Chapter 11
The Implementation of CSR Management and Stakeholder Relations in Japan

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11.1 Introduction

This chapter seeks to clarify how the relationship between a corporation and its stakeholders is redefined in the process of that corporation embedding CSR into its management process. CSR management has been the focus of increasing attention in management research literature, particularly over the last decade. Taking a step further, we need to begin to take account of the practical difficulties and challenges of reconsidering the relation a corporation has with its stakeholders once it has entered a new phase, in which it is both incorporating and implementing CSR into its management process. Since the emergence of the CSR movement, the relationship between a corporation and its stakeholders has been subject to revision and restructuring. Japanese companies (JCs) have experienced the transmutation of their relations with stakeholders as a consequence of introducing CSR perspectives into management practices, but to what impact? This chapter explores how CSR management and stakeholder relations in JCs have been changed through enhanced stakeholder engagement, by examining the results of interviews carried out across 20 major companies.

In this chapter, CSR is defined from the following two standpoints. The first defines CSR as the phase of incorporating social and environmental concerns into management process. The second defines CSR as the phase of tackling social and environmental issues through business activities. In both phases, companies must incorporate external engagement with stakeholders into their business operations. However, in general, JCs have focused just on the introduction of CSR management institutions at the initial stage of CSR movement in Japan, in the 2000s, and critical CSR issues were mostly left off the strategic mainstream agenda. JCs discretely

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S.O. Idowu, S. Vertigans (eds.), *Stages of Corporate Social Responsibility*, CSR, Sustainability, Ethics & Governance, DOI 10.1007/978-3-319-43536-7_11

managed external stakeholders as individuals, such as the investor, the customer, the NGO, the government, and the community, rather than as component parts of a broader management structure. Over the course of a decade of experiencing CSR activities and stakeholder dialogues, however, JCs have come to recognize the significance of building good relationships with stakeholders. Now, greater expectation is placed on JCs to ensure that their communication and engagement with stakeholders extends beyond tokenism, to understand the importance of relations with the external world, and to make use of those relationships to develop new ideas and innovate in both domestic and international markets.

11.2 Rapid Institutionalization in JCs

From around 2000 onwards, neither JCs nor Western multi-national corporations could continue to ignore the pressure to respond to needs of CSR, as a result of the increasing presure of the global CSR movement. CSR has been recognized as a hot topic by JCs since the Keizai-Doyukai (Japan Association of Corporate Executives) published a Corporate White Paper focusing on the importance of CSR management (Keizai-Doyukai, 2013). Consulting firms were passively involved in sparking the CSR boom and quickly launched business services designed to support CSR management in response to this new demand among JCs, while media companies began to report on CSR trends and rankings. However, most managers within JCs remained uncertain as to what actually constituted a good CSR management system and how companies should demonstrate commitment to such systems. There was no common understanding which CSR polices might be best to implement. Equally, the national government showed no interest in formulating policies to promote CSR in Japan, not least because the business sector had made known its objections to CSR issues being regulated by the government.

A manager who is one of the people interviewed, looking back on that time, said, "*honestly speaking, we thought CSR was not necessarily a must in management and were not willing to do anything unnecessary at that time. We were also not able to estimate the risks of failing to respond to it*". However, most JCs had an intuitive awareness that CSR represented an inevitable global challenge, one that even they would have to tackle eventually. As a result, most JCs responded passively, seeking to take action only to the extent that other companies did and keeping their CSR efforts to the minimum required at that time. This general attitude led to stronger mimicry at the initial stage: institutional isomorphism resulted in similarities across CSR management systems in JCs (in what can be described as the mimetic isomorphism of institutions). This homeotypical reaction to CSR originated in an intrinsic quality in Japanese corporate society; specifically, the tendency to do what other companies do or to follow the style of the "lead" company. Most JCs have fallen into this trend.

In time, many JCs began to establish new CSR charters and codes of conduct, as well as to revise mission statements and set up CSR sections. This sort of

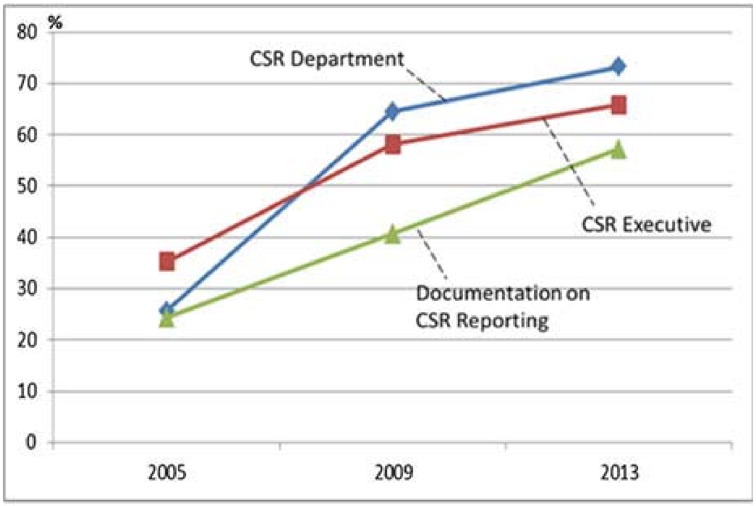

Fig. 11.1 CSR management systems in JCs. *Source*: Toyo Keizai (2006, 2009, 2013)

