no conflict diamonds in luxury items”⁶⁸². In fact, the issue remains that, as Bates points out, until now there is no consensus yet what an ethically traded diamond should have as characteristics.⁶⁸³ There have been approaches to trade diamonds under the “Fair Trade logo” already used for chocolate and coffee,⁶⁸⁴ but no general best practice standard has been established in the industry up to date.

Yet not only internationally, but also within Japan, the luxury goods industry has been associated with social issues, in particular teen prostitution, so-called “Enjō Kōsai”. This term refers to the recent phenomenon in Japan of young high school girls going out with older men or even prostituting themselves to earn money for buying luxury goods, such as brand handbags, in other words, as Sakurara describes, “undertaking sexual acts in exchange for material compensation”⁶⁸⁵. According to studies, about 4.6% of High School girls in Japan have engaged in Enjō Kōsai before and 53.9% of them did so to

⁶⁷⁹ Nair, C. (2008)

⁶⁸⁰ The movie „Blood Diamond“ has been produced in 2006 by Edward Zwick in cooperation with Warner Bros. Entertainment Inc.

⁶⁸¹ Cf. Bendell, J.; Kleantous, A. (2007), p. 25

⁶⁸² Cf. Ibidem, p. 25

⁶⁸³ Cf. Bates, R. (2008), p. 62

⁶⁸⁴ Cf. Ibidem, p. 64

⁶⁸⁵ Sakurara, T. et al. (2001), p. 167

earn money.⁶⁸⁶ While prostitution is a frequent phenomenon in many countries, what is insightful for the Japanese case is that the High School girls exchanging sexual favors for material compensation apparently did so not out of economic necessity, but simply to acquire luxury products they would usually not be able to buy. In this context, the question arises as to what extent the luxury goods industry can be blamed for supporting a social pressure even among teenagers to possess highly expensive brand items, which can be perceived as unethical.

To the best of the knowledge of the author, the industry in Japan has not responded with any official campaign to this social issue yet. However, the author has learned from a Japanese acquaintance that during the interview for an entry level position at Louis Vuitton in Tokyo, the applicants (mostly female) were asked whether they themselves possess a Louis Vuitton handbag. All those who answered positively were instantly rejected for a position within the company, because as a corporate policy, Louis Vuitton does not want to be perceived as a brand for young girls, but rather for more mature, wealthy ladies. However, Louis Vuitton seems not to communicate this position openly, as no indications were found on the corporate homepage about this policy and also extensive internet research by the author did not find any indications for official publications, such as press releases and alike. Consequently and as the above examples illustrate, luxury industry companies in Japan seem to take a comparatively passive position towards social issues related to their products.

According to the frequency of corporate scandals, there have been no major international or Japanese national corporate scandals in relation to the luxury goods industry. Therefore, the sensitivity on the part of the companies with regard to the reputational damage scandals can bring about can be assumed to be low.

⁶⁸⁶ Cf. Sakurara, T. et al. (2001), p. 167

Regarding the feature degree of pending legislation, while the use of materials, such as rare furs and animal products, is clearly regulated, there is no major pending legislation for the luxury goods industry. Therefore, companies in the luxury business will most probably see no need to proactively deal with legislative issues as part of their CSR programs.

According to the importance of feature selling, the luxury goods industry can be considered one of the textbook examples for a business area selling via its brand image. For example, the European brands of high class apparel and accessories “live or die on their reputation on being made in Europe”⁶⁸⁷. Besides the emphasis on the origin of the product, the special appeal of a luxury good is usually reinforced by a well-known label and appropriate packaging.⁶⁸⁸ Moreover, Nueno and Quelch found that traditional high class brands usually share the characteristics of a history of craftsmanship, limited production to ensure exclusivity, and a marketing program which includes an emotional appeal. Luxury goods are usually of excellent quality, a very high price, and are distributed selectively,⁶⁸⁹ for example, only in certain high-class stores in the most expensive streets of a city. As mentioned above, luxury goods are sold through the appeal of their scarcity.⁶⁹⁰ For example, it is Louis Vuitton’s strategy that their products can only be found in their directly owned 280 stores worldwide. This feeling of scarcity is furthermore emphasized through the launch of “limited editions” in small numbers. So far, only 30% of all luxury brands are selling worldwide online.⁶⁹¹ The reason for this is possibly that the company wants their customers to experience the whole buying

⁶⁸⁷ Cf. Gumbel, P.; Mero, J.; Saraswat, S. (2008), p. 79

⁶⁸⁸ Cf. Quelch, J. A. (1987), p. 40

⁶⁸⁹ Cf. *Ibidem*, p. 39

⁶⁹⁰ The following two sentences refer to Catry, B. (2003), p. 11

⁶⁹¹ Cf. Walmsley, A. (2008), p. 16

process as something exquisite and unique, including an elegant store design, the polite treatment and consultation by the store employees as well as appropriate music in the background.

In fact, for many luxury goods, “there is no relationship between the product and the price, but they are rather totally disconnected.”⁶⁹² Therefore, it can be concluded that the customer of a high class item is not purchasing the product alone, but rather a whole experience of luxury, which includes in large part the image of the brand. Consequently, if a corporation already possesses a strong reputation in the luxury goods business, it can attract customers simply by maintaining and building on this kind of image. The appeal of European labels in Japan seems to be so influential for local customers that luxury brands are not advertising at all about the individual features of the products, including environmental and social aspects, but rather focus on the emotional appeal and atmosphere of the corporate image.

Regarding the amount of national production, as described earlier, one of the most important selling points for luxury goods in Japan is the fact that they are produced and manufactured, in particular, in Europe. Therefore, there usually exists no national production for foreign affiliated luxury companies, but all goods are imported from overseas, followed by local marketing and sales.

According to consumer awareness, while there are some indicators that the relevance of this feature is increasing in the luxury goods industry (see above), the overall public pressure to implement social or environmental policies by these corporations seems to be practically non-existent. This can perhaps be linked to the fact that the largest consumer group of luxury goods in Japan is that of young females, who, according to a

⁶⁹² Elisabeth Ponsolles des Portes, as cited in Gumbel, P.; Mero, J.; Saraswat, S. (2008), p. 80

study,⁶⁹³ are showing a much lower interest in CSR related topics than males in this East Asian nation. Moreover, some of the large brand companies, as for example Chanel, are not publicly traded. Therefore, information about their corporate practices is only sparingly available. Corporations which are listed on the stock exchange might feel a larger pressure to report on the social and environmental implications of their business activities, besides their economic performance, as they have to deal with a larger number of influential stakeholders, in particular their shareholders and the investment community.

