



**Asia-Pacific
Economic Cooperation**

Corporate Social Responsibility in the APEC Region

Current Status and Implications

**Economy Paper:
Japan**

Economy paper

Corporate Social Responsibility
in Japan

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I. Introduction

An APEC symposium and workshop was held on January 19 and 20, 2005 in Tokyo, Japan under the title of “CSR for Global Business”. This report presents the current state of CRS in Japan and its challenges ahead based upon the various discussions and agreements reached at the APEC meeting.

The actual practice of companies taking on social responsibility dates back in Japanese history. Before the existence of CSR as we know today Japanese companies have long practiced some form of CSR through various systems and practices embedded in Japan’s social and corporate systems.

Corporate ethics and CSR-style ideas emerged in merchant activities under the Japanese feudal system during the 18th and 19th centuries, and these concepts still remained in place following the transition of the Japanese economic system to capitalism in the late 19th century. “Omi-merchant” represented a typical and successful merchant during the Edo period (1603-1867) and they had a “Sanpo-yoshi” principle or code of conduct. This code of conduct stated that the first priority is toward customers’ satisfaction, and never expect high rate of profit and refrain from being greedy to secure benefits for only one self. A philosopher during the Edo period, Baigan Ishida, maintained as business management ethics three key principles of “diligence”, “honesty”, and “thriftiness”. These principles have been handed down throughout Japanese history and are embodied in Japanese businessmen today. This historical perspective needs to be taken into account when looking at CSR in Japan.

More recently, the growing number of corporate misdeeds in Japan along with the introduction of Western-style CSR and related International Organization for Standardization (ISO) discussion have added fuel to the CSR debate in Japan, including the pros and cons of establishing such guidelines.

One of the key components of CSR is the distribution of social responsibility and this requires the acceptance of social responsibility by the state, companies and individuals as the

main constituents of society. Moreover, due to the importance and complexity of modern problems, one nation cannot tackle it alone and must be dealt with in a well coordinated effort across national borders.

The introduction of Western-style CSR in Japan is somewhat complicated by the differences in understanding the three components of CSR, namely ‘corporate’, ‘social’ and ‘responsibility’, and the difficulty of standardizing these understandings. A company, as an agent of CSR, is viewed differently in each society and their nature and behavior also differs by society. This applies to the other two components of CSR, i.e., social and responsibility as well.

As mentioned above, we believe that compilation of CSR reports by APEC members will not only contribute critical material for further development of the CSR agenda, but it will also shed some light on the pending CSR efforts currently underway both at the domestic and international levels.

II. Japan’s Approach to CSR

There exist some 1.18 million companies in Japan with at least Yen 10 million in capitalization as of June 2005.

Before getting into the subject of CSR, there are two main schools of thought on the nature of corporations in Japan:

- One school regards the company as an association of individuals joined by capital; an economic based organization for which profit is their main objective.
- The other school views it as a people-based association of individuals with these individuals supplying management services; a community-oriented organization which attempts to optimize both capital and human resources to ensure greater social harmony.

This latter view is thought to be dominant in Japan. Mr. James Abegglen noted Japan specialist and the author of a “*Kaisha: The Japanese Corporation*”, views Japanese corporations as the latter type as demonstrated

by the following characteristics: consensus-based decision-making; seniority-based promotion; lifelong employment; and enterprise unions. In short, the existence of this form of corporations in Japan has greatly influenced corporate behavior and has had a positive impact in their approach to CSR.

CSR in Japan have typically entailed the following attributes:

- Providing society with economic value
- Redistribution of profits and contributing to society
- Working to prevent corporate misdeeds

However, according to two Japanese sources (based on *Corporate White Paper* and Japan Association of Corporate Executives - JACE), these elements are regarded as an insufficient embodiment of modern CSR, and they cite the following elements as more appropriate:

- Sustainable social development and the creation of sustainable corporate value are synonymous
- CSR comprises of investment that should be positioned at the heart of business
- CSR comprises of voluntary efforts above and beyond compliance

In addition, following the formulation of the Charter of Corporate Behavior in 1991, Nippon Keidanren released the Nippon Keidanren Position Paper on Promoting Social Responsibility in 2004 and included such topics as sustainability, human rights, labor and supply chain management as an addendum to the Charter. This was intended to signal to the public Nippon Keidanren's proactive stance on CSR and their emphasis on voluntary private-sector efforts over government-led initiatives.

Traditionally, the Japanese government took the initiative to form committees for coordination on various issues and generally issued summary reports on the committee findings. Government is now taking the lead in international discussion on ISO with delegates from the private sector.

The Tokyo Chamber of Commerce & Industry has published a corporate code of conduct that covers legal compliance, restoration of consumer and business partner confidence, better understanding and support of stockholders and creditors, creation of working conditions conducive to worker solidarity and self-expression, better communication with society, and co-existing with local communities. Unfortunately, no clear reference is made with regards to CSR.

In short, CSR in Japan is currently being practiced by companies within the framework established and guided by directives given by these industry organizations. CSR implementation is primarily the responsibility of the private sector and government sector is taking a more or less a back seat in looking at the overall picture.

1. Background: CSR Revisited

The recent interest in CSR can be attributed to both domestic and international factors as discussed below:

A. Domestic Factors

The growing incident and exposure of corporate misdeeds during the past decade have triggered a storm of protest from the general public and this in turn has heightened interest in corporate compliance and governance issues.

Most notable corporate misdeeds include:

- Profits fed to professional troublemakers (sokaiya) to prevent the disruption of general stockholders' meetings
- Securities companies suspected of practicing "kabu-tobashi" (the practice of temporarily shifting their investment losses to another company's or client's books through repurchase agreements based on non-market prices)
- Major accidents at nuclear power facilities
- Mass food poisoning incidents as a result of negligence by food companies

- Car companies covering up recalls
- Food companies engaging in false point-of-origin labeling
- Meat companies misrepresenting product content, and Fair Trade Commission exposure of illegal collusion.

These chains of recent misdeeds have had a strong reaction and protest from the general public. The movement is now under way for the revision of commercial law, establishment of code of conduct, conduct strict auditing procedures, and the like. As regards to CSR, a stronger enforcement of compliance, corporate governance and internal auditing procedures have been put in place.

The protracted economic recession following the collapse of Japan's bubble economy has forced changes in traditional Japanese style corporate management practices. Structural change has emerged in the following areas that were formerly the cornerstone of Japanese-style capitalism:

- Lifelong employment
- Seniority-based wage system
- Cross-stockholdings
- The special relationship between the board of directors and general stockholders' meeting.

The on-going structural change in the Japanese economy continues to transform the basis of its more traditional economic and corporate systems. The Japanese government is taking greater steps for further deregulation and privatization of certain public sector. While this has had a positive impact on the private sector, there is more responsibility placed on companies now to be self motivated and responsible for their actions. In fact, CSR is taking a greater importance and role to fill the void created by these structural changes in Japan.