institutionalization of CSR management developed rapidly in Japan from the mid-2000s onwards. Data from Toyo Keizai (2006, 2009, 2013), which covers the top 1210 listed companies in Japan, tracks the rapid development of CSR institutions, including the rise in the proportion of companies with an established CSR Department (2006: 25.6 %; 2009: 64.5 %; 2013: 73.2 %), the proportion of companies with a CSR. Executive (35.2 %; 58.1 %; 65.8 %), and the proportion of companies making available documentation on CSR reporting (24.3 %; 40.7 %; 57.2 %) (Fig. 11.1). Ricart, Rodriguez, and Sánchez (2005) argue, based on data from 18 leading companies in DJSI World, that companies addressing CSR are stakeholder-oriented, in contrast with *shareholder*-oriented companies. Can the same be said of JCs? Does the rapid institutionalization of CSR within JCs turn them into stakeholder-oriented companies? In order to answer these questions, we need to examine the relation between a corporation and its stakeholders in greater depth than is afforded by the sort of simple survey referenced above.

11.3 Challenges in JCs

It has been noted above how many JCs were pressured into establishing CSR systems and therefore the institutionalization of CSR developed rapidly in Japan. Many of these JCs, however, were satisfied with the installation of self-led, self-designed CSR institutions. In general, however, it can be said that any newly established institution, especially if it is related to CSR management, will not function automatically in the organization. CSR issues are not just a matter for a CSR department alone but rather span across multiple sectors of the corporate organization. Unless CSR is embedded into the whole management process, CSR systems will not function in the company as they are intended to. In other words, coordination among sectors and incorporation into business activities are required if the CSR systems are to function successfully (Jones & Wicks, 1999; Lindgreen, Swaen, & Maon, 2009; Maon, Lindgreen, & Swaen, 2009; Porter & Kramer, 2006; Tanimoto, 2013).

CSR reporting presents a typical case with which to demonstrate the importance of adequate embedding. JCs have seen a striking rise in the extent of CSR reporting in the 2000s. Japan and the UK both report near-unanimous adherence to CSR reporting (KPMG, 2008), and more than 1000 JCs publish CSR reports. However, these reports are issued in each JC's own way, albeit formally based on the guidelines of the Global Reporting Initiative, and edited to cover each item of concern to stakeholders. Most of them can be described as bundles of assorted information, comprising that which each respective JC is willing and able to disclose on each relevant activity. The reports are neither exact reflections of management nor are their contents fed back actively to each department. The ad hoc nature of these reports results in low comparability among the CSR reports issued by JCs. The end result is that reports do not necessarily contribute to greater market transparency or fairness.

Another case of relevance is stakeholder engagement. Data from Toyo Keizai (2013) shows that 32.4 % of JCs conduct "Stakeholder Engagement", often referred to as "Stakeholder Meetings" or "Stakeholder Dialogue" in Japan. This means that one third of JCs are already actively pursuing stakeholder engagement in some way. However, the question remains as to whether such engagement functions strategically within the management process? Most of the companies adopt a mimetic style in their stakeholder engagement activities, rendering the process little more than formality and failing to ensure that a feedback system is embedded in the organization, as noted in more detail below.

Critical issues of CSR were not necessarily built in and left off the mainstream agenda in JC management. Further, the focus of CSR tended to be somewhat narrow, concentrating on aspects of development related to more visible forms (Utting & Marques, 2010). As such, there has been a gap between what we might call the "expected CSR management system" and the "conventional management system". Consequently, although CSR reports are published, the fact remains that CSR is not actually embedded into the management process and strategy of JCs. Management itself has not been significantly changed. So why are JCs showing such reluctance to embrace or to enhance the processes of embedding CSR into management and engaging stakeholders?

In general, there is a conflict between the short-term financial expectations of investors and the long-term social expectations of civil society organizations (Burke & Logsdon, 1996; Jensen, 2000; Juholin, 2004; Mahoney & Thorne, 2005; Windsor, 2006). In Japan, another historical reason works to prevent the promotion of the development of CSR and stakeholder relations. The next section will briefly discuss this historical background to the current relationships between JCs and their stakeholders.