4.2.2. CSR Evaluation Matrix of the Luxury Goods Industry

Summing up, it can be concluded that the luxury goods industry, in sharp contrast to the food and beverage industry, is a business area with a very low degree of CSR awareness and sensitivity. This evaluation can be supported by the fact that the industry, as depicted in Chart 19, scores very low with most factors of the CSR matrix: There is no pronounced history of corporate scandals, pending legislation cannot be considered a significant issue, and consumer awareness can be rated as significantly low. Moreover, as the products are sold mostly by their European origin and their respective image, products are manufactured exclusively abroad, consequently resulting into a low score for national production and importance of feature selling. While the industry is having some environmental impact as described above, most consumers of luxury products are not readily aware of this fact, ranking this feature as not very pronounced. In contrast, social issues related to the luxury goods industry, such as issues in relation to blood diamonds and teenage prostitution are more present in media discussions, therefore giving the social feature a significantly high ranking. As in other business areas, due to

⁶⁹³ According to Hakuodo Inc. (2006), p. 6, women in Japan seem to be much less informed and aware of CSR, with only 5.3% understandings its full content and 65% having never heard of it, in comparison with 18.8% and 44.8% for males respectively.

more educated consumers, readily available information worldwide and the general rise of CSR awareness, some experts (see above) believe that also in the luxury goods industry, there could be a shift taking place in the future towards customers demanding products, which do no harm society and nature. As for the moment however, the situation in the luxury goods industry present itself as rather insensitive for CSR issues.

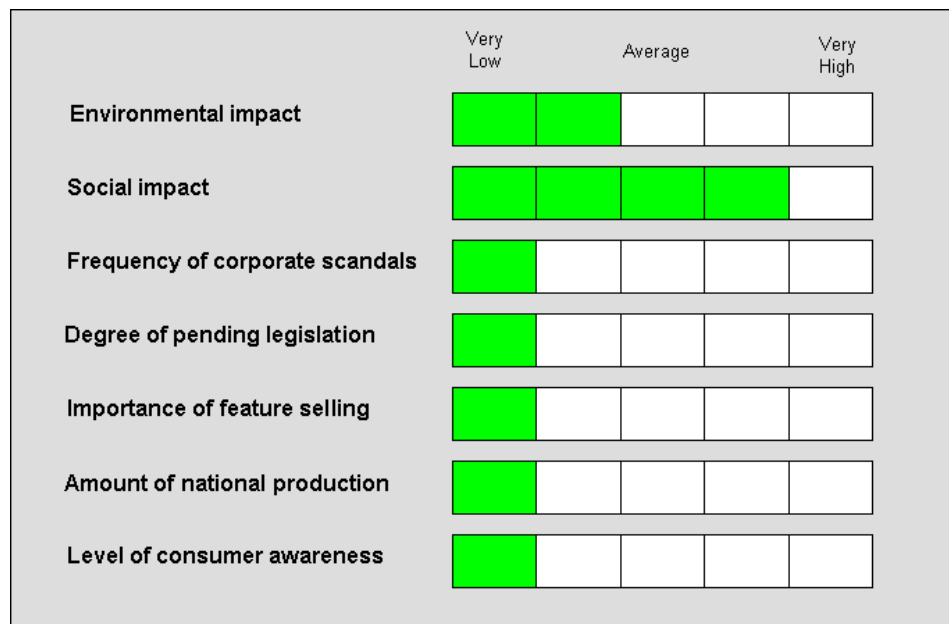


Chart 20: CSR Evaluation Matrix of the luxury goods industry in Japan

4.2.4. Case Studies of the luxury goods industry

Judging from the above discussed and Chart 20, it can be expected that Western European companies in Japan, which are engaging in the luxury goods industry, are rather unlikely to show extensive social and environmental corporate programs. This assumption shall now be underlined by the following two corporate examples of Chanel and LVMH.

4.2.4.1. The case of Chanel K. K.

Chanel K.K., a non-listed luxury goods company, specializing in high class fashion and accessories, is one of the most popular foreign apparel brands in Japan. According to a study by Carter Associates K.K., Chanel was ranked 8th among the top ten brands for Japanese young women.⁶⁹⁴ In Japan, which is Chanel's second largest market worldwide after the US, the corporation employs 1500 people, including sales staff.

On its official website, the corporation does not publish any information about the social or environmental policies of the company, neither internationally nor for the Japanese market.⁶⁹⁵ Moreover, Chanel does not publish any CSR or Sustainability Reports. However, the author could conduct an interview with the Marketing Manager at Chanel Japan K.K.. According to him, Japan is a country with a high level of consumption and a very high GDP in international comparison, which is why it is a suitable market for luxury products. In particular, he pointed out that most Japanese people in urban areas could not afford their own house or apartment and would invest in high class bags instead.⁶⁹⁶

As challenges in Japan, the Marketing Manager referred to the high customer demands concerning excellent service and product quality. For example, if a product is showing the slightest flaw, it cannot be sold in Japan anymore. Furthermore, he explained that marketing management and customer interaction has to be very sophisticated to be successful in Japan, where it is for instance common practice to work with extensive customer databases. If a regular customer is not coming back after a purchase for a longer while, he or she will be contacted directly with special promotions and advertising campaigns. Also store staff has to be trained specifically to ensure that they can fully understand the needs and the feelings of the clients.

⁶⁹⁴ Cf. Carter, D. (2008), p. 45

⁶⁹⁵ Cf. Chanel (2009)

⁶⁹⁶ Cf. p. 171

Concerning CSR activities, the Marketing Manager remarked that the European idea of CSR is not suitable for Japan. He pointed out that while in Europe religion plays an important role, Japan is more influenced by other schools of thought, such as *Bushido*, the ancient moral code of the Samurai⁶⁹⁷. Furthermore, he described the stakeholder surrounding in Japan as less confronting than in Europe. For example, in France, workers' unions are very influential and employees strike frequently, while labor representation in Japan is weak and strikes are almost non-existent. Moreover, he also pointed out that marketing Chanel products based on social or environmental factors would not fit the image of luxury most customers are looking for. Certainly all products of Chanel are produced considering the environment, but there is no manager in charge of such aspects within the Japanese subsidiary. The interviewed manager admitted that there exists the traditional thinking of "Mottai nai" ("What a waste"), believing that things should not be used inefficiently, but he also explained that such a marketing was not expected as a strategy for a high class brand in Japan.

