Asian Business & Management, **2004**, **3**, (151–172)

www.palgrave-journals.com/abm

Changes in the Market Society and Corporate Social Responsibility

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The role expected of corporations in society is not fixed, but changes when the society forming the basis of the market economy transforms. Since the 1990s, a lively, ongoing debate has occurred as to whether the negative aspects of globalization can be overcome. In the current environment, which demands both social and environmental sustainable development, calls for corporate social responsibility are getting louder. With the growth of green consumerism and socially responsible investments, the evaluation of corporations is being based not only on financial, but also on social, indices. Specialist organizations now survey and rate corporate activities from an environmental–social perspective and provide information to consumers and investors, who in turn make decisions based on this evaluation; corporations thus receive positive or negative sanction from consumers and/or investors based on these ratings. Should this system become established in the marketplace, corporations will have to manifest a system that incorporates social fairness and environmental responsibility, and accept their accountability to stakeholders for their economic activities. This paper examines global trends and new possibilities in corporate responsibility, making a particular study of the current Japanese situation.
Asian Business & Management (2004) **3,** 151–172. doi:10.1057/palgrave.abm.9200087

Keywords: market society; sustainable development; corporate social responsibility; socially responsible investment; corporate reputation

Introduction

Since the 1990s, demands have grown stronger for the sustainable development of the socio-economic system, changing the role that corporations are expected to assume in the market. At the global level, the public have become increasingly vigilant and critical of the social and environmental problems caused by economic development, so much so that the rating standards of corporations in the marketplace have been changing. If a corporation does not provide accountability, not only to shareholders but also to 'stakeholders',

Received 25 August 2003; revised 24 November 2003; accepted 8 December 2003

including employees, customers, the environment and the local/global community, then it cannot be rated and will be less able to receive the support of its society. This global climate change has also affected Japan, increasing domestic interest in corporate social responsibility (CSR). Formerly, whenever there has been economic downturn, interest in CSR has rapidly faded, yet with current awareness of the linkage between profitability and CSR, the rules of the market have begun to change. This paper will examine the transformation in the range of corporate actions and the standards for corporate evaluation caused by changes in the society that forms the base of the market economy.

Until now, when social problems appeared that could not be solved through market adjustments, the role of government has been strengthened. Conversely, when the limits of big government were reached, the role of the marketplace was emphasized, by allowing market forces to solve discrepancies. This is the oft-repeated 'big government *vs* small government' argument in relation to economic policy. The current debate in Japan regarding the recovery of the stagnant economic system also mirrors the above paradigm, with one side arguing for market-led reforms through the easing of regulatory restraints, while government interventionists, critical of the free marketeers, demand that the government provides a 'safety net'.

Furthermore, the economic efficiency and social fairness debate within the market was established along the following lines: 'first, improve efficiency to increase economic results, then distribute the benefits as fairly as possible'; 'if efficiency in the production process is increased, fairness will decrease, and conversely, if fairness is increased, efficiency declines'. Thereby, a difficult problematic existed in the market, by which a direct connection between efficiency and fairness could not be realized. Certainly, trusting market mechanisms alone for the resolution of the problem is difficult. What is more, recent years have seen a rapid increase in issues that cannot be resolved by either market or government alone, such as global environmental concerns, the economic development of communities and the provision of support to the disadvantaged in society (Giddens, 1998). Moreover, the social losses representative of the environmental problems associated with corporate production practices cannot be compensated by the distribution of greater economic benefits. Yet public demands for social fairness and sustainable environmental practices from corporate economic activity are increasing, and should a corresponding evaluation system be incorporated into the market, corporations will have to take positive steps to adopt such policies. Furthermore, should those NGOs that act as watchdogs on government and corporate activities mature and be empowered, the market situation would gradually, inevitably, change.

In the actual market, society, politics, culture, international relations, and so on, interact, and a mutually restrictive relationship exists within the interplay. The market does not function in a 'vacuum', without restrictions, like a model in an economics textbook. In this sense, a market is originally understood as a 'market society'. Therefore, if the layer that forms the market base changes, the 'game rules'[1] of the market also change. Corporations exist within such a market society, and hence their activities are deeply intertwined with contemporary society, politics, culture and international relations. Consequently, corporations are not divorced from changes at the base of the market society. In the process of globalization since the 1990s, social movements demanding environmental and social sustainability have spread, and NGOs monitoring and evaluating corporate activity from an enviro-social perspective have seen their influence increase as they gather public support. Consumers and investors are demanding socially responsible actions from corporations, such as the manufacture of safe products, equitable employment practices, environmental management practices and fair corporate business practice in developing countries. Should such pressure increase in the market society, corporations will be requested to incorporate social fairness, ethics and consideration for the environment in an efficient economic process (= CSR) (Holliday et al., 2002: 19, 22). If the market comes to value CSR, and a new norm is created in the base of market competition, the 'game rules' will certainly change[2]. If such a market society matures, social responsibility and economic results will no longer be understood as a trade-off, but as compatible goals.