The Japanese public sector has traditionally assumed more of the social responsibility in the past. However, the government is calling for a private sector social responsibility shift with the aim toward introducing market principles.

Additionally, growing number of non-profit and non-governmental organizations are also emerging and their scope of activities is anticipated to expand in the future.

Japanese consumers have come to demand additional value as a matter of course with high quality and low cost goods to be expected. These examples can be seen by the current drive toward 'green' goods and consumer's interest in buying energy-saving, resource-efficient products.

In the past where producers have traditionally controlled the market, the internationalization of the economy by imports from abroad and foreign firms entering the Japanese market have moved the relative market power balance from producer to consumer. More recently, the market has been shifting toward stakeholder control. In the future, the pattern of companies choosing their markets and stakeholders is likely to evolve into one in which markets and stakeholders choose companies.

B. International Factors

The following international factors are having a major impact on Japanese CSR:

- International organizations and governments are strengthening their efforts to encourage CSR world-wide.
- The European Union has released a Green Paper on "Promoting a European framework for Corporate Social Responsibility" with a view toward integrating European society and boosting the region's economic competitiveness.
- Stockholders are also becoming active in the pursuit of socially responsible investment (SRI).
- U.S. based multinationals have responded to violations and misdeeds by making concerted efforts to introduce CSR management. The emergence of scandals like Enron is leading to a greater emphasis on CSR as part of their effort to strengthen corporate governance.

- Establishment of Sarbanes-Oxley Act (SOX act) has drawn attention to the importance of corporate governance and CSR.

In addition, there is a growing influence of NPOs and NGOs in Japan. Their activities in the 1970s were viewed merely as locally-based consumer activism, but as of the late 1980s, the public statements and activities of these groups are having a greater worldwide impact with the help of Internet. The recent cases of the multinational firms like Nike's child labor problem and Royal Dutch Shell's North Sea environment issue have also caused Japanese multinationals to rethink about CSR.

Moreover, Socially Responsible Investment (SRI) has been attracting greater attention. The presence of SRI has led to calls for stronger corporate governance in Japan where progress up to now has been relatively limited. Japanese institutional investors, traditionally renowned for their silence, are actively exercising their voting rights and strengthening moves to increase corporate value through improved corporate governance and the introduction of CSR management. This trend is also helped by the growing number of foreign investors joining the ranks of 'stockholders with a voice' and furthering interest in CSR.

Moves to establish international CSR guidelines have also sparked debate in Japan over the pros and cons of formulation of international guidelines. This example can be seen in the discussion over the standardization of CSR under ISO. Japanese companies have moved cautiously on the certification of management system, however, this heated debate has opened the discussion on CSR to the public forum.

Lastly, increasing number of Japanese companies are joining the rank of multinational corporations. Japanese firms with overseas operations have now reached about 100,000. These companies are in a position to demand CSR and to have CSR demanded of them.

2. CSR in Japan

The question of how social responsibility should be apportioned in Japan based on market principles is being actively discussed and under consideration.

There are two schools of thought on this question:

- To develop market functions that will evaluate not only economic performance but social and human elements as well. This assumes that social expectations and corporate goals will automatically harmonized by the marketplace. In other words, this market driven approach emphasizes market and market principles as its basis. (15th Corporate White Paper, JACE).
- To enhance companies' social responsibility, Keidanren has published a set of guidelines that go beyond established compliance. This guideline based approach is rule-based and places emphasis on set of normative standards on a voluntary basis. (Preamble to the Charter of Corporate Behavior, Nippon Keidanren).

Neither one of the two approaches is clearly superior as one exhibit weakness related to market failure and the other on fallacy of composition. We need to employ both approaches synergistically in order to achieve optimum results.

The following represents several key historical notes to keep in mind to better understanding CSR in Japan:

- Over Japan's long history the balance of social and human aspects of the community have been emphasized. This focus on social and human values developed over hundreds of years has remained in both companies and industrial society to the present day.
- After the Meiji Restoration of 1868, the task of what is now CSR was divided between government and private enterprise. Any CSR related issues were generally addressed and resolved within a framework of public-private sector cooperation with government assuming the leadership role.

- Japanese companies responded to social needs and demands by building a special cooperative versus antagonistic relationship among various stakeholders in the company. One can say that all Japanese companies have incorporated some aspect of social and human factors that existed in society at large to make this cooperation work.
- Recently, many companies have been seeking ways to replace the social and human aspects built into their corporate cultures with market principles and thereby placing more emphasis on economic performance.

Discussion of CSR framework that would address economic performance as well as corporate responsibility in the Japanese social and human values context is only at the beginning stage, and no clear vision has yet emerged as to the form and substance of such a framework in Japan.

The majority of Japanese companies remain unclear on many aspects of CSR. Here are some of the concerns voiced by company participants on CSR implementation:

- There are no tangible or immediate benefits to be gained by undertaking CSR because of their busy daily work schedule and the thinking that doing business itself is making contribution to society.
- There is little pressure from various stakeholders that is typical in other countries because this concept has not been fully developed in Japan.
- The very definition and concepts surrounding CSR is unclear and not well defined as yet.

The majority of Japanese companies remain unclear on many aspects of CSR as described

above, but their plan is to go forward and learn from actual hands-on experience.

The major three factors influencing the way Japanese companies are tackling this issue include:

- Direct response to external pressure;
- Self motivated initiatives; and
- Applying the environmental management experience gained to CSR.

CSR is undergoing a similar cycle as ISO 14001 did in Japan as companies are adopting a sustainable approach that start from reaction into responsibility, and evolving from responsibility into management.

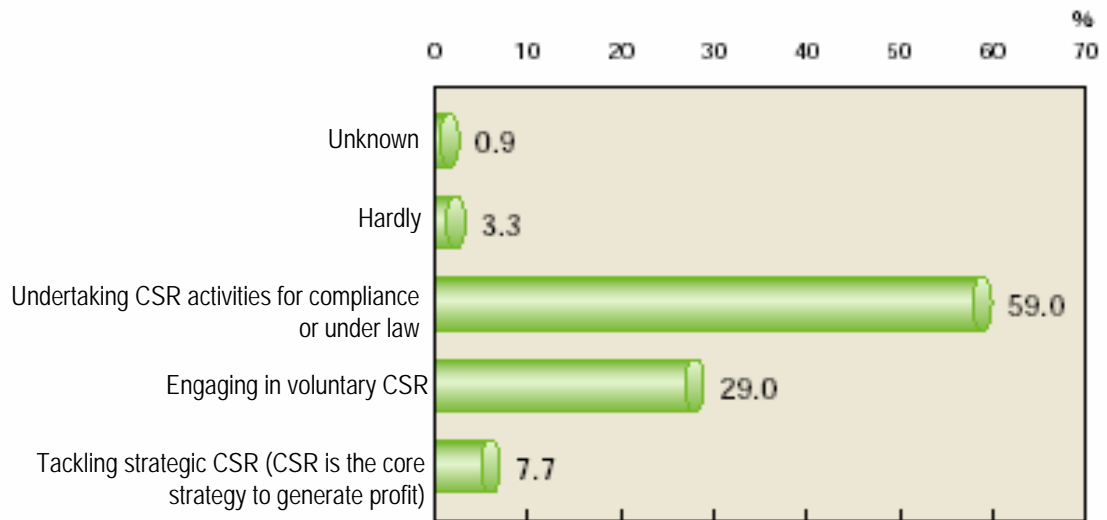
III. Current Status of CSR Implementation and Case Studies