Consequently, for the moment, CSR activities are not playing an instrumental role at Chanel and are mostly confined to philanthropic activities. For example, the company is supporting a number of artists and offering some of their VIP customers access to special art exhibitions in Ginza, one of the most exclusive parts of Tokyo. Interestingly, the Marketing Manager reported that those philanthropic activities were undertaken due to the personal wish of a top management member; therefore, they are not to be regarded as a strategic step of corporate governance. Apparently, other companies as well, for instance Shiseido, used to support many artistic activities before the economic crisis during the late 1990s, but stopped those after economic conditions got worse. To sum up, the philanthropic activities of Chanel and other luxury companies in Japan can be considered a part of PR activities, which might be rationalized quickly during

⁶⁹⁷ Cf. e.g. Hurst, C. G. (1990), pp. 511 ff. in detail

economic downturns and do not constitute a core strategy for product promotion and corporate positioning.

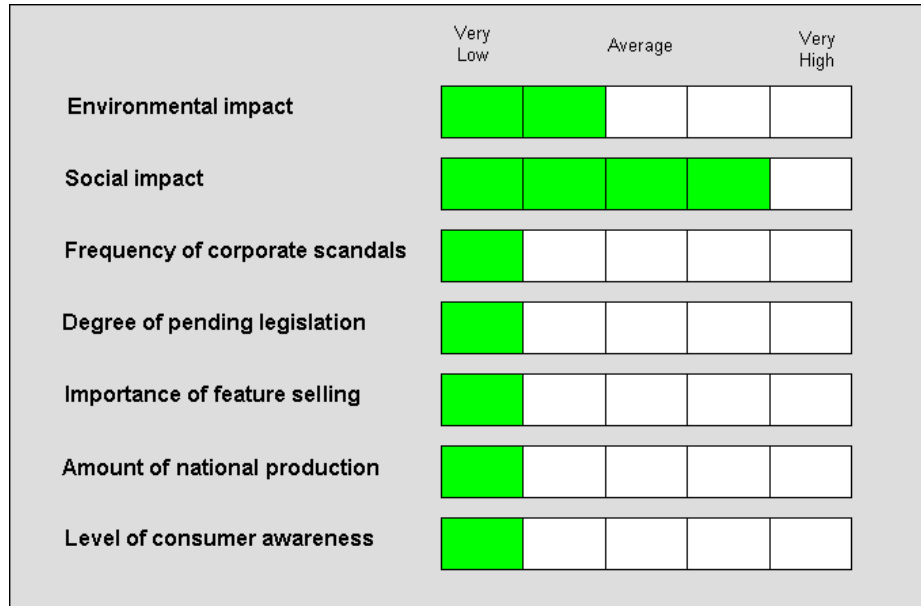


Chart 21: CSR Evaluation Matrix of Chanel in Japan

This kind of strategic approach can be supported referring to the CSR Evaluation Matrix of the luxury goods industry in Japan and taking into consideration the individual case of Chanel. Summing up the situation of the corporation in Chart 21, one can observe that the rating remains unchanged to the previous Chart 20: While the features environmental and social impact, degree of pending legislation and consumer awareness can be considered as given external conditions, Chanel has no history of corporate scandals, is selling its products via image marketing and importing them exclusively from abroad, therefore scoring very low for the according features. Consequently, as for the moment, neither the external conditions nor the corporate positioning are resulting into a high pressure for Chanel to implement environmental or social programs. As a second case study, now the situation of LVMH shall be contrasted with that of Chanel.

4.2.4.2. The case of LVMH (Moët Hennessy Louis Vuitton SA)

The French company LVMH (Moët Hennessy Louis Vuitton SA), headquartered in Paris, engages in a variety of luxury product sectors, including fashion and leather goods, watches, jewelry, perfumes and cosmetics as well as wines and spirits.³⁹ Currently, the group maintains offices in 66 countries worldwide and employs over 70,000 people. LVMH is now increasingly expanding its presence in nations with emerging economies, including China, India, and Russia as well as in Central and Eastern Europe.⁶⁹⁸

Today, Louis Vuitton is ranked first as the first popular luxury brand in Japan⁶⁹⁹ and it is said that in Tokyo more than 90% of women own a Louis Vuitton bag.⁷⁰⁰ When the corporation opened one of its biggest stores on Tokyo's Omotesando fashion district in 2002, the sales of the first day alone surpassed US\$1 million,⁷⁰¹ indicating the enormous popularity of the brand.

Unfortunately, it was not possible to be able to conduct an interview with a representative of LVMH. While the company does not publish any CSR or Sustainability report, at least the corporate website gives some indications about the social and environmental activities of LVMH.

For instance, LVMH is involved in a number of CSR activities grouped into "culture, arts and heritage", "Youth: Support forthcoming talents" and "Solidarity: Humanitarian and Public Health Initiatives".⁷⁰² Like Chanel, LVMH is involved in supporting the arts and artistic exhibitions.⁷⁰³ In the Japanese market, LVMH is specifically supporting the "Save the children"-Foundation,⁷⁰⁴ while internationally focusing on supporting other

⁶⁹⁸ Cf. Datamonitor (2009), p. 6

⁶⁹⁹ Cf. Carter, D. (2008), p. 45

⁷⁰⁰ Cf. Bendell, J.; Kleanthous, A. (2007), p. 4

⁷⁰¹ Cf. The Economist (2008), p. 79

⁷⁰² Cf. LVMH (2008b)

⁷⁰³ Cf. LVMH (2008e)

⁷⁰⁴ Cf. LVMH (2008c)

institutions and activities, including medical research for example in the areas of aging, Parkinson disease and AIDS.⁷⁰⁵

Concerning environmental policies, examples of activities on the website⁷⁰⁶ include the fact that now 50% of its leather goods are shipped via sea and the report that the company is sending emails to employees worldwide about environmental awareness in the context of a “sustainability week.” Moreover, the corporation started to implement the ISO 14001 standard for the corporation’s headquarters in France in 2007.