In Japan, such a change in the market society is still not visible. In response to movements in the US and Europe, interest in CSR from the Japanese corporate sector has rapidly increased. Up to now, CSR has been regularly debated in cases of environmental pollution and corporate scandals, but has been a marginal activity; this has greatly shifted with the changes in business environment. The reason for this is the fact that Japan's population has hitherto had a low interest in public problems that transcended the individual, and civil society organizations (CSO)[3] were immature. Consumers' and investors' ratings of companies have been weak in terms of social fairness and ethics, so that the CSR debate never caught on.

Yet, with the post-1980s reflection on what it means to be an 'affluent society', along with an increased interest in civic responsibility in the 1990s, the public, on its own initiative, has launched movements to tackle common social problems.[4] Furthermore, global interest in CSR has increased and Japanese corporations have begun to be affected, as institutional investors and rating organizations in the West began to undertake initiatives such as social screening. This has provided the momentum to launch serious debate within the Japanese business world on implementing CSR.

From here, this paper will examine the effect on corporate norms and evaluation standards resulting from social demand for CSR. The changes in the corporate environment that are insisted on at the global level for CSR will be analysed first, followed by an examination of the fundamental patterns governing the relationship between corporations and society that are a precondition to understanding CSR. In addition, this paper will further consider the present condition of Japanese corporations and the significance of corporate rating systems.

Changes in the Social Environment of Corporations

The social environment surrounding corporations has been changing significantly since the 1990s. The changes percolating through the global market society can be summed up in the following five points.

(1) *Demands for accountability to stakeholders and the creation of a code of conduct*: Corporate activity not only involves shareholders but also a variety of stakeholders. Executive management reconciles these interests, and demands are being made of the executive to implement management, which clearly defines accountability. For example, the Caux Roundtable, an organization founded in 1986 by senior European, American and Japanese business leaders in Caux, Switzerland, laid down a set of 'Principles for Business' in 1995 that would take account of all stakeholders (customers, employees, owners/investors, suppliers, competitors and communities) in pursuing a goal of responsible corporate activity and sustainable management (www.cauxroundtable.org). Furthermore, there are the Global Sullivan Principles of Social Responsibility (1999) that defined corporate norms relating to human rights issues, the SA8000 labour and human rights certification system created by Social Accountability International (1997), the UN Global Compact defining corporate principles (in three areas: labour, human rights and the environment) and the OECD Guidelines for Multinational Enterprises, all of which designate standards for global corporations. What is more, the GRI (Global Reporting Initiative, Substainability Reporting Guidelines, 2002), using triple-bottom-line reporting, is beginning to expand as a standard.

The whole concept of corporate governance is changing. In the US in the first half of the 1990s, reform was advanced on the stockholder-centred principle, in response to reflection on the board of directors system. In the latter half of the 1990s, however, there were calls to consider the interests of other stakeholders, not just stockholders (Tanimoto, 2002: Chapter 13).

(2) *Rapid growth of socially responsible investing (SRI)*: SRIs, investment based not only on financial indices but also on social and environmental indices, grew significantly in the late 1990s. According to the SIF (2001), which surveys SRIs and the spread of SRI, the total amount invested in SRIs (invested funds by social screening) in 1995 was \$165 billion. By 1997, this had increased to \$529 billion, and in 1999 \$1.497 trillion was invested. In 2001, the total amount invested in SRIs stood at \$2.03 trillion dollars, 12 times

the value invested in 1995. This represents total stock value estimated at $15.104 trillion.

Europe has also experienced a rapid growth in SRI in recent years, especially in the UK, where, according to the corporate rating organization EIRIS, the total amount invested in SRI mutual funds grew to 20 times the 1989 level of £199 million to £4.0253 billion in 2001. Moreover, the total amount invested in all SRIs in 2001 was £224.5 billion, 10 times the £22.7 billion invested in 1997. This represents 12.7 per cent of the total stock market value, estimated at £1.7714 trillion pounds (Tanimoto, 2003: 70).

According to a 2002 study in the US, Calvert/Harris Interactive, 71 per cent of investors indicated that they would invest in a company that furthered community development activities, 68 per cent would invest in a company with good environment performance, and over 60 per cent would invest in a company pursuing gender equality. Investment decisions based on social indicators are thus affecting corporate management.

(3) *Popularity of green consumerism*: Consumers are continuing to become more interested in corporate social responsibility and in making purchase decisions based on a company's social performance. For example, in the US, according to a survey by Walter Research, 70 per cent of consumers answered that they would not buy the products of corporations that do not honour social responsibilities, even if the products were cheap. In Europe, in a 2000 study conducted in 12 European countries by CSR Europe, 70 per cent of consumers responded that buying products and services from a company carrying out CSR was very important and 44 per cent indicated that they would purchase products or services from a corporation that was taking environmentally and socially responsible steps, even if the price of the goods or service was higher. In Japan, in a study carried out by the Cabinet Office in 2001, 83.3 per cent of respondents replied that they endeavoured to purchase environmentally friendly products. Furthermore, when surveyed on the price differential they were prepared to pay, 38.6 per cent would purchase products that were 5 per cent more expensive, 25.9 per cent would accept a 10 per cent higher and 4.4 per cent a 20 per cent higher price.

The Green Consumer movement is becoming more active as wired, globally networked NGOs provide more information. They call by Internet for purchase boycotts of products and services of those companies that have not implemented CSR programmes; conversely the Buycott movement (Green Consumer Guidebook, Internet shopping malls, etc.), which facilitates purchase of products from companies that are carrying out CSR, is also broadening.