11.4 The Japanese Model: A "Stakeholder Model"?

There is a common understanding that, as generally claimed, JCs have established a "stakeholder model". JCs have been characterized by relational trading between group companies, relational banking within Keiretsu, and long-term employment for employees (Dore, 2000; Jacoby, 2005). According to a 1990 survey of JCs on the concept of the corporation, in response to the question "in whose interests should the firm be managed?", 97.1 % of middle managers in JCs answered that a company exists for the interest of all stakeholders, while only 2.9 % responded in favor of shareholders only (Yoshimori, 1995). The approach taken by JCs can therefore be assumed to be pluralistic, as the firm belongs to all the stakeholders. Yoshimori (1995) states that this concept is specific to Japan, and manifests itself as long-term employment for employees and long-term trading relations among various other stakeholders (the main bank, major suppliers, subcontractors, distributors). Most JCs seem to have understood that they were already stakeholder-oriented and have therefore responded to the expectations placed upon them in market society.

However, the situation of the relationship between JCs and stakeholders differs quite considerably according to CSR model. Looking at the relationship between JCs and stakeholders from a historical perspective, it is clear that JCs have been actively including and territorializing their core stakeholders—meaning major corporate shareholders, permanent workers, and primary subcontractors—since the end of WWII. Corporations and their core stakeholders have formed a "closed network" system in market society. These stakeholders have shared values and hold common goals in terms of economic development. The corporation and its stakeholders have cooperated with each other in order to maximize economic and social benefits and to share them as equally as possible among themselves (Tanimoto, 2002, 2009, 2014). As a result, JCs cultivated a stable, lasting, and closed relationship with core stakeholders. On the other hand, peripheral stakeholders—including individual shareholders, non-permanent, disabled and female workers, and lower-level subcontractors—have been excluded from that same system. They have not entirely shared the benefits of the economic growth. In the face of economic downturn, JCs have shown a tendency to terminate contracts with non-permanent workers and lower-tier subcontractors, as if such contracts could function as sort of valve adjustment to compensate for the effects of economic fluctuation. The Japanese model has been described a "stakeholder model", but not one based on CSR principles. JCs have traditionally displayed low levels of diversity in their organizations. One indication of this is that JCs have traditionally been opposed to consumer groups and civil society organizations (CSOs) and have, until recently, never sought to engage with such groups.

Equally, in Japan, civil society organizations have been slow to mature and instead people have depended on government functions when seeking to engage with public issues (Tanimoto, 2002). JCs have never been demanded urgent accountability from CSOs and this has meant, in turn, that JCs have never felt the need to focus on stakeholder engagement. This is one factor explaining why JCs did not adopt a CSR model. Instead, the predominant model among JCs can be defined as an "exclusive/control model", as opposed to an "inclusive/collaborative model". For instance, the Keidanren (Japan Federation of Economic Organizations) has never held formal discussions with consumer organizations, and until recently individual JCs have not communicated with NGOs.

However, in the 1990s, this "stakeholder model" underwent gradual transformation. There were two factors behind this change. The first was a domestic factor. The relationship with core stakeholders had begun to change, as indicated below, and the conventional stakeholder relationship was becoming increasingly difficult to maintain in the wake of the collapse of the bubble economy.

– Corporate shareholders: <disruption of mutual shareholding> Main bank, which used to be a nexus of mutual shareholding were burdened with bad debt and eliminated the mutual shareholding.
– Permanent employees: <difficulty in maintaining their positions in the previously universal lifelong employment system> Major JCs have gradually changed their employment systems in a move away from lifelong employment.
– Primary subcontractors: <globalization of production> This prompted the breakdown of closed networks of subcontractors and the transformation of the Keiretsu system.
– Civil society organizations: <development of CSOs since the mid-1990s> After the NPO Law, which made the certification of new juridical persons legal, came into effect in 1998, Japan has seen an advance in non-profit activities to go about tackling social issues.

In response to these developments, the conventional relationship between JCs and stakeholders has changed, albeit little by little (Wokutch, 2014). However, such change does not automatically mean that stakeholders have been obtained greater power to negotiate with companies or been granted legitimacy in market society.

The second factor is concerned with pressure from overseas. The global movement for CSR began to emerge and has placed increasing demand on JCs to focus on CSR issues since around 2000. The movement has essentially forced JCs to focus their attention on stakeholders, from social and environmental perspectives as well as in terms of economic interest. JCs were aware that they could not ignore this trend, yet were in an uncomfortable position of not knowing how to react or to forge new relationships with stakeholders. Since that point, however, some JCs have used this growing awareness of CSR to gradually redefine and reconstruct relationships with stakeholders. By the mid-2000s, a growing number of JCs had started to conduct stakeholder meetings or stakeholder dialogues.