Interestingly, the large majority of LVMH’s CSR activities are not connected to the core areas of business and do not touch the major issues which luxury brand companies are usually reproached with (see above). Furthermore, the fact that almost no figures, quantitative goals or other measurable units have been mentioned on the website leaves the impression that, for LVMH, like Chanel, CSR constitutes more part of the PR activity than a core corporate strategy. Although some environmental measures were mentioned, compared to other industries, their degree was considerably lower. Consequently, the approach of LVMH towards CSR can be evaluated as similar to that of Chanel, with its focus on philanthropy, which shall improve the reputation of the company, but not necessarily solve the issues related to the production, material sourcing and social questions.

This rather reserved approach to CSR implementation can be illustrated using again a combination of Chart 20 with the individual situation of LVMH. As in above examples, environmental and social impacts are assumed as given external industry conditions. LVMH has no history of corporate scandals, is promoting its products mainly via image selling and importing all of their merchandise from abroad, therefore scoring very low in according features within the matrix, as expressed in Chart 22. Interestingly however, LVMH is – in contrast to Chanel – a publicly traded corporation. This implies that the

⁷⁰⁵ Cf. LVMH (2008d)

⁷⁰⁶ Cf. LVMH (2008a)

corporate board has to report to a larger amount of stakeholders, in particular the shareholders, than it would be the case of a non-listed company. While those stakeholders might not be direct consumers of the products themselves, in order to express the higher external demands and expectations, LVMH can be ranked with an average level of consumer awareness. Furthermore, being a listed company, LVMH is also the target of a much larger amount of legal reporting duties than a privately owned one. In particular in the context of recent global tightening of reporting standards, including the Sarbanes-Oxley Act pointed out earlier, it might be in the interest of the corporation to anticipate upcoming regulation by already now showing higher transparency about their social and environmental policies. Summing up those opposing forces of a mostly insensitive CSR environment with some incentives for higher reporting, LVMH's reserved, but recently growing CSR program approach, can be comprehended as the most logical strategic decision for the corporation.

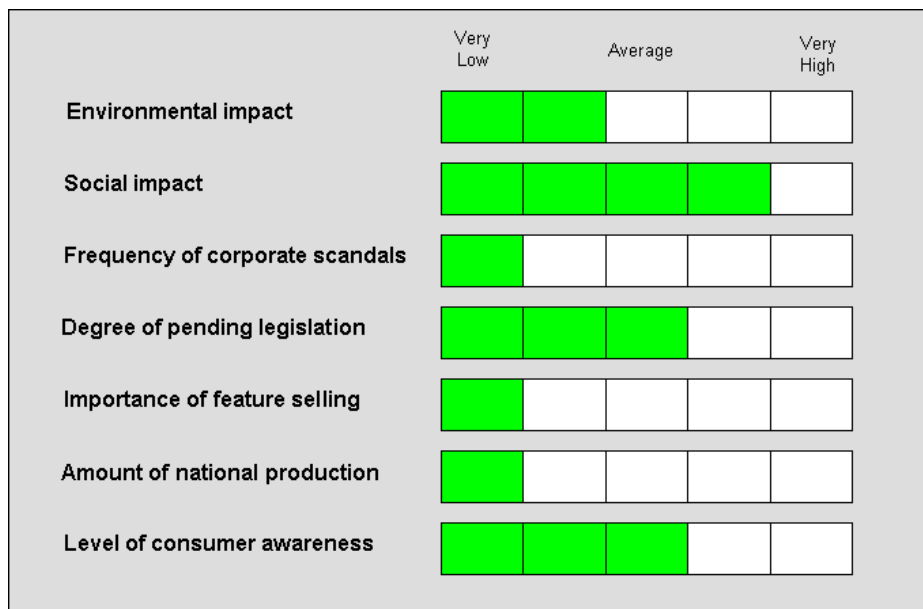


Chart 22: CSR Evaluation Matrix of LVMH in Japan

4.3. Significance of the industry examples for CSR program creation

Concluding, it can be said that, depending on the industry, the degree of CSR sensitivity can differ greatly in Japan. As discussed, in some business areas, like the food and beverage industry, social and environmental policies can be crucial for the survival of a company, in others, such as the luxury goods industry, they might play a significantly less instrumental role. Furthermore, the individual case of the company, their corporate history and positioning influence the importance assigned to environmental and social considerations.

However, the introduced CSR ranking is certainly not a static one, but rather evolves over time. While a corporation has the ability to control some of the presented features (for example its amount of national production and marketing via feature or image selling), others might be completely external conditions, which lie out of the reach of company management. It is crucial to pay high attention to those areas, as it is particularly there where potential risks might evolve. For instance, even if consumer awareness in a certain business area is not very pronounced in the moment, as described in the fictional example 2 of paragraph 3.3.1., a major corporate scandal can raise this awareness possibly within a very short time span. Similarly, stricter regulations could be passed suddenly and unexpectedly, if environmental or social issues evolve in connection to certain products. Therefore, it might not be enough for a corporation to limit its CSR policies to a minimum if it finds itself in an insensitive CSR surrounding. Rather, as part of its risk management, close attention should be paid to potentially evolving changes in the CSR feature specifications and according preventive policies should be implemented early on. Also, corporations might benefit from establishing top notch environmental and social levels for its operations, because such a strategy might allow them to become first runners shaping industry benchmarks, which the competition has to follow up to eventually. In order to decide upon the most effective and

appropriate CSR strategy, a corporation has to first conduct a thorough analysis of the business and stakeholder environment it finds itself in. Thus, in the following chapter, based on the CSR Evaluation Matrix, a step-by-step process to analyze and model social and environmental policies for foreign affiliated companies in Japan will be proposed.

Chapter 5:

Recommendation for strategic CSR policy modeling in Japan

As the analysis of the interviews as well as the industry comparison made in the previous chapters have indicated, there exists no general rule about how a Western corporation in Japan should strategically plan its CSR programs. While certain trends and developments can be observed in a number of industries, including for example the general weakness of NGOs and the civil society in Japan in comparison to the European setting, it will nevertheless depend on the individual corporation to what degree social and environmental issues will constitute risks or harbor opportunities for companies both in the present and in the future.