Furthermore, Green Procurement is also becoming popular among corporations, with the production processes of product and service providers being investigated to determine whether they are taking into account environmental and social responsibilities. There are, for example, cases where the presence of ISO14000 or EMAS certification is a prerequisite for business. Moreover, in the case of government procurement, the increasing prevalence of checks being carried out on companies to assess equal employment opportunities and conditions of minorities and the handicapped, in addition to environmental policy, is noteworthy.

(4) Demands for corporate community involvement: Corporations are increasingly expected to take a leading role in tackling local/global community issues, as governments shrink and values diversify. For example, in the case of community economic development, corporations are being asked to become actively engaged in local economies at the core business level, going beyond conventional forms of philanthropy to provide investment, employment and trade. These types of activities are continuing to spread. Although this type of movement is particularly vigorous in the US, in the UK also the government is supporting a programme that brings corporate involvement to underserved communities. For example, in the UK the Local Strategic Partnerships programme, advanced in cooperation with stakeholders who are key to regional reactivation, is currently in operation (http://societyandbusiness.gov.uk).

Background of Change

Next, this paper will investigate why such changes in the market society are spreading at a global level.

Limits of economic fundamentalism

The economic fundamentalist view that corporations are, in essence, economic organs that contribute to society by following the law and paying taxes is not incorrect. Yet the CSR position supersedes this fundamentalism. Even if unintended, the impact of the process and result of corporate economic activities on society and the environment is increasing and a position where corporations deny the negative impacts of their activities is no longer tenable. As illustrated in Sections 2 and 3, if a civil society that demands sustainable growth in consideration of recent social and environmental factors flourishes, and comes to monitor and evaluate corporate activity, severe criticism will be directed toward those corporations that do not consider their social responsibility. The issue is not *whether* a company should take on social responsibility, but *how*; it is already at the point where the question is how to implement it.

An era that demands sustainable development

In the latter half of the 20th century, industrial civilization, based on mass production, mass consumption with mass waste and a social economic system centred on the corporation, came under re-examination. In the postmodernist arguments of the 1970s, the structure and principles of the system were criticized, yet the question that is being asked now concerns the best way to reconstruct the system. Various efforts can be seen in reconstructing systems that promote sustainable development through economic activities, environmental considerations, the finiteness of resources, and the welfare of future generations. This issue was seriously debated at the UN Conference on Environment and Development (UNCED), held in Rio de Janeiro in 1992. After 10 years, at the 2002 Johannesburg World Summit on Sustainable Development (WSSD), the sustainable development debate did not stop at environmental problems, but encompassed a range of humanitarian issues such as poverty, health, social and economic inequality. In these circumstances, corporations are being asked to achieve CSR in consideration of the economic, social and environmental impact of their activities (Holliday et al., 2002: 13).

Development of CSOs: monitoring and evaluating global corporate activity, governments and international organizations

Since the 1990s, corporations, realizing the merits of global sourcing, have rapidly expanded on a global scale. Concurrently, the demerits of this trend, such as the increase in the economic disparity between developed and developing countries, environmental problems beyond borders, and the 'sweatshop problem' in developing countries, etc. have also proliferated. NGOs that monitor, survey and evaluate these types of problems from an independent standpoint are gradually gaining influence through popular support. Numerous NGOs participated in UNED and this participation launched NGO involvement and statements in UN councils. As illustrated in the following section, NGOs have drastically expanded their networks around the globe by using the Internet. Furthermore, at the 1999 WTO Ministerial Meeting in Seattle, NGOs representing the environment, human rights, labour, women's issues, poverty, social development, etc., formed a network to take cooperative action toward remedying the negative impacts of globalization. This action caught on and, at subsequent meetings of economic organizations such as the World Bank and the IMF, NGOs criticized the globalization of the market for various problems it created, coming to questioning the structure of the entire corporate system.

Delivery, disclosure, sharing of information and network creation through the Internet

In the 1990s, together with increasing globalization, the use of the Internet spread rapidly at the grassroots level, and NGO activities are now being coordinated on a global scale. For example, even when examining the sweatshop issue in developing countries, the world was informed of the issue through this network, and boycotts increased. Due to the development of these types of global networks, the asymmetry of information that exists between corporations and stakeholders is also starting to be resolved. Many citizens share information and debate about social/political problems, creating the conditions and a system whereby people can participate in policy formulation.

Deadlock in the state/government system and questions about extra-national issues

Some issues are too big for single national governments to tackle, such as those involving wider environmental implications and disparities between the Northern and Southern Hemispheres. Conversely, there are even problems that are too small to deal with, such as minor regional problems.[5] Recently, it has been anticipated that CSOs will play a key role in resolving these regional issues. Moreover, new methods of solving such problems through government, corporate and CSO collaboration are being sought.

Relationship of Corporation and Society

Corporate and social interaction

In order to understand the CSR concept, it is necessary to consider the relationship between the corporation and society (Tanimoto, 2002). For corporate managers, CSR is a strategic response to environmental changes, often used as a way of approaching issues such as risk management and business ethics. However, in order to discuss CSR, it is imperative to understand what expectations or criticisms society may have of a corporation. Let us examine corporate and social interaction in four steps.