11.5 Research Method

The questions we need to address, then, are: "what is the reality of the current situation of stakeholder engagement in JCs today?" and "what do JCs learn through engagement and how does it enable them to rebuild their relationships with stakeholders?" To this end, I conducted in-depth interviews during 2012–2014 with CSR managers of major 20 listed companies (national/multi-national), working across diverse industry sectors including finance, trading, construction, electronics, communications, food, and automobiles. I conducted to triangulate both interview data and company internal and released data to reduce the misinterpretation by achieving redundancy of data using multiple perceptions (Stake, 2000). The interviews did not follow a rigidly structured questionnaire and were open-ended. The names of individuals and companies cannot be revealed because of arrangements. A guarantee of confidence about the content of the interview was also a crucial factor in the success of the interviews.

The interview was designed to clarify such questions as: how have JCs understood CSR; how have JCs been responding to stakeholder engagement as a CSR issue and revisiting their relations with stakeholders in the process of embedding CSR into management; and were any such changes made strategically in order to build more trusting relations?

11.6 Stakeholder Engagement

In recent years, "stakeholder engagement" has become increasingly popular within the global business community. It is not simply a process of talking with each other, but indicates that both parties share a commitment to and involvement with each other. Stakeholder engagement can be defined as a process by which a company can have constructive dialogue with stakeholders, which can affect or may be affected by that company's activities. It has been argued that a variety of internal and external stakeholders should be involved in deliberations on business strategy and policy (Romme & Barrett, 2010). What is most important in engagement is to reflect the proposals offered by stakeholders for the management policies and activities, and to change management behavior.

There are a number of methods of stakeholder engagement; for example, dialogue, advice, and participation in the decision-making process; the board of directors, CSR committee, joint management stakeholder committee (Spitzeck & Hansen, 2010; Spitzeck, Hansen, & Gayson, 2011). What is vital in each case is the inclusion of an adequate feedback system to management. The effect of stakeholder engagement is understood as follows; to obtain a license to operations, to build a relationship of mutual trust, to reduce transaction costs, to learn new trends and stakeholders' expectations, and to obtain hints for innovation (Henriques, 2010; Tanimoto, 2013; Lawrence & Weber, 2014).

We should reconfirm here that there is a difference between stakeholder engagement and stakeholder management. The objectives to stakeholder management are to forge good relationship with stakeholders, to reduce risks, and to establish a strategic management approach based on a managerial point of view (Freeman, 1984). Stakeholder engagement goes beyond stakeholder management. Stakeholder relations can be categorized into three types; Stakeholder Management: unilateral communication, Stakeholder Engagement: bilateral communication, Partnership: value creation with partnership (AccountAbility, 2005; Roper, 2011). The partnership stlye of engagement produces collaborations and alliances among sectors, alongside mutual benefit and value creation (Kuhn & Deetz, 2008).

Sloan (2009) posits that effective stakeholder engagement can open up opportunities and lead to learning, innovation and fundamental corporate transformation—to effect fundamental change in the company's internal operations—beyond conventional risk management. Thus, building positive relationships with stakeholders contributes to business success. A good relationship between a corporation and its stakeholders is an asset that adds value to business (Lawrence & Weber, 2014).

In recent years, JC managers have come to understand the necessities of nurturing good relations with stakeholders. But the concept of stakeholder engagement has not been popular or common in Japanese corporate society except in conventional union–management relations; industrial relations regulated by labor laws, and in investor–management relations (IR), in response to the growing power of foreign institutional investors in the 1990s. JCs have been listening attentively to the needs and preferences of consumers and customers in the market as an exercise in marketing research, but have never engaged with them in relation to social and environmental issues in business activities. Most JCs have hesitated to meet with consumer groups and NGOs until the early 2000s, because NGOs were less represented and not well recognized in Japan's business sector. In the process of embedding CSR into management, however, JCs have recognized the need to formulate CSR policy not in order to control stakeholders but rather to forge a good relationship with stakeholders based on an understanding of their expectations and interests.

11.7 Results

The interviews with managers of major JCs explore how JCs conducted stakeholder engagement and revisited their relationships with stakeholders during the initial stage of CSR introduction in Japan, namely from the middle of 2000s to the beginning of 2010.