As mentioned earlier, the majority of firms the author has interviewed surprisingly had no strategic approach for their CSR activities and conducted their social and environmental activities as a mere extension of their programs existing in their home countries. In many cases, codes of conduct from their headquarters were simply transferred to their Japan operations, often without checking even their actual local results. Due to limited personnel capacities and budgets assigned to the Japanese market, the CSR activities have usually been less extensive than in the home markets of the surveyed companies.

However, from a corporate governance perspective, it is crucial to manage the setting up of a CSR program with a clear strategy to guarantee the most effective use of resources. An unplanned, unstructured process can prove an ineffective, if not hazardous, approach: First of all, in the case of a company that is finding itself in an environment where urgent social and environmental issues prevail, not tackling those factors systematically can bring about uncalculated dangers, which might potentially harm the corporation. Secondly, in the case of a corporation which is not positioned

within critical social and environmental surroundings, spending money, time and effort on unnecessary and ineffective CSR policies can amount to an avoidable waste of resources. Consequently, conducting a thorough analysis of the social and environmental conditions a corporation is finding itself in, can turn out to be an invaluable investment as regards the effective use of resources, as well as a serious consideration of risk management aspects. As Frigo and Anderson point out, “the business environment over the past few years has experienced an unprecedented series of issues, surprises, and negative events that have increased the focus on the adequacy of organizations’ governance, risk, and control activities”⁷⁰⁷. At the same time, they emphasize that “while organizations are very serious about these activities, the expense pressures today are forcing them to take hard looks at their total costs, including the costs for risk and control”⁷⁰⁸. Keeping this in mind, it becomes clear that building CSR policies and programs along a logical and strategic framework should be a crucial necessity for Western companies on every essential market, such as Japan. Therefore, this paper proposes a CSR modeling process as illustrated below (Chart 20), which can be used by corporations as a rough guideline for the planning process in connection with their social and environmental programs and policies.

⁷⁰⁷ Frigo, M. L.; Anderson, R. J. (2009), p. 20

⁷⁰⁸ Ibidem



Chart 23: Process of CSR policy modeling⁷⁰⁹

Step 1: Analysis of stakeholder surrounding

As a first step, a foreign affiliated company will have to analyze the stakeholder surrounding it has positioned itself in, both internationally and within Japan, as a means to implement the most effective CSR strategy. Japan possesses, as elaborated above, a unique cultural, economic and social stakeholder situation, which can differ in a variety of ways from the settings in the European home countries. Although Japan displays many similarities, especially on the surface, with Western countries, deep-rooted cultural and social differences should not be overlooked. On the other side, it should not be forgotten, however, that by definition foreign affiliated companies are strongly interlinked with the global setting, i.e., their headquarters in Europe, their home and

⁷⁰⁹ Own Chart

other international markets, as well as the global public and the media. Therefore, it would be inadequate to restrict the analysis either to the Japanese or the international setting, but, rather, the more complex picture of both spheres of influence has to be investigated thoroughly. Extensive understanding of the expectations, demands and risks the corporation is faced with in its complex stakeholder surrounding is indispensable in order to successfully model a CSR policy and build up risk intelligence. As Houston puts it, “creating risk intelligence involves considering a variety of risk components, such as exposure, the organization’s ability to accurately assess risk, and how fast the organization can gain access to information and learn from it to reduce potentially negative outcomes”⁷¹⁰. As a first step in doing so, it can be helpful to use the CSR Evaluation Matrix introduced in Chapter 3 to gain a throughout comprehension about the general state of the particular industry the corporation is engaging in. The analysis of the different factors can include, but is not confined to, the following questions, mirroring the seven crucial features discussed in paragraph 3.2.:

Environmental impact:

- What kinds of resources are affected during the manufacturing, sale, consumption and the disposal of the product?
- What are the impacts of these environmental effects on the public image of the corporation?
- What kinds of stakeholders are affected by these environmental impacts?
- What kind of risks and opportunities are interrelated with these stakeholder relationships?

⁷¹⁰ Houston, T. E. (2009), p. 4

Social impact:

- What kind of social issues are linked to the manufacturing, sale, consumption and the disposal of the product?
- What are the impacts of these social effects on the public image of the corporation?
- What kinds of stakeholders are affected by these social impacts?
- What kind of risks and opportunities are interrelated with these stakeholder relationships?

Frequency of corporate scandals:

- What kind of corporate scandals have been there in the industry?
- What kinds of impact did those scandals have on the public opinion, legislation and the general trends in the business sector?
- What kind of risks can be identified in the context of corporate scandals?

Degree of pending legislation:

- What kind of legislation can be expected in the years to come concerning the social and environmental aspects connected to the company's business activities?
- What will the immediate and indirect effects of this legislation on the corporation and its products turn out to be?

Importance of feature selling:

- What is the unique selling proposition of the product?
- Is it sold mostly via focusing on the image of the country of origin or brand, or rather with emphasize on the individual features of the product?

Amount of national production:

- What percentages of the products are manufactured in Japan?

Level of consumer awareness:

- How high is consumer awareness?
- How do consumers organize themselves, for instance, in interest groups or NGOs?
- What kind of influence do those consumer representative groups have, in particular on the general public opinion?

The above questions should be investigated for the Japanese market setting as well as the international surrounding. As a result, there are three potential scenarios the company in question may find itself presented with:

Scenario 1: Pressure on the international stage to implement CSR measures is more pronounced than in Japan.

Even though the corporation might not be demanded explicitly by the Japanese stakeholder environment to invest in CSR related programs, in most cases, the company might, out of strategic reasons, have to model its policies according to global standards. Firstly, many multinational corporations are listed in international sustainability rankings and therefore have to maintain an equally high worldwide CSR level. Secondly, through the open flow of information, especially via the internet, displaying drastic discrepancies between CSR standards in different countries could result in damages to the corporation's image and the reputation due to the inconsistency in strategy.