1. Current overall status of CSR implementation

JACE surveyed existing CSR programs in 2002 in order to compile background information to publish their *white paper* on CSR in Japan. Survey results are shown in Figure 1 and major findings are summarized below:

- Only 3% of the companies had no CSR programs
- More than 60% of the companies surveyed are undertaking “must-do” CSR activities
- Some 29% are engaged in voluntary CSR
- 8% are tackling CSR strategically

Figure 1: Current Status of CSR implementation



source: The 15th Corporate White Paper. Keizai Doyukai (Japan Association of Corporate Executives)

Most companies within the surveyed group are engaged in some form of CSR, but the extent of their efforts seems to vary somewhat. The survey also shows a limited number of companies approaching CSR strategically.

According to the Ministry of the Environment's Environmental Reporting Guidelines 2003, approximately 700 companies were compiling and publishing environmental reports and about 300 companies were issuing CSR reports. However, these figures become much more comprehensive when we add those companies that are actually tackling environmental issues; companies with local employment prioritization policies; companies participating in local festivals and events; and companies that clean up public places and contribute labor in times of emergency.

An important word of caution should be noted here in that due to the lack of statistical data available in certain areas, it is difficult to obtain the total picture of Japanese CSR through these figures. In addition, these data tend to be geared toward large companies and do not necessarily reflect companies in the SME category. At best, these survey data can provide us some ideas of the general trend and activities of Japanese companies in CSR.

2. Content of CSR implementation

The type of CSR programs currently being implemented by Japanese companies can be seen from the JACE survey results in Figure 2. Some of the main findings include:

- Japanese CSR tend to focus more on those programs that have direct financial impact on the company's economic value. In other words, the main approach to CSR is to contribute to stockholders by supplying high-quality products and services, boosting customer satisfaction, making profits, paying taxes, and paying out dividends.
- Emphasis is placed on compliance in terms of both legally and ethically. Survey result suggest that more than 80% of the companies are already drawing up ethical behavior standards and establishing internal complaint guidelines.
- Limited efforts to address social and individual issues such as employment, human rights and contribution to the local community can be seen in the survey finding. While some of these issues are addressed within Japan's community-style frameworks and practices, many Japanese companies simply feel that it is not their responsibility to handles these issues beyond

what has been done historically like providing life long employment.

- Almost non-existent efforts by Japanese companies to directly address world poverty or global conflict resolution is attributed to the general perception that government is responsible for handling these areas and the overall lack of international perspective by Japanese companies.
- Limited corporate contribution in the form of philanthropy or patronage reflect the perception that companies is already contributing to society through their business, and that tough business conditions leave no room for CSR.
- There is inadequate understanding of the CSR triple bottom line in Japan that includes the social, environmental, and economic responsibility of a company. Companies have placed more emphasis on economic and environment responsibilities than the social responsibility. Environmental aspect have made great progress in Japan as their agendas and objectives have been well defined and progress made toward meeting many of these targets. Therefore, these issues are easier for companies to tackle in Japan.

Figure 2



source: The 15th Corporate White Paper. Keizai Doyukai (Japan Association of Corporate Executives)

3. CSR in action

The following represents two case studies and exemplifies different approaches to CSR taken by Ricoh and Fuji Xerox:

Case Study 1: Ricoh Co., Ltd.

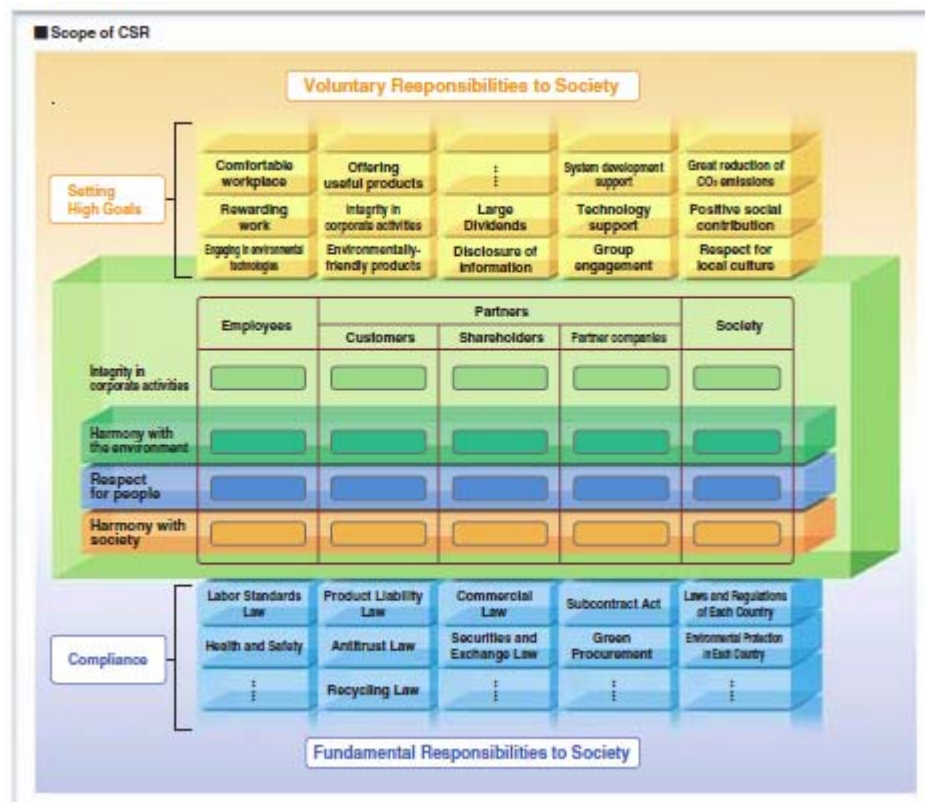
Founded in 1936, Ricoh is one of Japan's leading electronics and office equipment manufacturers with overseas operations in many countries.

Ricoh Group has set high standard with regards to CSR. The achievement of these goals are on a self-responsibility basis by developing new value added solutions to problems while continuing to observe legal compliance throughout the process. Ricoh's approach contains four basic elements: *“from contribution to responsibility”*, *“simultaneously achieving social value and creating economic value”*, *“everyday activities in which everyone participates”* and *“global operations and value systems”*.