11.7.1 With Whom and What About

One of the most surprising findings is that there was no explicit or common idea of what constitutes stakeholder engagement in JCs; in other words, with whom they should talk and what they should talk about at the time. In Japanese business society, it was traditionally very uncommon for JCs to engage with stakeholders on social or environmental issues. Consequently, they had little to no idea about who their engagement counterparts should be in the initial period. One CSR manager stated,

> *In making a CSR report, we thought we would be better off holding stakeholder dialogue. We searched for a way to tackle composing the CSR report by referring to other companies with more developed systems in place. We had no idea with whom we should have a dialogue and what we should talk about. We were not very sure where we might be able to identify appropriate stakeholders at the time.*

Thus, JCs had no clear idea about how to build good relations with stakeholders. Many companies depended on report production companies to draw up their CSR reports and hold a stakeholder dialogue, due to the lack of both experience and resources at the initial stage. What has developed widely within JCs is a reporting style based on the concerns of each relevant stakeholder group; this has been popular throughout JCs. However, such a style was not an accurate reflection of the reporting company's actual management, but rather an imitation of the style of existing reports published by companies with strong reputations in the CSR reporting field, or the result of commissioning report production to a specialist report production company. The outcome was a high level of mimicry in the reporting style among JCs.

11.7.2 How and Where

Most JCs opted to talk about general topics of environmental and social concern at roundtables with stakeholders. Both companies and stakeholders, however, were inexperienced in such dialogue. Consequently, they just talked about and listened to their respective opinions, without necessarily discussing any specific themes concerning the company's activities, except in cases of engagement with labor unions and institutional investors.

More specifically, adequate information was not given to stakeholders in order to make the dialogue significant. Most JCs did not provide enough internal information to stakeholders and stakeholders, in turn, rarely requested it. Participants of the dialogue were only able, therefore, to give general comments. The dialogue was not necessarily conducted in a well-informed way. The same can be said for the third party opinions sought by JCs on their CSR reports. Most third party reviewers simply read a manuscript of the report and provided their impressions on the content. As a result, some comments were superficial and failed to question management in any meaningful way.

Furthermore, most dialogue was conducted among exclusively Japanese stakeholders at the headquarters of the company in Japan. As an example, one multinational company conducted stakeholder dialogue on their global code of conduct, which had been newly established. Despite the necessarily global nature of this conversation, in fact all the participants were Japanese and the dialogue was held at the head office in Japan. This suggests a very introspective mindset and such dialogue can clearly not be expected to produce a diverse and globally informed points of view. It would have to be said that the company lacked a sense of being a part of a global company. As one manager explained,

The stakeholders strongly argued that foreign [non-Japanese] people should be included in the dialogue, since our discussion had only been among Japanese people at that point. So we were able to understand this. This is an urgent issue that should be dealt with quickly.

One point for reflection is the fact that, in most cases, almost all the members of the board of directors in JCs are Japanese. The ratio of foreign directors in the TOPIX Core 30 is around 2–3 %. The ratio of even outside directors of the 1415 listed companies in the first section of the Tokyo Stock Exchange remained at just 9.6 % in 2010. The majority of board members in major JCs are internal, Japanese, elderly, and male. Some companies have understood the limitations of this and the need for greater diversity among the board members. But this understanding is not yet advanced enough to prompt JCs to take immediate practical steps to realize such diversity (Morikawa, 2014).

There is another problem: the immaturity of civil society organizations in Japan. CSOs have a lack of experience and knowledge about business management issues. Furthermore, JC management also demonstrates a lack of experience in engaging and forging relationships with CSOs. In these circumstances, stakeholder meetings have become something of a ritual conducted for show, rather than a driver to improve corporate management systems.

11.7.3 For What

As noted above, most JCs started to conduct stakeholder dialogue as part of their CSR activities during the early 2000s. This was neither a response to stakeholders' requirements nor was it prompted by the needs of corporate business strategy. Instead, stakeholder dialogue was conducted as JCs sought to just "do as the other companies do". It is fair to say that the JCs had no clear intentions in holding stakeholder dialogue. Firstly, most JCs thought stakeholder dialogue was just one activity required in order to meet requirements on CSR reporting, as well as being a part of corporate PR activity. Various CSR managers stated,

We understood the dialogue as a tool for letting people know about our environmental approach.

By publishing a CSR report and holding a stakeholder dialogue, we were able to emphasize how much effort we were making in CSR activities.

These managers considered stakeholder dialogue as a good opportunity to show their companies' approaches to CSR, in other words functioning as part of corporate PR activity. They will have failed, therefore, to identify and target those stakeholders with the most pressing needs or demands, and to have negotiated with them strategically.

Secondly, JCs have made use of stakeholder engagement for in-company training or to introduce external information into their organizations. Various managers stated,

Attending the stakeholder meeting is a good way for employees in related departments to understand our new environmental policies.

If people from an NGO explain the reality of global human rights issue at the stakeholder meeting, they may convince conservative people in the HR department to understand the importance and the depth of the problem. They are far more compelling than us in explaining the same things.

In 2011, the Network for Sustainability Communication conducted a survey on the topic of "for whom are CSR Reports by JCs issued?" 242 companies publishing CSR/environmental reports responded to the question with multiple answers (NSC, 2012). The results show that the most common answer, at 62.8 %, was "for employees" (75.2 % in 2008 survey), followed by "for investors" at 50.0 % (43.3 %), "for business partners" at 49.6 % (53.1 %), and "for consumers" at 40.5 % (44 %). This trend is gradually changing, but even now the primary intent of many JCs seems to be to issue CSR reports in order to communicate their own CSR polices to their employees.