(i) Corporate activities have a large impact on the local/global community. For example, a corporate environmental policy affects the quality of local living conditions; corporate employment practices affect local working conditions.

(ii) *Societal pressure on corporations*: In reaction to the negative effects of corporate activity, NGOs criticize, survey and evaluate corporate activity from an independent standpoint, and offer policy suggestions and consulting services.
(iii) Should consumer boycott activity and SRI emphasizing strict monitoring of environmental and social problems take hold in the marketplace, corporations will need to undertake a strategic approach to counter such activities.
(iv) A corporation receiving a good reputation in its market society will increase the motivation of its employees and be able to secure a talented workforce. In relation to customers, brand image will increase, and shareholders/investors will make medium- and long-term commitments to the corporation.

A simplified explanation of social and corporate interaction is shown in Figure 1.

Three dimensions of the corporate–social relationship

Corporations are fundamentally interconnected with society in a variety of ways, through the processes of basic economic activity. This relationship can be divided into the following three dimensions (Chart 1).

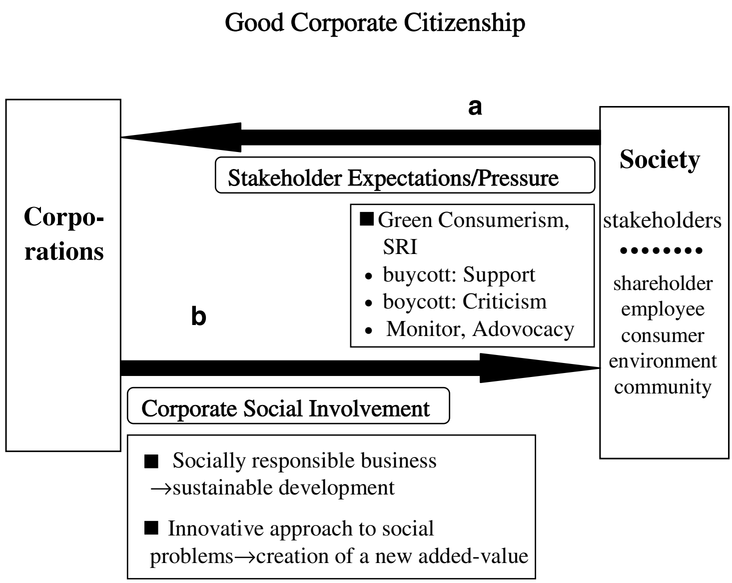

Figure 1 Interconnectedness of the corporation and society.

1.	Community Support Utilizing Corporate Management Resources
	1) Social contributions through donations 2) Social contributions through the use of facilities and employees 3) Social contributions through core business activities
2.	Social Goods and Services, and Development of Social Enterprises
	Research and development of environmentally friendly products, Development of products and services for the handicapped and the elderly, Eco-tours, Fair trade, and Community development projects.
3.	Incorporating Social Fairness, Ethics and Environmental Considerations into Corporate Management
	Socially responsible corporations: shareholders, customers, employees, environment and community

Chart 1 The three dimensions of the corporate–social relationship.

(1) *Community support utilizing corporate management resources*: This refers to corporate philanthropy, of which there are three styles:

(i) *Social contributions through donations*: monetary and non-monetary (in-kind) contributions.
(ii) *Volunteer activities*: support of employee volunteer activities.
(iii) *Assistance through regular corporate activity*: technological or specialist support.

(2) *Social goods and services, and development of social enterprises*: These activities are concerned with the solution of social problems as a business at the local/global level. Corporations with new ideas enter into the provision of social services once provided by the government and create new markets. We may cite as examples universal design for various products, environmentally friendly products, products and services designed for elderly/handicapped persons, alternative financing for minority and community businesses, eco-tourism and fair-trade businesses. By taking an innovative approach to such types of social and environmental problems, and creating new values, these may provide opportunities to break through and reconstruct an obstructed social economic system.

(3) *Incorporating social fairness, ethics and environmental considerations into corporate management*:

This is the foundation when considering the inter-relationship between a company and society. The corporation in a market society that demands CSR must approach social and environmental problems strategically. For example, when a corporation receives demands from consumers for a safer, more environmentally friendly product, the corporation undertakes clarifications of product liability, information disclosure, etc. For workers demanding fair labour practices, corporations tackle issues such as fairness in employee evaluations, workforce diversity and the creation of a worker-friendly environment. Companies seeking to implement environmentally sustainable development programmes put into place environmental management and recycling systems. In response to social movements that look to corporations to assist in the revitalization of communities, corporations use their core business activities (employment, purchasing, investment, etc.) to contribute to such development, which extends beyond traditional philanthropy models.

Socially responsible corporations, in a broad sense, are corporations that take measures on every one of areas (1)–(3) above. As will be shown in the next section, in Japan since the latter part of the 1990s, we can observe a corporate-social relationship concerning (1)–(3). As regards (1), 'excessive' philanthropic activities are being dropped and an established trend can be identified following the end of the 'bubble economy' around 1990. As for (2), corporations are moving toward the implementation of new social business reflecting the diversification of values. As for (3), social and environmental responsibility, in response to domestic and international trends, incorporated within the core business activities of corporations, is slowly percolating into the corporate system. In addition to corporations pursuing these activities of their own accord, cases of corporations testing partnerships with NGOs are also increasing.