What characterizes Ricoh's approach to CSR is the clear and systematic delineation of the scope of activities by the stakeholder group, as well as facilitating the understanding of and participation by all concerned. Aiming to simultaneously achieve social and financial success, Ricoh further divides its stakeholder-specific CSR into the following areas: *“basic responsibilities”* (compliance) and *“voluntary responsibilities”* (higher goals set by Ricoh) as shown in Figure 3.

Ricoh has emphasized the establishment of corporate governance as a framework to ensure success and effective CSR programs. Few key points include leadership, management regime, management system, and information disclosure. Ricoh has also created principles for corporate behaviour established in the form of Ricoh Group CSR Charter as well as Ricoh Group Code of Conduct. The latter is used to provide guidelines for individual behaviour, to strengthen its organization, to build greater internal coherence and to ensure universal participation.

Figure 3

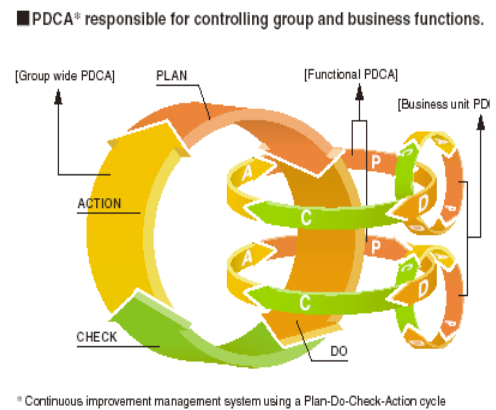


source: RICOH Group Sustainability Report 2005 (CSR)

Ricoh's CSR management system is a three-tiered structure comprising divisions handling implementation, key functions and overall coordination and managed on the basis of a cross-cutting PDCA cycle (See Figure 4). As part of the "integrity in corporate activities" aspect of its CSR Charter, Ricoh regards crisis avoidance as a basic responsibility, and engages in compliance as well as risk management. Ricoh has created and regularly revises a 25-point crisis list to evaluate its risk prevention measures. In the 'harmony with the environment' area, Ricoh engages in environmental management aimed at simultaneously reducing its environmental footprint and creating economic value. "Respect for people" is being addressed by building a system to that end. Primary activities and systems include self-managed working hours, a system for re-employment after retirement, a child-raising support system, promotion of a gender-free organization, promotion of disabled employment, new leader development, a patent master system, a goal consultation system, an in-house hiring system, and various award systems. To achieve harmony with the environment, Ricoh clearly delineates agents

(the company, stockholders, employees), form of activity (donations, product supply, staff participation, reserve for contributions), and area of contribution (youth development, environmental protection, science and technology, regional development, etc.).

Figure 4



source: RICOH Group Sustainability Report 2005 (CSR)

Case Study 2: Fuji Xerox Co., Ltd.

Fuji Xerox was formed in 1962 as a joint venture between Fuji Photo Film of Japan and Rank Xerox of U.K. It has become a major manufacturing and sales company in xerography products, electrical transmission machinery and office appliances, and the like.

According to Chairman Yotaro Kobayashi, he states that CSR is the "straight and narrow path which a company treads in order to be trusted, accepted and highly regarded by society". President Toshio Arima notes that when thinking about sustainability, the global environment and social issues cannot be separated from corporate activities but must be dealt with holistically. A good company, he says, is "strong, compassionate and interesting", and it is

these qualities that equate to the financial, social and environmental aspects of CSR that ensure sustainability.

In terms of mechanisms for ensuring sound management, Fuji Xerox is not a committee-system company as defined under the Commercial Code, but it has introduced a corporate executive committee, a compensation committee, and a financial committee, successfully transferring power to the corporate executive committee and boosting management transparency (See Figure 5).

Fuji Xerox regards corporate governance in its management and organization and internal control to that end as its highest priorities. The essence of internal control, it believes, is risk management. Decision-making in regard to critical risk

management is performed by a Risks and Ethics Conference headed by the company chairman. A Risk Management Committee and an Ethics and Compliance Committee have been established under the auspices of the R&E Conference to assist its work (See Figure 6)

In terms of legal compliance, Fuji Xerox has clearly laid out a code of conduct in its Ethics and Compliance Management Regulations.

Turning to information disclosure, Fuji Xerox has created guidelines on the handling of company information to protect proprietary and client data. At the same time, the company's information disclosure policy is now to disclose in principle in-house information that was previously in principle kept confidential from external parties. In terms of relations with stakeholders, Fuji Xerox pursues a range of stakeholder-specific measures which have won the firm commendation from society, as well as a number of awards.