11.7.4 New Movements

Recently, since around 2010, a number of JCs have adopted new approaches to stakeholder engagement. Here, cases from four unique companies (A–D) are presented as examples.

Electronics Company "A": This company has ever been criticized the labour condition and human-rights issues by NGOs at the one of their local supplier in Malaysia. They did not have detail information on the local suppliers at the time. Company A has formulated the human-rights policy since then and established an international management system for collecting information and monitoring the activities of overseas subsidiaries in terms of problems relating to CSR as well as human-rights issues. The company appointed a person to be in charge of CSR in every main overseas base, and held an annual meeting with those representatives at the Japanese head office. One manager stated,

The scope of, understanding of, and approach to CSR differ by country and area. As our subsidiaries engage in communications with stakeholders in each regional base, we are able to grasp what the most important issues are for local people and which social challenges are considered the most significant.

We seek out the opinions of local people in order to understand the present situation in terms of human rights issues and the practical tasks faced.

This sort of management response is not unique in leading global companies in Europe and the US, but it is a new for JCs after around 2010.

Electronics Company "B": This company has learned the significance of the third party opinions and been active in taking third party opinion of their CSR activities into account since 2004. Since 2011, they have conducted stakeholder engagement activities in order to review their annual CSR Report. The company commissions an independent review of the report from a 'stakeholder team'; comprising members of NGOs, consumer organizations, and labor organizations, in an exercise organized by a consultant. Company B's CSR manager said that it is useful for the company to obtain positive or negative comments on their CSR activities from various sector perspectives. They established a review process in cooperation with the stakeholder team, as follows; (1) share the objectives of the review, (2) conduct a third party review and hold a dialogue, (3) identify challenges, (4) prioritize challenges, (5) disclose stakeholders' comments and any relevant remediation plan. In response to the question of what the results allow management to accomplish, the manager answered as follows: that the results could help the company to (1) clarify its CSR challenges, (2) firmly establish a PDCA cycle for CSR management, and (3) promote awareness among all department heads with regard to CSR issues. Company B has consolidated this review system in order to enhance its credibility and improve transparency in management. However, limitations remain: all the members of the dialogue are Japanese, dialogue is held in the Japanese headquarters, and stakeholders are not well informed about the CSR management of the company at home and overseas.

Construction Company "C": This company established a unique platform with stakeholders. After the Great East Japan Earthquake in northeast Japan in 2011, the company organized an open forum to discuss how to mitigate the damage caused by disaster, strengthen resilience of the organization and society, and generate new ideas among the related companies, NGOs, and academic bodies. Each actor necessarily has a different awareness of risk. One leader of the platform stated that it is essential that all platform participants share their understanding of risk, visualize it, and communicate with each other in order to build up a society with strong resilience to disaster: one which is autonomous, decentralized, and cooperative. The company regularly holds workshops for all stakeholders in order to generate innovative ideas about how best to construct sustainable communities in the near future. Company C understands that as a business it is part of a wider society and they should develop systems of business continuity management (BCM) in order to share awareness of various risks among key stakeholders; employees, shareholders, customers, and the local community. A significant challenge for the organization is to coordinate the demands of executive managers, various departmental managers, and people on-site.

Some JCs realize the need to develop business approaches for tackling social and environmental issues. The next case is a unique approach for such sustainable development.

Table 11.1 Sustainability Index of Chemical Company D

Sustainability (Green) Index	S-1 Contribute to reducing environmental impact through products and services
	S-2 Take actions against the depletion of natural resources and energy-saving initiatives
	S-3 Contribute to solving soc and env issues through supply-chain management
Health Index	H-1 Contribute to medical treatment
	H-2 Contribute to improvements of QOL
	H-3 Contribute to early detection and prevention of diseases
Comfort Index	C-1 Deliver products (development and manufacturing for comfortable life style)
	C-2 Improve stakeholder satisfaction
	C-3 Earn recognition of corporate trust

Source: Company D's Sustainability Report 2011

Chemical Company "D": This company established a "Sustainability Index" in 2011 in order to evaluate their progress in the adequate management of sustainability issues. This is a new notion of sustainability, set in the core of their organization and integrated into their corporate mission, business plan and strategy. They have developed this Sustainability Index in order to visualize the concept of "Management of Sustainability (MOS)", as they aim to improve sustainability for people, society, and the earth, and to monitor their progress and results. MOS indices include elements of sustainability ("green"), health, and comfort. They cover such issues as the reduction of environmental impact, sustainable use of resources, reduction of energy usage, promotion of good health, and contribution to more comfortable lives. However, it should be noted that the system was initiated and is monitored by the company, rather than through engagement with stakeholders (Table 11.1).