Difficulties and the Present State of the Relationship Between Corporations and Society in Japan

Until recently, awareness and understanding of CSR were generally low in the Japanese corporate sector; however, with recognition of the trend in the US and Europe in the 1990s, interest increased rapidly and concrete action was taken. Yet the reality is that there are also companies that are opposed to CSR, citing a 'lack of extra resources' to implement it. On that note, this paper will now examine the reasons why some Japanese corporations have been reluctant to tackle CSR on this basis.

Historical relationship between corporations and society

The post-World War II relationship between corporation and society in Japan came to be treated fundamentally as a direct connection: corporate growth = realization of social prosperity and wealth. Therefore, a system was consolidated in which members cooperated to produce collectively, to realize greater economic results that would be dispersed as impartially as possible. The results were a reality where employment was protected, and the realization of a rich society with a comparatively small income gap.

Yet, what is being asked of CSR today is not a way to distribute economic benefits, but a mode of economic activity itself, and, specifically, how to incorporate social and environmental responsibility into the economic process.

In Japan, the relationship between corporation and society has been extremely weak, as shown, for example, in the closed network of corporate and *keiretsu* subsidiary systems, opaque employment and business practices, the lack of ethical consciousness, and the lack of corporate accountability to stakeholders. Moreover, even in philanthropic activities, corporations have aimed to improve tarnished images or imitate other corporations' activities in order to 'stand together' with them, and there were many corporations that did not have a clear framework or strategy for interaction with society.

Misunderstanding CSR

The following four points will summarize the mistakes that corporations in Japan have made in relation to CSR.

(i) *Confusing social responsibility with philanthropy*: Philanthropy is a *component* of CSR, but it does not *equal* CSR. The understanding that a connection is made between corporation and society at the level of philanthropic activity is narrow, and makes the issue of CSR invisible. Moreover, there are many people who understand CSR as the return of a portion of corporate profit to the community. Yet the essence of CSR differs from that of returning profits just because the company is doing well. CSR questions the fundamentals of a corporation's core business process, that is, itself.

(ii) *Mistaken understanding of the phased CSR concept*: In Japan, one of the most common ways of seeing CSR defined is in categorized levels of responsibility, with economic responsibility providing the first level, followed by legal responsibility and lastly social responsibility/ethics.[6] Yet as we have already noted, CSR requires responsibility in the basic economic processes of corporations. With social responsibility analysed by a phased CSR concept, the complex inter-relationship between the corporation and society cannot be understood.

(iii) *Ambiguity of enlightened self-interest*: It is often said that the basis for the justification of CSR is 'enlightened self-interest'. This refers to the concept of receiving benefit from the community in the long term when the corporation provides something positive for the community. It was debated in the 1970s that CSR is linked to long-term profits, yet questions of how such actions may benefit a corporation and who makes such evaluations have not been discussed; therefore, the concept of enlightened self-interest is vague. To set forth concrete guidelines for corporate action based on this principle is extremely difficult. Conversely, in the rationale of enlightened self-interest is the understanding that if there are no expectations of long-term profits for the company, it is unnecessary to endeavour to implement a CSR policy. Yet, if SRI rating becomes widespread, companies cannot help but adapt to such changes in the market society.

(iv) *Narrow aspect of business ethics*: In Japan, we can observe a situation where the prevailing tone is for CSR to be understood from ethical and legal perspectives, and this has prevented a correct understanding of CSR. The legal aspect forms one part of CSR, but CSR is not limited to ensuring compliance with the law. The theory of business ethics is not a matter of debates analysing the relationship between corporation and society on the points of why companies have to be ethical, or why they are obliged to follow the moral norm of the moment. It is necessary for corporations to examine the relationship between the corporation and society by analysing the hard reality and process by which public movements have spread their criticism and demands for corporate social responsibility.

New CSR current

Looking back on the history of CSR in Japan, both business and academic worlds began to investigate CSR in the 1970s, motivated by criticism of corporations on grounds of environmental pollution. Yet, these discourses were limited to an introduction of the debate in the US and discussion of CSR principles. Moreover, since challenges or protests did not significantly arise from public movements, the CSR debate was abandoned with the onset of the economic recession.

From the latter half of the 1980s, there was a boom in corporate philanthropy. There were three reasons for this renewed interest in activity: (i) response to criticism of corporate scandals; (ii) a renewed debate over what constitutes a ‘rich society’, following the collapse of the bubble economy; (iii) the experience of those companies that had moved into the US, where a corporate community programme was the norm. Within this current, Keidanren (Federation of Economic Organizations) started the ‘1 per cent club’ in 1990, where corporations were encouraged to contribute 1 per cent of their regular profits to society. Furthermore, the Association for Corporate Support for the Arts was established to support art and cultural activities. With these developments, 1990 was called the ‘First Year of Philanthropy’. However, this did not bring about a fully fledged CSR debate, nor did it lead to a reconsideration of the corporate system. Since 2000, continuous corporate scandals have enlivened the debate for the creation of legal frameworks and whistle-blower systems within corporations. Yet the debate should not be limited to this level, as CSR encompasses a far broader range of issues.