Figure 5-1

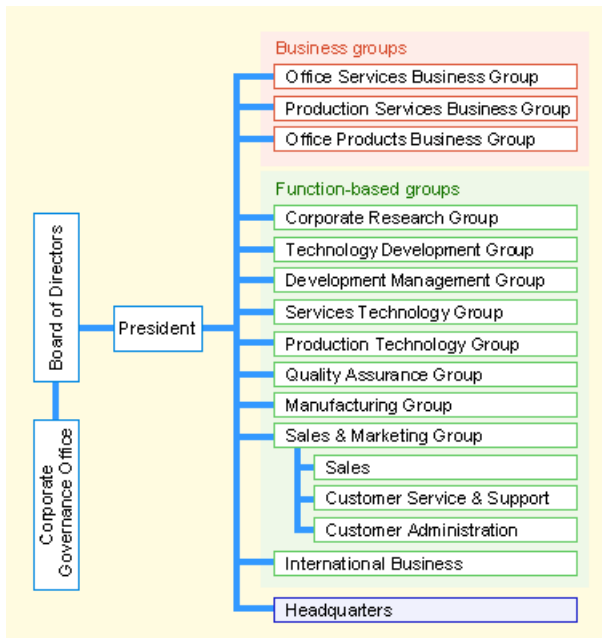
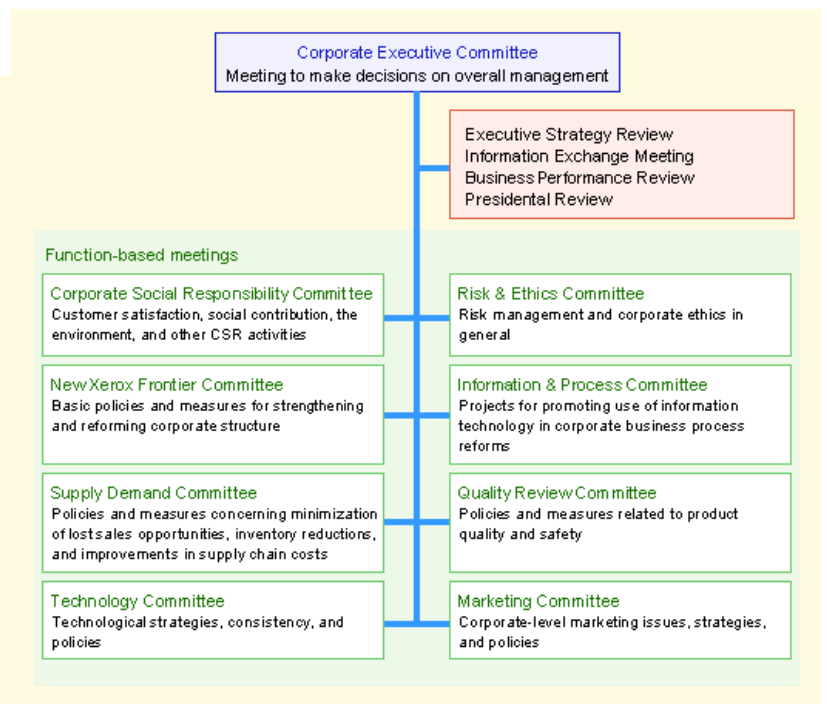
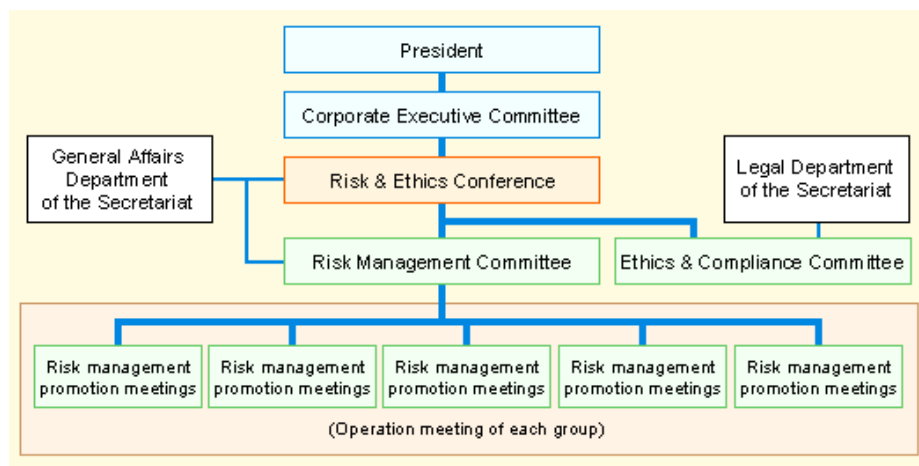


Figure 5-2



source (Figure 5-1, 5-2, 6) : FUJI XEROX Sustainability Report 2005

Figure 6



Synthesis

From these case studies we can sketch the following features:

- Japanese leading companies regard CSR in two distinct ways: one is compliance and “must-do” areas; and the other is on a voluntary basis and priority areas are determined by each company. Their objective is to fulfil both of these areas in a well defined and balanced manner on a continuous basis.
- Establishment of well defined Corporate Governance should be regarded as the groundwork for a successful CSR implementation. Corporate Governance can assure that companies maintain a balance and sustainable CSR implementation.
- CSR management system is being adopted by companies as well as creating matrix format to clearly set CSR goals and priorities for management. Companies are also establishing special divisions dedicated to integrating and implementing CSR throughout the company.
- Successful CSR companies usually have a company CEO fully committed to this task and goals clearly communicated to the staff.
- The concept of stakeholders is taking root in Japan but the relationships among various groups are still dominated by traditional ties. Stakeholder management is developing along with their scope and goals.
- The perception of CSR as an investment as opposed to cost is still very small. There is still long way to go before this change in perception takes hold in Japan.

IV. CSR as a Part of Corporate Strategy

1. Are companies thinking about CSR as part of their corporate strategic process?

Many companies surveyed regarded CSR as a cost base, while others considered CSR as an important practice to be positioned at the core of management and as an investment that will produce future profits. The survey revealed that

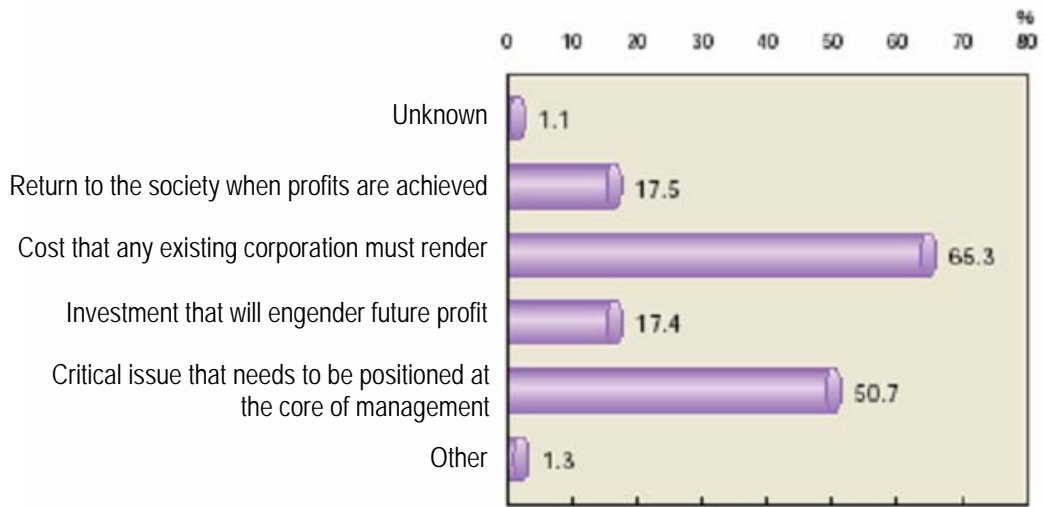
Japanese companies need to look at CSR as part of their overall strategic planning process that required investment as well as an implementation plan.

2. What factors are preventing companies from adopting CSR as a corporate strategy?

JACE surveyed companies about the significance of CSR and revealed the low priority of strategic CSR implementation as shown in Figure 7. The following four reasons are contributing to this low priority:

- As explained before, Japanese companies do not feel the usual pressure from various stakeholders because the concept of stakeholders is just beginning to take hold in Japan. This lack of pressure or incentive can be one of the main reasons for CSR strategy taking a low priority.
- Top management does not place high priority on the need for CSR strategy. It is said that Japanese management is poor at strategic thinking but good at tactics. Vertical thinking and activity are basically stronger than horizontal ones in the organization. This tradition reflects on CSR implementation.
- Companies have not accepted the idea of CSR as an investment and continue to treat it as a cost factor.
- Corporate governance has been slow in developing in Japan and thereby hindering Japanese companies to make progress toward a more comprehensive CSR strategy.