In fact, judging from the interviews, the situation of Scenario 1 seems to be the most frequent among foreign affiliated corporations in Japan. This condition can, on the one hand, constitute a challenge for the corporations, as Japanese local companies, which

are only engaging nationally, might not have to comply with the higher international expectations. While there are still cases to be observed in which country discrepancies concerning social and environmental standards are exploited, as a general trend, multinational corporations are increasingly measured according to global benchmarks. From one perspective, being forced to perform according to international best practice levels can constitute a disadvantage in the short run in some instances, as it can require the corporation to invest resources into raising the bar to the demanded global standards, as depicted in Chart 21. On the other side, from the viewpoint of a long term strategy, it can turn out to be a strategic advantage for those corporations which succeed in establishing themselves as frontrunners concerning social and environmental aspects, in case those higher standards will become the expected norm in the industry in question.

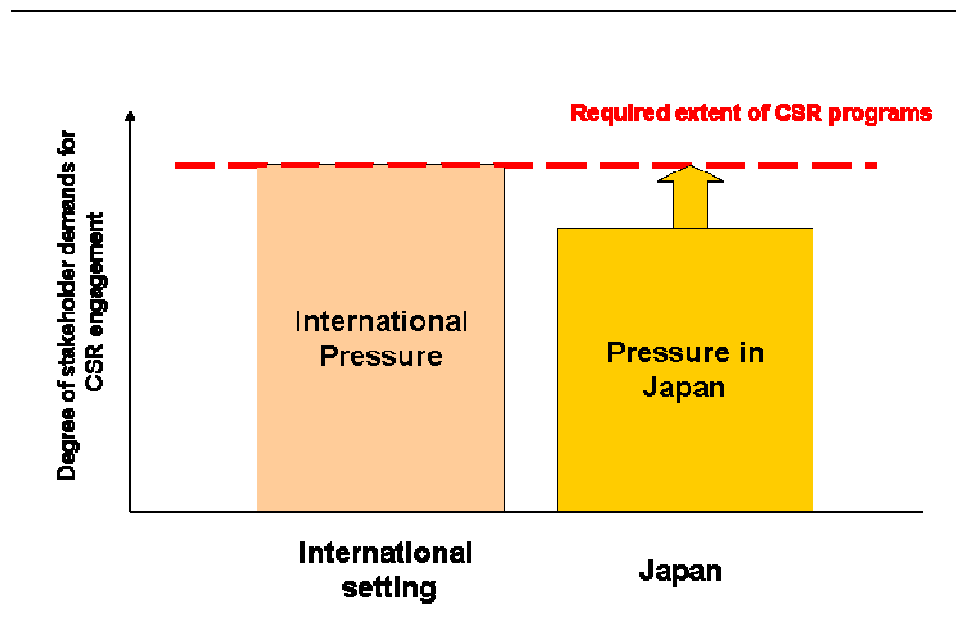


Chart 24: Global and national CSR pressure: Scenario 1

Scenario 2: Pressure to implement CSR measures is more pronounced in Japan than on the international stage

While such a setting was less often observed during the interviews among the foreign affiliated companies in Japan, in some cases, adjustment to higher local expectations, as expressed in Chart 22, can be necessary. Examples include, for instance, certain employment issues, such as the values held towards lifetime employment, and the exceptionally high quality requirements of Japanese consumers, which might demand extensive Health and Safety regulations. In order to satisfy the expectations of the local stakeholders, it may be unavoidable to implement environmental and social policies, which meet the Japanese demand level to a satisfactory degree. As a consequence, foreign affiliated companies might even generate a frontrunner advantage for their global business activities if they succeeded in implementing top level standards early due to the higher demands found in the Japanese market.⁷¹¹

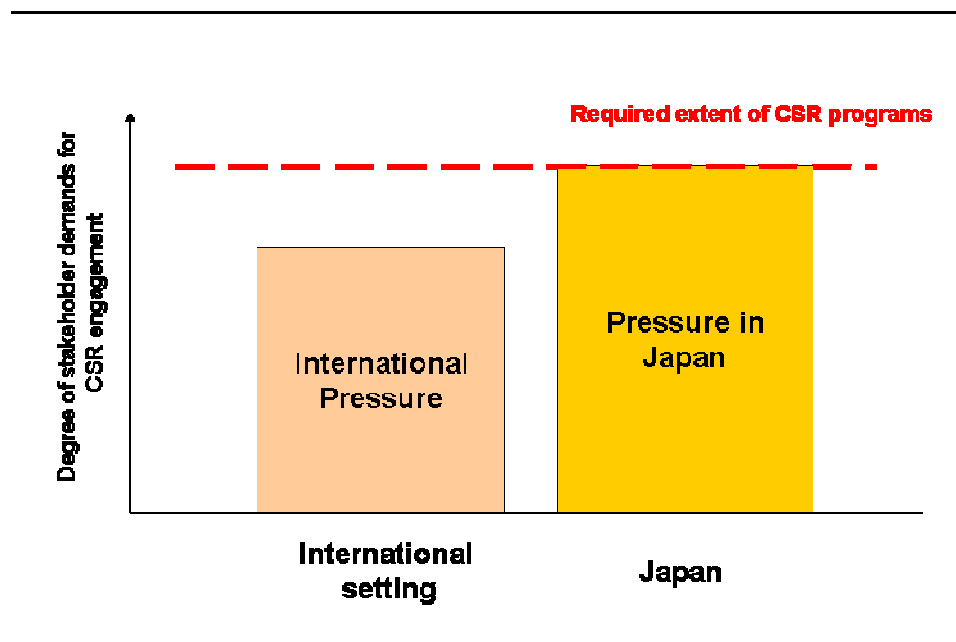


Chart 25: Global and national CSR pressure: Scenario 2

⁷¹¹ In fact, the author observed such a backflow of CSR initiative during her interview with Merck Ltd. This corporation has implemented an innovative risk management agenda in Japan, which was later on also introduced in its German headquarter. However, this kind of backflow seems to be rather the exception than the rule, with most CSR policies being decided in the European main office and then cascaded to the international subsidiaries.

***Scenario 3: Similar level of pressure to implement CSR measures in both Japan
and on the international stage***

In cases where the pressure to implement CSR measures does not differ significantly between Japan and on the international stage, the corporation will not have to adjust its CSR practices, and can use its global standards mostly unchanged for the Japanese market. Insofar, this kind of policy corresponds with the strategic options outlined under Scenario 1.