Hitherto, CSR has been demanded as a response to the level of corporate impropriety or scandal. In the late 1980s, subsidiaries of Japanese corporations in the US were severely criticized for human rights and community problems. Many corporations took the 'in Rome, do as the Romans do' view, instituting measures after the fact; however, these problems were not seen as issues relevant to the Japanese head office.

In Japan, the position of civil society organizations criticizing and monitoring corporate activities has been weak, and a majority of people believe that government and civil bureaucracy should deal with social and/or public problems. However, with the Great Hanshin Earthquake of 1995 as a catalyst, interest in community volunteer activities and NGOs increased, and citizen consciousness began to gradually change. In the latter half of the 1990s, a new mood, brought on by the accelerated pace of globalization, the increasing international influence of NGOs, and the incorporation of comprehensive CSR in the US and Europe, flooded into Japan, serving as *gaiatsu* or foreign pressure on Japanese corporations. Let us summarize these movements (Tanimoto, 2003):

(i) NGO influence is increasing as NGOs in the US and Europe become, with Internet developments, more specialized and networked, and NGOs broaden their criticism, monitoring and evaluation of corporations.
(ii) Japanese corporations are also expanding globally, and are actively pursuing finance, production and sales activities in the US and European markets. The ratio of sales in the foreign market is increasing, and profit from sales in the foreign market is 27.4 per cent of the total in 2002, an increase of 46 per cent compared with 2001. In the global marketplace, social and environmental standards are included in corporate ratings and transaction conditions. Corporate supply and operations in developing countries (employment conditions, human rights, etc.) are also investigated.
(iii) Since the end of the bubble economy, the share cross-holding system between corporations is collapsing, and the holdings of foreign investors reached 17.7 per cent of the total in 2002, almost five times the 4 per cent level of 1990. US and European institutional investors are beginning to use their influence on the Japanese corporate governance system. Institutional investors tend to hold shares with a mid- to long-term view, and are incorporating social screening into investment standards

and also beginning to engage with top management concerning social and environment problems. Even Japanese corporations are being inundated with CSR-related surveys from both foreign and domestic SRI rating agencies and investment organizations, making corporations strongly aware of the CSR issue.

(iv) In the latter half of the 1990s, in North American and EU countries, there was an increase in a variety of corporate codes of conduct for international corporations; furthermore, efforts by the ISO to develop CSR classifications intensified. As the number of US and European corporations approving of and subscribing to these efforts increases, Japanese corporations are finding themselves in positions where they can no longer ignore this trend.

(v) Although we do not see in Japan domestic movements criticizing and monitoring corporate activities to the same level as US and European counterparts, there has been an increase in the level of consciousness regarding public welfare and interest in community issues. The activities of community service organizations are broadening, and it can be stated that efforts by citizens to criticize and monitor corporate activities, in addition to getting involved in developing policy, have at long last begun.

Moreover, in 1999, Japanese SRI funds became available and in 2003 the first SRI Index was implemented in Japan. Although the total amount of SRI investment funds exceeded 200 billion yen in March 2000, this has been reduced to 70 billion yen by a depressed stock market (as of August 2003), and as there are still too few rating organizations their influence is limited. Yet these organizations are accomplishing more in their role in increasing citizen and corporate interest in CSR than their numbers would suggest. In March 2003, the Japanese Association of Corporate Executives announced their white paper entitled 'The Evolution of the Market and CSR Management', in which they argue the importance for Japanese corporations to have a correct understanding of CSR and to implement CSR management in order to build integrity and stakeholder value (http://www.doyukai.or.jp). Before and after the white paper was announced, pioneering corporations began establishing sections responsible for CSR.[7]

Social Ratings for Corporate Activities

Criteria of social screening

The rating standards for socially responsible corporate activities are also diversifying. The importance not only of economic standards but also of social standards is increasing. As regards monitoring criteria for corporate social performance in the process of and/or in consequence of economic activity, SRI is currently focused on these broad areas: environmental performance, fair employment and promotion practices, family-friendly labour policies, work environment, product quality and safety, working conditions and human rights in developing countries, arms production and links to the military, access to information, and philanthropic activities.

These criteria are not universal. The reason for this is similar to the case of economic indicators, that is that the criteria are fundamentally a reflection of what the market society is demanding of a corporation. Therefore, standards change over time and also differ between countries (regions). For example, in the US and UK in the 1990s, the social screen of SRI placed a strong emphasis on the apartheid problem in South Africa as a main index item; however, with the inauguration of the Mandela Administration, this focus was removed. Although tobacco and animal testing issues, etc. are dealt with strictly in the US through the extensive application of an exclusive screen (Domini, 2001: chapter 3), these problems have not been debated to the same level in Japan. Through the advance of globalization, problems held in common, such as environmental destruction, sweatshops and bribery in developing countries, are increasing simultaneously — although concern about such problems is very low in Japan.

We now examine the rating criteria of three SRI rating organizations that are actually employing an SRI index.