Figure 7: Significance of CSR



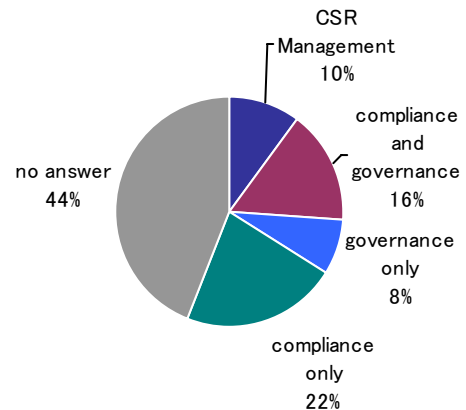
source: The 15th Corporate White Paper. Keizai Doyukai (Japan Association of Corporate Executives)

3. What is the current status of CSR as part of the overall corporate strategy in Japan?

Many Japanese companies are starting to realize the importance of CSR as an integral part of their overall strategic planning process and noticeable progress is being made in such areas as identifying stakeholders, domain of CSR activities and CSR reporting. Implementation of CSR, on the other hand, is hindered by the lack of management awareness and CSR framework issues.

Analysing CSR reports from around 188 companies, Ernst & Young Shin-Nihon survey of 188 companies has shown that the number of reports that refer to compliance and governance grew from 36% to 56% over the past two years. (See Figure 8).

Figure 8: Description of CSR Management



source: How CSR is reported 2004 version. Ernst & Young Shin-Nihon

Japan Productivity Center for Socio-economic Development (*Survey on Corporate CSR 2005*) reported the following findings:

- 32.5 % of cases responded that the company president is responsible for implementing CSR (This indicates an unexpectedly high level of CSR awareness among corporate leaders);
- Report also found that 37% of the companies are setting up dedicated CSR division to support CSR efforts;
- 25% reported that they already have such a division in place; and
- 12% are planning to create such a division.

Companies lacking a dedicated CSR division, other divisions such as general affairs, planning management or marketing were handling CSR activities. Another important finding is that among companies with high percentage of overseas business CSR is regarded as a high priority management task.

4. Examples of CSR and corporate strategy in action.

While many Japanese firms are engaging in CSR on the basis of some kind of strategic thinking or framework, few have built an overall perspective into their CSR practice. Asahi Beer has come to be known as the successful company that incorporated CSR into their strategic planning process. The company is known for its use of “*balance score cards*” in developing a CSR vision as part of its policy of strategic CSR management. This approach has enabled Asahi Beer to turn its CSR vision into an effective and efficient strategy map including strategic objectives systematically grouped and indices used to evaluate and monitor progress on each objective. Also, Asahi Beer has successfully identified and selected those stakeholders that are important to them in effectively managing their CSR practice.

V. Is CSR Effectively Involving Stakeholders?

The concept of stakeholder in the context of management strategy is relatively a new arrival in Japan. JACE's 15th Corporate White Paper recommended rebuilding relations with stakeholders with an emphasis on healthy tension and mutual trust. The White Paper also stated that corporate management needs to recognize the important role of stakeholders in keeping management on its toes and striving for improvement.

A survey conducted by Japan Productivity Center for Socio-economic Development showed the following priorities being placed by corporate management:

- 57% customers and consumers;
- 16% society;
- 10% to stockholders; and
- 8% to employees.

Japanese companies continue to place heavy emphasis on customers and limited attention paid to stockholders and employees. This low priority placed on stockholders and employees indicates some degree of comfort that management have of them and less of a potentially strong stakeholder.

1. Government involvement

As Japan moves from the traditional “private-public cooperation” to market driven economy, changes are also taking place in the relationship between companies and government. This shift has already changed the role of government as one of the stakeholders to CSR. The Japanese government is placing greater authority to the private sector on economic, social, and environmental matters including CSR implementation. The various Japanese Ministries have published reports on CSR in Japan from their respective vantage point and have established many study groups. However, Japan is still lagging EU in terms of formulation of CSR initiatives, definition of CSR concepts,

systematisation of CSR, and division of responsibilities between private and public sectors. Government is and will continue to be a major player in the formation of stakeholders in Japan. As a departure from their traditional role, Japanese government remains a limited player on the question of stakeholders' role in CSR thus far.

2. Industrial group involvement

A. Nippon Keidanren

Nippon Keidanren is one of Japan's key industrial organizations with membership consisting of 1,623 individual members, 1,306 major firms, 129 national industrial groups, and 47 regional groups. Nippon Keidanren has been addressing CSR since establishing its Committee on Corporate Social Responsibility in 1974. The organization is very proactive on CSR issues including the publication of the *Charter of Corporate Behaviour* in 1991 and revised in 2002. It recently released their *Position Paper on Promoting Social Responsibility* in February of 2004 and the following three points are emphasized:

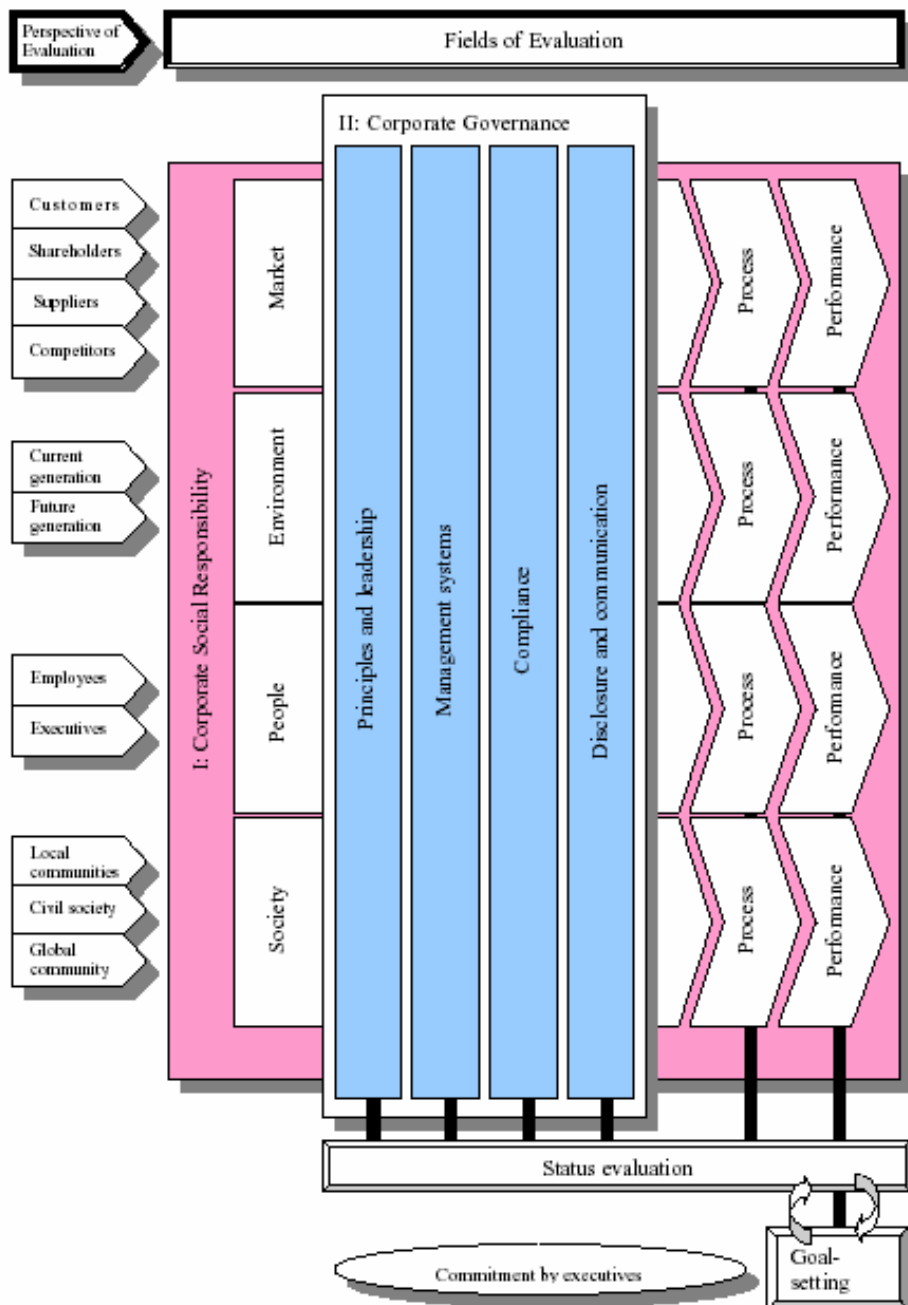
- Active promotion of CSR;
- CSR promotion based on private-sector initiative rather than government leadership; and
- Reworking the *Charter of Corporate Behaviour* and related *Implementation Guidelines* into CSR guidelines.