It is not uncommon that global companies establish an international CSR management system and positive engagement with stakeholders. But in JCs it is a relatively new action. On the other hand, we find a unique and constructive platform set by Company C to tackle economic and social challenges after the disaster, and a forward-looking and comprehensive sustainability index set by Company D.

11.8 Discussion

Since the early 2000s, almost all major JCs have introduced CSR systems and the institutionalization of CSR management system has developed rapidly in Japan. However, the common approach has been to focus on activities related to visible forms of CSR and CSR as a function was not necessarily embedded into the core management process. Many JCs have flocked to publish CSR reports and the number of companies doing so has now reached over 1000. The majority of these reports is edited to feature contributions from each group of stakeholders, such as employees, customers, investors, and communities, and is intended to display newly introduced systems for CSR management. These reports, however, can read like lists of assorted information from various division and, more often than not, tend to show that the publishing company is taking the same steps as other, equivalent companies, and does not fall below the industry average with regard to CSR activities and responsibilities. JCs have managed stakeholder issues by treating stakeholders as individuals rather than as parts of a broader management whole. Such CSR report may be published even when CSR functions are neither embedded nor implemented in the management process.

At the early stage of CSR introduction, JCs began to understand the need for stakeholder dialogue. At the same time, however, most of them did not necessarily have any definite objectives in place when engaging in such dialogue. In such cases, the stakeholder dialogue was conducted in a "talk-and-listen" style and had little practical worth, not least because JCs felt no urgency to engage with stakeholders in order to obtain their opinions. Rather, stakeholder dialogue was conducted as a required element in the process of CSR reporting and was separated from strategic management and decision-making processes within the organization. The main features of this predominant style of stakeholder dialogue may be summarized as follows:

1. No specific objectives: JCs set general topics at roundtable talks which were the main platform for stakeholder engagement, and the participants gave their general views on these topics. This resulted in no practical feedback to the management and did not provide possible solutions to working-level issues. Equally, JCs did not expect to acquire any significant information or insight. They considered holding such dialogue to be an end in itself.
2. Perfunctory dialogue: Most dialogues were held only among Japanese attendances at the Japanese headquarters. JCs were lacking of sense of being active in a global market. In many cases, report production companies contracted by the reporting JC arranged the roundtable talks and recommended appropriate and, generally, innocuous stakeholders with which to engage each theme in line with the company's intentions and views. Such an approach is not robust in ensuring the objectivity of information.
3. Immaturity of stakeholders: In Japan, both companies and stakeholders alike have been unaccustomed to holding dialogue and engaging with each other. Stakeholders lacked sufficient knowledge on business management issues. Therefore, providing education to CSOs to enable them to discuss management propositions and collaborate with JCs is another important challenge for CSR, if such engagement is to succeed in building more sustainable business, rather than just involve criticism of existing practice.

The "talk-and-listen" style of stakeholder dialogue would never have created new value; stakeholders expressed their own opinions and JCs merely listened and in response explained their basic policy on each topic. Still now, few JCs have managed to embed productive feedback systems well into their organizations. In many cases, CSR reports show us that stakeholder dialogue is wrapped up by a comment, from the CSR executive director, along the following lines: *"we appreciate your valuable opinions today and would like to utilize them in our future management"*. How exactly they feed back those opinions to the management, however, where they want to be in a year having fed those opinions back, and how they intend to measure those results are not clarified at all in the same CSR report.

Nevertheless, since around 2010, the situation has been gradually changing. JCs have been on the receiving end of negative evaluations and criticism from NGOs concerned with human rights and environmental issues; they have been put under pressure to respond in a practical way. For instance, a Japanese precision machine company is ranked low by an NGO, Enough, which looks at the involvement of companies in conflict mineral issues. The Enough tracks the efforts of major electronics companies in avoiding the use of and investment in conflict-free minerals in their products. The Enough has criticized low ranked companies for not doing enough to change their practices. JCs have also faced demands to take proper steps to investigate their supply chains and some have actively engaged with external shareholders in order to do so.

Many JCs like Electronics Company A, described before, have set out to establish an international management system, to monitor their supply chain, and to engage with external stakeholders. In general, over the past few years JCs have begun to meet with stakeholders and have learn from the dialogue they can have with them. Some JCs now understand the importance of such dialogue, of setting practical objectives, and of talking with related stakeholders in domestic and international market societies. One CSR manager stated,

> *I recognize stakeholder engagement is not just for the purpose of publishing a CSR report but it must also be a driver for facilitating better management with stakeholders.*

This company receives advices and ideas from stakeholders and experts on various CSR-related issues—environment, human rights, philanthropy—and also sets out their responses in detail.