KLD Research & Analytics Inc. (USA) was established in 1990 to offer impartial rating information and expand SRI. Their social criteria are composed of the following eight indices (http://www.kld.org), and form the Domini Social Index. (1)–(7) are social issue ratings, and measure the CSR content for stakeholders. (8) is the controversial business issues index, which examines corporate participation in nine domains, performing an exclusive screening function.

1. Community (giving and community activities, etc.).
2. Corporate governance (limited compensation, etc.).
3. Diversity (promotion, board of directors, work/life benefits, women and minority contracting, employment of the disabled, etc.).
4. Employee relations (union relations, cash profit sharing, employee involvement, retirement benefits, etc.).
5. Environment (beneficial products and services, pollution prevention, recycling, alternative fuels, etc.).
6. Human rights (indigenous peoples relations strength, labour rights strength, etc.).

7. Products (quality, R&D/innovation and benefits to economically disadvantaged, etc.).
8. Controversial business issues (abortion, adult entertainment, alcohol and contraceptives, firearms, gambling, military, nuclear power and tobacco).

In 1992, Belgium's *Ethibel* established an independent corporate survey NGO following a request from NGOs active in providing alternative finance, environmental activities, peace action and support for developing countries (http://www.ethibel.org). Ethibel, a corporate information provider, surveys the following domains for CSR for the Ethibel Sustainable Index. They do not undertake exclusive screening.

1. Internal social policy (quality of working conditions, social contribution of company, working content, conditions, environment and relationships).
2. Environmental policy (integral environment policy).
3. External social policy (environment, human rights).
4. Ethical economic policy (economic potential, contractual obligations, customers relations, suppliers, shareholders and the authorities).

In Japan, the first SRI index providing a total CSR evaluation has been developed by *MorningStar Corp. and the Centre for Public Resource Development* (NPO, http://www.public.or.jp). Launched in June 2003, it offers a concrete index to survey the CSR of companies listed on the stock market. The criteria cover five sectors (they do not undertake exclusive screening).

1. Governance/accountability (managerial principles, governance system, ethics, information disclosure, etc.).
2. Market (*consumer response*: respect for the rights of the consumer, business user response: vision, system, policy, etc.).
3. Employment (provision of a variety of employment opportunities, human rights policy, staff development, work environment, etc.).
4. Contribution to society (volunteer programmes, coexistence with regional society, etc.).
5. Environment (*environmental management*: policy organization: *environmental communication*: transparency of environmental activities; *environmental performance*: green purchasing, environmentally friendly products).

Comparing the three ratings systems, they share many of the same criteria. They monitor corporate activity that may be of concern to key stakeholders such as shareholders, employees, consumers/customers and the community. Yet, as identified earlier, in the US there is strong opposition to the tobacco and alcohol industries, while in Japan there is no such active debate. Moreover, in Japan, there is a strong interest in environmental problems, yet low social interest in issues such as human rights, fair employment or information disclosure. In this way, there are differences in social norms between countries or regions, which affect how these issues are dealt with. Moreover, even if the same indices are to be monitored, the legal response will differ by country or region and there will be cases when the results of an index measurement are completely different. For example, in the case of corporate governance, the measurement is fundamentally a check to determine whether the corporate management monitoring function is working or not, and it is not necessarily a question of measuring whether a company has implemented a specific system or not.

In connection with the above point, the rating organizations are working to coordinate the creation of a global network (SIRI Group),[8] aimed at evaluating the varying systematic responses arising from regional differences and integrating rating standards. In any case, in the final resort, the various standards will be determined by investor and consumer choice (to support or reject) in the marketplace. Out of the dynamic competition of different measures and methods of rating, an appropriate rating standard will be created. Moreover, rating organizations are establishing dialogue and engagement with corporations regarding their management and the results of corporate evaluations. Through the cycle of reciprocal interaction, a new standard of CSR will be created in the marketplace.

Meaning of social screening

Since corporations are disclosing more information that relates to their social and environmental performance, investors can find the total value of a company as never before written in company reports, in addition to the potential mid- to long-term value of that corporation (Tanimoto, 2003). When corporations are evaluated, it is important to consider not only the financial data gleaned from financial statements but also social and environmental performance. Evaluations of total corporate value, including considerations of future risk and opportunity, are becoming more important (Sparkes, 2002: chapter 1). M. Moody-Stuart, former chairman of Royal Dutch Shell, pointed out that there are at least four merits of disclosing non-financial data (*Nikkei Shinbun*, February 8, 2002):

1. *Improves the functioning of the market*: The financial market works more efficiently if all decision-makers can acquire precise information on company performance and future prospects.
2. *Response to public pressure on companies*: In a January 2002 survey of British investment institutions specializing in pension funds, 90 per cent of the institutions answered that they thought corporations did not provide enough information relating to environmental and social risks.

【Rating Organisation】 < Rating Information of Corporate Activity >
→ 【Consumer/Investor】 < Purchasing/Investment Power >
⇒ Market Sanction: = Boycott (−), Buycott (+)
⇒ shareholder activism, dialogue-engagement

Figure 2 Social rating system.