Nippon Keidanren's efforts primarily focus on companies in Japan, while its affiliated organization, the Council for Better Corporate Citizenship (CBCC), promotes CSR for Japanese companies overseas. CBCC compiled a report in May 2002 entitled *International Corporate Social Responsibility (CSR) Standards and Norms: Present Situation and Future Challenges*. Active participation in the formulation of international standards and requirements are advocated.

B. Japan Association of Corporate Executives (JACE)

Middle management executives from Japanese companies are individual members in this organization and its aim is to address broad based and future oriented socioeconomic issues. JACE published in March 2003 the 15th Corporate White Paper, subtitled "*Market Evolution*" and *CSR Management: Toward Building Integrity and Creating Stakeholder Value*. This report looked at CSR from four areas: market, environment, people and society. It also created four categories for corporate governance: corporate principles and leadership; management systems; compliance; and disclosure & communication. JACE recommended that the market evaluate companies based on their CSR and CG performances as shown in the following figure (Figure 9).

Figure 9



source: The 15th Corporate White Paper. Keizai Doyukai (Japan Association of Corporate Executives)

JACE White Paper highlights three points as the key elements of modern CSR:

- CSR should contribute toward sustainable synergy between companies and society. In short, CSR should promote sustainable social development as well as promoting sustainable value creation and provide for greater competitiveness to companies.
- CSR should be regarded as an investment and positioned at the heart of business i.e., CSR as investment aimed at sustainable corporate development.
- CSR should be undertaken voluntarily i.e., CSR voluntary efforts to go beyond compliance.

This overview of CSR involvement by industrial groups shows that JACE stresses market principles while Nippon Keidanren focuses on regulatory mechanism as the standard of measurement for corporate conduct.

3. Labor union involvement

Japan has an enterprise union system whereby employees join their company's labor union and no connection exists between the many company sponsored unions. As a result, specific CSR programs vary based on each union.

The following represents the involvement of Japan's two major labor unions:

- The Japanese Trade Union Confederation
- UI Zensen (includes Japanese Federation of Textile, Chemical, Food, Commercial Service and General Workers' Unions)

The recent survey by JTUC revealed that 55% of unions participate in CSR efforts for those companies where CSR programs are already underway. JTUC's main point in dealing with CSR is to use this measure to check on management on International Labor Organization's (ILO) core labor standards (basic labor rights, prohibition of sweatshops and child labor, prohibition of employment and workplace

discrimination, etc.) and labor conditions, legal compliance, and good working conditions (fair labor standards, safety and hygiene, capacity-building, decent work, prohibition of unpaid labor, prohibition of harassment, etc.) (July 2003 and August 2004 editions of *JTUC Monthly*)

According to a survey by UI Zensen in 2003, approximately 60% of companies were either operating internal CSR systems or were preparing to do so. Labor union involvement and participation ran to around 50%, and generally consisted of involvement in joint labor-management conferences, and about 20% are monitoring and involved in internal surveys. UI Zensen's goal is to boost labor union involvement, including building up the governance functions of joint labor-management conferences, creating internal reporting mechanisms, and strengthening monitoring functions.

Labor union involvement in CSR is rather limited in Japan and takes the form of pursuing their other interest by using the CSR platform on such matters as workplace improvement that affects their daily work experience as well as ILO related issues.

This can be clearly seen by the Fuji Photo Film's example whereby their comprehensive labor environment improvement plan includes the development of a work-friendly environment, safe work environment, and employee capacity-building, and promotion of disabled employment, re-employment of the elderly, nursing care support, child-raising leave, volunteer leave, labor safety, and health promotion (obesity, mental care, etc.).

4. Consumer involvement

The customer is considered a king in Japan on the surface. However, the company-consumer relationship is one of the strong versus the weak, or the aggressor versus the victim. Many consumer related incidences like company-caused pollution, food poisoning, chemical damage and false labeling have reinforced the problem in this area.

The government revised the Consumer Protection Law into the Basic Law on Consumers in 2004 and instituted number of measures to encourage consumer rights and independence. Recently, consumer movement has emerged to encourage consumers to act on their own initiative to select products and companies with health, environment and social responsibilities in mind, and to voice their opinion to companies on an equal footing. Consumer groups are also working to lobby for better monitoring of food and product safety and the like.

5. NPO and NGO involvement

The promulgation of the Law to Promote Specified Non-Profit Activities in 1998 has boosted the number of NPOs in Japan. NPOs and NGOs now operate in a wide range of areas including health and medical care, welfare, education, the arts and sciences, and the environment. However, only a handful of them deal specifically with CSR.

Japanese firms have encountered NPOs and NGOs overseas for problems related to employment discrimination, women's rights, and environmental pollution. Domestically, companies have been singled out and denounced for problems related to sexual harassment, environment, labor hours, safety and chemical damage. In the 1990s, however, relationship between NPOs and companies has gradually improved due to extensive corporate social contributions made as part of their community action.