JCs have begun to figure out what the expectations of their stakeholders' are, as well as the demands stakeholders have towards them, both at home and overseas. JCs are also beginning to realize how they should be contributing to the sustainable development of local and global communities through their business activities. The experiences of the major 2011 earthquake prompted Japanese people to reconsider how it might be possible to develop communities less vulnerable to disaster. Construction Company C established a unique platform to discuss with related stakeholders how, in the future, more resilient societies and companies could be constructed. The ideas created here feedback to each stakeholder. Electronics Companies A and B realized they should fill the gap between responsible management system and conventional management system, and rebuild organizational culture and relationship with stakeholders. Chemical company D developed a Sustainability Index to contribute to greater sustainability for people, society, and the earth. The company makes sure to constantly adjust their indices to reflect the expectations of their stakeholders.

11.9 Conclusion

Until the CSR movement began to hot up in the 2000s, JCs never placed emphasis on engagement with stakeholders. In response to the global trend of CSR, however, they initially dealt with it as something required in the process of creating CSR reports, rather than as a part of strategic management. During this initial stage, JCs had no clear ideas as to with whom they should talk or what about. A number of JCs simply implemented engagement by copying the approach taken by leading companies, while being advised by report production companies. This led to the mimetic isomorphism of CSR institutions. In general a newly-established management institution does not automatically work and produce a significant result. Since JCs did not necessarily understand the significance of stakeholder engagement, the purpose of meeting and talking with stakeholders was not clear, nor did it have any practical significance for business management.

JCs tended to regard stakeholder engagement as a part of corporate PR activity. This meant that they failed to make use of it strategically and neglected to embed into management systems to feedback the outcomes of engagement; as such, engagement did not make any contribution to bringing about change in organizational structures or culture. Browne and Nuttall (2013) also insists that companies must deeply integrate external engagement into their strategy and operations, and external engagement cannot be separated from everyday business. There is a significant gap between the situation we see today, namely just talking and listening to stakeholders, and the ideal engagement scenario of learning and innovating for value creation. However, JCs recently have experienced having meetings with stakeholders. JC policy toward their relationships with stakeholders has been gradually transforming through: (1) experimental learning through engagement with stakeholders, (2) responding to negative evaluations and ratings of their CSR management by NGOs, and (3) sensing a greater requirement to strengthen the resilience of business organizations and wider society in the aftermath of the Great East Japan Earthquake in 2011. For JCs, holding meaningful dialogue with stakeholders and listening to external stakeholders is an unprecedented experience. Here, JCs may glean hints as to how they might reconsider existing systems and introduce new systems in their place.

Through their experiences in stakeholder engagement, some JCs have learned that stakeholder engagement is not simply an exercise in talking with and listening to stakeholders. Rather, it can be an opportunity to learn, to implement, and to make changes in organizational thinking in order to incorporate CSR into management process. Stakeholder engagement should be a source of innovation for contributing to sustainable development and an opportunity to find creative ideas. Sloan (2009) argues that stakeholder engagement leads to learning, innovation and fundamental corporate transformation.

One CSR manager interviewed stated,

> *Concerning "stakeholder engagement", we have done many things, for example, corresponding with customers, sharing information with clients, holding labor-*

management consultation with employees, holding IR meetings with institutional shareholders and investors, holding dialogues with SRI rating organizations, and holding dialogues with NPOs related to local communities. However, these activities are not coordinated effectively as a whole. We cannot communicate well with market society. In other words, our communication doesn't work well.

The reason why stakeholder engagement does not work well within JCs is not, however, just a matter of communication skills. JCs have engaged with major stakeholders individually regarding economic issues, without invoking a holistic management approach, and never talked with those stakeholders about social and environmental issues. Introducing CSR into management process tends to create conflict between the conventional management system and the desired, socially responsible, management system. Through the experience of creating CSR reports and holding stakeholder dialogue, JCs have been able to reconsider the meaning of implementing CSR and of forging good relationships with stakeholders.

JCs should be prepared to respond constructively in stakeholder engagement, because such engagement may allow problematic behavior to be identified as well as the positive restructuring of corporate strategy. Stakeholder engagement is not just about talking and listening; it is a negotiation. Daniel Vasella, former chairman of Novartis, stated: "*I have an aversion against missionaries. I don't like to go out as a missionary and preach, and then be accused of preaching for my own parish. This is a negotiation, and it can be a very tough one*" (Browne & Nuttall, 2013). When engagement is conducted perfunctorily, no practical result can be produced. Stakeholder engagement will enable JCs to be more conscious of the initiation and mainstreaming of sustainability in their core business, as well as to recognize the importance of nurturing an effective relationship with stakeholders, both core stakeholders and peripheral alike.

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