After having evaluated the degree of CSR awareness and demands of its stakeholders, the corporation can then, as the next step, identify the main risks and opportunities in connection with those demands. Most companies will be presented with a wide variety of different claims, which the organization cannot meet simultaneously, or, at the very least, not to an equal degree. It is, therefore, crucial to evaluate which aspects and stakeholder groups to focus on in particular.

Step 2: Identification of the main risks and opportunities

The goal of this risks and opportunities analysis should be the identification of the issues having the largest impact on the corporation, which, therefore, should be tackled in connection with the CSR strategy. As a means of evaluation, it can be helpful to use a matrix like the one introduced in Chapter 1 (see Chart 3), classifying the different stakeholder groups into high/low threat groups as well as with high/low potential on the basis of the cooperation with the company. Especially those with a high degree of potential danger for the company should be paid attention to and either involved by collaboration (assuming their openness to cooperation) or defended (in case they refuse to join efforts). Tackling social and environmental issues successfully can not only

constitute a meaningful pillar of risk management, but also result in strategic opportunities and in the creation of intangible assets, which competitors might not possess.⁷¹² In order to identify such potential CSR opportunities, foreign affiliated companies might tap into the best practice examples of their home countries or other international markets they are engaging on.

Step 3: Development of target strategy

After having decided upon the main focus areas, as a next step, the goals which shall be reached with the planned CSR programs as well as the appropriate means should be clarified. While the objectives will vary depending on the individual case of the corporation, in general, insightful opportunities for European companies of implementing CSR programs in Japan should often lie within the application of knowledge, structures and methods, which are not yet widely used in Japan and, therefore, might result in competitive advantages. For instance, many European countries already had, and continue to have, to tackle issues such as the integration of foreign workers in corporations and the society, developing concepts to make it easier for women to work and take care of their family, establishing programs which allow senior citizens to stay productive, and proactively encountering environmental legislation.

A large number of those issues are also to be observed in Japan yet, even though they appear often with a time delay of emergence of a couple of years in comparison to the Western nations. Therefore, the experiences and solutions found for the above challenges in the European home countries might serve as an inspiration for the Japanese market, where corresponding policies could be introduced. For example,

⁷¹² Cf. Chapter 1.3.3.1. about risk management in detail

foreign affiliated corporations, which succeed in solving the social and environmental challenges Japan is faced with,⁷¹³ by offering flexible working arrangements, including telework from mobile working stations, which can also be operated from home, special working systems for older employees, appropriate training systems for mid-career entrants, etc., could gain a clear competitive edge in comparison to their local counterparts, who have not started to innovate the traditional employment system yet. As the example of Volvic in Japan has shown, transferring an already successful CSR strategy, such as the 1 L for 10 L initiative from Europe, can create a unique and innovative program with comparatively few resources and limited investment, due to the fact that the concept has already been developed and tested in the home country. While it is apparent that a simple copying of the strategy would carry high risks due to the differing market conditions, nevertheless it can be said that - if adjusted well and fitted to the Japanese context - already existing concepts in the home countries can function as a valuable resource, experience and knowledge base for application in Japan.

Step 4: Development and implementation of programs

In logical consequence, after the focus areas and strategy have been clarified, the corporation will have to develop concrete programs and policies which will help to meet the planned objectives and implement them accordingly. Depending on the size and available resources of the local Japanese subsidiary, the extent to which CSR programs can realistically be implemented will vary. If a corporation is only maintaining a small representative office with a handful of employees, it might be challenging or unrealizable to implement extensive social or environmental programs. The very limited size and the small number of employees at many of the European companies in Japan

⁷¹³ Cf. Chapter 3. in detail

certainly represent one of the main challenges for proactive CSR measures. Also due to those often prevailing restrictions within foreign affiliated companies, it can be helpful to seek the cooperation with a stakeholder group for the implementation of CSR policies and programs, since joining forces with a partner of this kind can be a powerful tool to boost the effectiveness and the results of the envisioned activities. Stakeholder groups might give the European corporation access to a variety of valuable resources, ranging from manpower, and knowledge of the local market conditions, to familiarity with the particular Japanese structures, cultural assumptions and networks. Furthermore, working together with an independent third party can improve the credibility of the programs towards other stakeholders, including customers and the general public, and help with the establishment of efficient internal reporting systems.⁷¹⁴ In particular, if the corporation is choosing to collaborate with a locally recognized institution, it can benefit from the reputation effects associated with this organization. Moreover, working together with stakeholder groups might deepen the understanding of the demands towards the corporation in Japan. As Houston puts it, “comparing stakeholder values and concerns with an organization’s culture and values can also create awareness at the highest levels of where the organization and its stakeholders align and where they do not”⁷¹⁵. Furthermore, he points out that gathering stakeholder information can help “educate legislators and regulators about consumer demands that are driving resource needs and allocation [...]”⁷¹⁶, therefore, improving the positioning of the corporation towards institutions like the government and other official actors.

⁷¹⁴ Cf. Park, J.; Brorson, T. (2005), pp. 1095 ff.

⁷¹⁵ Houston, T. E. (2009), p. 5

⁷¹⁶ *Ibidem*, p. 2

Step 5: Check on results

As the final and often neglected part of the CSR policy modeling process, the efficiency of the programs as well as their results have to be checked upon. As pointed out earlier, many of the sought-after outcomes of CSR programs constitute “soft factors”, such as image effects, employees’ motivation and customers’ trust. While the evaluation of such dimensions is undoubtedly complicated, there exists however a number of measurement systems, which can at the very least give an approximation of the results. Examples include Sustainability Balanced Scorecards, CSR Audit Systems and CSR Scale Measurements Methods.⁷¹⁷ Furthermore, surveys among the individuals involved in the CSR programs, such as employees, NGOs, and consumer groups, can give indications about the internal and external perceptions of the activities. Through an interactive involvement of the affected stakeholder groups and regular feedback, ongoing social and environmental programs can be shaped and adjusted to market needs over time, thereby improving their effectiveness. According to the evaluation, the corporation will have to decide whether to continue, to adjust and change, or to stop the program in question. Therefore, the regular repetition of the CSR modeling process, including the gained knowledge about the already implemented effects, should become an established component of CSR corporate governance for a foreign affiliated company in Japan.