3. *Possibility of becoming a powerful management tool*: By looking at financial statements, one can learn about a company's past performance, but not learn about its intangible assets, risk in the marketplace or opportunities.
4. *Strengthens accuracy of the entire corporate reporting system*: A corporation reports a variety of information, yet the way it is provided is within a framework set down by the industry group, and its range is limited to a specific area.

Mechanism of the social rating

The social rating system (Figure 2) for corporate activities is a social indicator of corporate activities evaluated by the rating organization providing this information to consumers and investors, which determines consumer and investor behaviour in the marketplace. Consumer movements in the market will not purchase the products and shares of corporations that have problems with the local or global community, but will prefer both shares and products of companies that have implemented a successful CSR regimen. Furthermore, shareholders can choose corporations through social screening and can encourage corporate activity at shareholders' meetings. Institutional investors, investment management companies, and so on, offering shareholder proposals for corporate management and maintaining dialogue and engagement with corporate management, are also increasing.

This type of evaluation system does not rely on law or political ordinances, nor is it left to each company's individual ethical norms. This system affects corporate activity in the market society, that is, SRI is a system that uses the market mechanism.

In the US, SRI grew rapidly in the late 1990s. As indicated previously, the total amount invested in SRI grew by 370 per cent between 1995 and 2001. Four reasons can be indicated for this growth:

(i) *Expansion of interest in stock investments*: The number of people purchasing mutual funds as retirement savings has increased.
(ii) *Good performance of SRI mutual funds*: For instance, Domini Social

Index funds have been outperforming the S&P 500 since the index was established in 1990 (http://www.kld.com/benchmarks/dsi.html).

(iii) SRI is reaching wider acceptance as a good rating method.

(iv) *Expansion of institutional investor interest of SRI*: Many pension funds particularly are incorporating social screening criteria into their investment decisions.

As previously indicated, the current amount invested in SRIs in the US and UK has increased to 12–15 per cent of gross investment by financial institutions. Of course, when looking at the entire market, SRIs do not yet have the power to sway stock prices, but citizens' calls for a fairer, sustainable social economic system have grown stronger, with NGOs leading the way by providing information and advocacy carrying social influence.

Corporations are in a position where they can no longer ignore these sorts of citizen actions. The boycott of the sportswear maker, Nike, is a typical example. In 1997, the substandard work conditions at Nike's Vietnam factory were revealed. As Nike, with its Air Max shoes and so on, was an extremely popular brand, public interest in the case was high, and the boycott spread across the US from college campuses. It reached its peak during the April 1998 court case, with Nike sales declining over the following month, and its stock price falling to 60 per cent of its value the previous year. Confronted with this, Nike, which had initially denied the allegations, admitted the truth, and had no choice but to issue a statement that the company promised to improve working conditions in developing countries.[9]

Not all boycott campaigns necessarily receive the same amount of public attention, nor have the same effect on sales or share prices as in the Nike case. However, global corporations have recently been working very hard to develop proactive policies to address NGO boycotts, receive investor proposals, develop sensitivity to the mood of institutional investors, and build a favourable brand image and corporate reputation for stakeholders. Corporations, by strategically advancing a socially responsible management aimed at stakeholders rather than taking a simplistic risk management viewpoint, can garner support and reputation from the market society.

Conclusion

Socially responsible corporate activities are being demanded by the market society, and a system that evaluates these activities is beginning to function. If consumers and investors choose corporations based on the corporate evaluation information available in the market, this type of action will serve as a message from the market, influencing companies by providing either positive or negative sanction. As social rating systems for corporate activity become a norm in market society, a system incorporating social fairness and environmentally sustainable development at the base of efficient production activity will be built. This global trend is also being felt in Japan, and the debate concerning CSR is progressing in a tangible way. SRI is slowly but steadily spreading through the market, so that companies are beginning to move on CSR policies. By including such norms in market society, socially responsible management action can be promoted.

Acknowledgements

We thank Charles Gardner for the English translation of this paper.

Notes

1 In order to examine these sorts of changes in the market society, a trans-disciplinary approach incorporating, economics, sociology, philosophy, systems theory, etc., is necessary (Myrdal, 1972).
2 Lydenberg (2002: 59) argues that SRI entails an alternative conception of the market place as an arbiter of social goods.
3 Since the Meiji Era, the modern Japanese polity has come to be built around a strong central government. The majority of people, unwilling to be voluntarily involved in social issues, rely on central government management of initiatives to solve social problems, constituting an evasion of decision-making and responsibility. Compound social problems have been left to legal and administrative experts and a non-involvement position taken by the public has been the norm.
4 In Japan, CSOs received legal status with the promulgation of the Nonprofit Activities Promotion Law in 1998.
5 Bell (1987: 14) was the first to point this out, "The nation-state is becoming too small for the big problems in life, and too big for the small problems of life".
6 This three-level explanation of corporate social responsibility was first proposed by Carroll (1979: 499).
7 In 2003 Ricoh, Sony, Fuji-Xerox and Matsushita were establishing CSR sections.
8 Founded in 2000, the SIRI group is composed of 11 SRI organizations working to create common SRI measurements and facilitate information exchange (http://www.sirigroup.org).
9 Nike has worked to improve information disclosure since the case, publishing its Corporate Responsibility Report in 2001 which details Nike's environmental impact, labour conditions and community efforts (http://www.nike.com).

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