At the moment, applying a structured modeling process to their CSR programs as described above seems not to be common practice in Japan yet. Under a normative point of view, focussing on the overall societal necessity of Corporate Social Responsibility, it would be desirable that more decision makers in the corporations start to understand the potential of CSR policies for corporate governance and to pay more attention to the

⁷¹⁷ Cf. for instance Kaplan, R. S.; Norton, D. R. (2005), pp. 172-180, Epstein, M. J.; Wisner, P. S. (2001), pp. 1-10, Morimoto, R.; Ash, J., Hope, C. (2005) pp. 315-325, and Duzgu, T. (2009), pp. 411-427 for an introduction into a selection of CSR measurement systems

planning, execution and control of their organization's social and environmental programs.

Chapter 6:

Critical outlook and future perspective

As the above elaborations have illustrated, the situation of foreign affiliated companies in Japan is a complex one. Not only is the Japanese market challenging due to its different cultural background, values and customers preferences compared to the Western European settings, but also the specific stakeholder surrounding in Japan, which plays an instrumental role for the modeling of a Corporate Social Responsibility strategy, has to be throughout understood by the corporations in question to become and stay successful in this East Asian nation.

As discussed, on the one hand side the pressure from some Japanese stakeholders, such as NGOs, can be rated as significantly low compared to the situation in other Western industrialized nations. Moreover, the general customer awareness for CSR related aspects seems to be not as pronounced in Japan as in the home countries of many European corporations. On the other side, Japan recently has been experiencing a CSR boom, which might in the medium and long term change the perceptions of the general public and society towards social and environmental questions. As for the moment, pressure to implement CSR measures within corporations engaging on the Japanese market seems to come mainly from the industrial side, for example through the general acceptance of environmental ratings such as the ISO standards. Apart from that, there are indications that the CSR policies of Japanese corporations are mostly motivated by international developments, in other words the global establishment of Sustainability Ratings and Standards, to which in particular large Japanese companies see themselves forced to comply with.

However, this does not imply that CSR can not be of essential importance for corporate governance also within the Japanese market. As discussed earlier in this thesis, in fact

CSR awareness and therefore its influence of corporate strategy can differ greatly depending on the industry in question. The proposed CSR Evaluation Matrix (see Chapter 3.) illustrated that sensitivity for social and environmental aspects is indeed driven by a number of different factors, including, but not limited to, environmental and social impact, frequency of corporate scandals, degree of pending legislation, importance of feature selling, amount of national production as well as level of consumer awareness. In order to highlight the breath of CSR sensitivity within Japan, the food and beverage as well as the luxury goods industry were contrasted, showing that even within one country, significant discrepancies can exist concerning the importance of social and environmental aspects, depending on the business area and stakeholder surrounding.

Having said this, it becomes clear that suggesting any “rules of thumb” for foreign affiliated corporations how to implement their CSR programs in Japan would be inadequate, as a throughout analysis of the prevailing stakeholder surroundings as well as the individual specific positioning of the respective company will be essential. It is insightful however, as the findings gained during the empirical research have indicated, that many Western European companies seem to not have a structured approach for their CSR policies in Japan at this moment of time. Rather, in the majority of cases, the existing programs of their home countries were - often without adaptation to the local settings - transferred to Japan. It can be assumed that large-scale, multinational corporations tend to prefer a global, versus as locally adapted strategy, not only for their products, but also for other aspects of their business activities, including their CSR policies, as an internationally streamlined approach is generally expected to be easier to manage and more efficient due to economies of scale. Yet, one might have expected that the clear failure of a considerable number of foreign affiliated corporations on the Japanese market, which tried to enter the local economy with their Western

management and product approaches, should have sensitized other companies for the particularities of the Asian stakeholder environment.

As outlined above, the rather passive and internationally homogenous approach of Western European companies in Japan seems to also be explicable by the perceived low pressure from outside stakeholders, the limitation of staff and resources within the Japanese subsidiaries as well as the lack of CSR experts and tools within the corporations.

Yet, having said this, depending on the industry and individual corporate case, noteworthy strategic benefits might nevertheless be achieved by Western European companies through the implementation of a well set-up CSR program. In some industries with high CSR awareness, the proactive tackling of social and environmental risk areas could even be deciding for the survival of the corporation. Due to the apparent lack of a structured approach for their environmental and social programs in Japan within many companies, this thesis proposed a rough guideline for a possible structure of the strategic CSR policy modeling process, leading from the analysis of the stakeholder surrounding, the identification of the main risks and opportunities, to the development of the target strategy development and implementation of the actual programs to the final check on results.

It would from a normative point of view be desirable that a growing number of foreign affiliated companies in Japan would at the very least start to critically reflect about their CSR policies. As elaborated in the previous chapters, social and environmental aspects can constitute essential factors for the business success of corporations. Moreover, in particular in the light of the fact that Japan as a nation will have to tackle a variety of challenges, ranging from the establishment of a more sustainable lifestyle, over to finding solutions for low birth rates and the integration of women as well as other minority groups in the workplace, to the demands brought about by an aging society,

those corporations which can offer creative and innovative solutions for those issues as part of their business models and products will no doubt gain considerable strategic advantages over their competitors. Western European companies are often in an advantageous position due to the fact that they can in many cases not only tap into a broad pool of knowledge and experiences from their operations in their home countries and other international subsidiaries, but they also might with their perspectives as foreigners be more open and ready to implement innovative ideas, which challenge the traditional Japanese thinking. Vice versa, researching about other cultural settings and local solutions to CSR issues could help them gain new ideas and learn about concepts, which might in turn become a stimulus for their activities in Europe and other overseas operations.

In the context of the increasing interconnectedness of the global economy and world community, social and environmental issues have become challenges which often are not to be tackled by singular nations or governments alone. Rather, in order to find real sustainable solutions for society and nature to flourish also in the years to come, international collaboration as well as exchange of ideas and best practice concepts will be deciding factors. Sharing information and finding models to solve social and environmental challenges should become core considerations in particular for multinational companies as part of their corporate governance, not only because it makes good business sense and can constitute a smart strategic long term investment, but also because their responsibility as global corporate citizen calls for it.

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