The recent emergence of the CSR Forum seems to hold some promise for the future. Recognized under the NPO Law in 2004, this forum provides company officials, stakeholders, researchers and other parties to participate and interact on a free and open basis in the development of Japanese-style CSR. The forum plans to tackle key CSR issues such as specific models for CSR and consumer based management, fair trade and diversity.

6. Stockholders Involvement

Stockholders in Japan are described as "silent stockholders" and companies usually dominate annual stockholder's meetings. The reasons can be found by looking at the typical profile of stockholder types. Traditionally, Japan has had an arrangement whereby agreed upon companies will hold stocks of other companies through a system known as cross-stockholding. This has resulted in large number of corporate and institutional investors and a handful of individual investors holding shares of many Japanese companies.

Recently, many companies have cut back on cross-stockholdings to avoid risk, while foreign and individual investors have filled the gap. These new shareholders are more vocal and demand proper governance systems to in place. This has also led to a more active stockholder's meetings than in the past.

In the context of CSR, these developments have been accompanied by a growing interest in socially responsible investment (SRI). The Research Institute of Economy, Trade & Industry released a survey report in March 2003 on CSR and new capital flows.

There are three main types of SRI according to this report:

- ***Screening:*** Investments are chosen based on the firm's CSR performance and one of the funding criteria include social responsibility. Pros and cons of screening include priority is given to investment in firms with the top-running CSR programs and exclusion of firms without CSR programs from investment consideration, respectively.

The first example of positive screening in Japan is represented by the environmental oriented 'Ecofund' Investment Trust established in 1999. This has been followed by the Asahi Life Management's "Asunohane" Fund and the Sumitomo Trust and Banking's "Good Company" Fund in 2000. The latter two cases are fully-fledged SRI funds that take into account both

- environmental and social responsibility criteria.
- *Stockholder advocacy*: Stockholders influence CSR proposals by exercise their voting rights and requiring companies to act in a socially responsible manner. As more vocal stockholders join the ranks as mentioned previously, Western style forms of lobbying and demands at the stockholder's meetings will pressure companies to undertake more CSR programs.
 - *Community investment*: Developing CSR agents and providing them with investment and financing abilities. There is a gradual trend emerging whereby citizens help direct capital flow into CSR projects.

7. Small & medium size enterprise (SME) involvement

There are currently about 1.6 million SMEs companies, or 99.2% of all companies in Japan.

SMEs cannot match larger companies when it comes to capital, human resources, and information gathering capabilities. However, we cannot afford to let this sector fall behind in terms of CSR programs because of the shire number. SMEs are not lacking in their awareness of CSR implementation but need assistance in building the infrastructure to tackle CSR in a successful and sustainable manner.

VI. Key Areas in Current CSR Implementation

1. Legal compliance

Legal compliance is the minimum level of CSR standards that companies must meet as required in Japan. The scoreboard on this area can be seen by the following JACE published Corporate White Paper:

- 55% of companies are meeting the compliance guideline

- 31% of companies have created and are now reviewing the CSR compliance support system.

Nippon Keidanren and other economic organizations have created models for corporate code of conduct and these relevant manuals have been available since the 1990's to further CSR. The Japanese government established in 2001 a compliance committee to study the best ways to achieve full compliance and instituted a complaint hotline system for the general public.

The CSR measures that Japanese companies have been taken include the development of ethical principles and corporate code of conduct, ethics education, the appointment of ethics officers and creation of divisions, the establishment of advice hotline system, and monitoring compliance system.

One of the key concerns of companies recently is to attain the level of managing CSR at full compliance. About 70 to 80% of large companies surveyed stated that they are making effort to do so. Ethics Compliance Standard EC 2000 has been developed in Japan.

One successful example of a company going beyond mere compliance is the Konica Minolta Group. The president of the Group announced in 2003 their compliance declaration and laid out compliance principles and action guidelines for the entire Group. It states that the scope of compliance must go beyond laws and regulations to embrace corporate ethics and internal regulations. The Group is developing a code of conduct manual, a compliance promotion structure, and compliance committee across the organization with the president taking the final responsibility. The code of conduct manual has been translated into 9 languages and 55,000 brochures were distributed all over the world as part of the group's compliance educational process.

2. Corporate governance

Corporate governance is the foundation for CSR implementation. JACE Corporate White Paper noted that for companies to continue to create corporate value as well as to meet their social

responsibilities, companies need to develop a CSR philosophy and to establish an implementation framework based upon corporate governance.

Corporate governance is also a basis of CSR evaluation, and the following four factors are required:

- Principles and leadership
- Establishment of management system
- Establishment of compliance system
- Information disclosure and stakeholders communication

Modern corporate governance requires comprehensive responsibility not only to stockholders but also to stakeholders.

The Japanese corporate governance has been conducted in such a manner as to severely limit the checks and balances mechanism. This is primarily due to the imperfection in the division between capital and management as well as between board of directors and executive officers in Japan.

The Japanese commercial law has been modified in 2002 to enable companies to choose between American style corporate governance system and the Japanese system. A style of corporate governance suited to Japan's socio-cultural climate should emerge over the next few years. Key points will include strengthening the power of boards of directors over CEO, measures for the utilization of independent directors, division of functions between boards of directors and corporate executive committees, and information disclosure. Institutions are now in place to evaluate Japanese corporate governance, and as SRI becomes more common, close attention will be paid to how the market evaluates the relationship between corporate governance and CSR. In this regard, JACE has a proposal out that evaluates companies using the two criteria of CSR implementation and corporate governance.

3. Human resource management issue

Human resources are an important CSR stakeholder as well as a source of corporate value creation for companies. Top management, middle management and other employees make up human resources of the company.

Japanese companies have been regarded as family-style communities. Under the lifelong employment system, employees remain with the same company for their entire career and it is also customary for companies to treat their employees like family members. Top management appointments are often made from within the middle management ranks.

The influence of globalization is gradually changing traditional Japanese thinking on this subject matter. In order to effectively respond to these changes, companies have to address with the following three human resources related issues:

- Human resource utilization
- Recruiting high caliber talents
- Employment policies

Greater labor mobility is gradually breaking down the lifelong employment system. The effective utilization of human resources along with securing high-quality talent is becoming a top management issue. Leading companies are now starting to regard their employees as important stakeholders and they are exploring new measures to address this human resources issue.

One example of a leading Japanese company called Shiseido that have about two thirds of its employees as female is tackling the human resources issue in a rather innovative way. The company has launched a gender-equality program as part of their CSR practice designed to boost the status and morale of women staff. Some of the specific measures include:

- Fostering a gender-equal corporate culture.

- Training and appointing women leaders to carry out organizational missions and objectives.
- Reviewing work patterns to cut back on working hours.
- Assisting women to balance work with childbirth and childcare including the introduction of a childcare system.

Shiseido has developed a childcare support system that assists parents with child-raising know-how and programs to assist re-entry back into the workplace. The popularity of this system can be seen by the fact that the company has invested in and sold the know-how to their system to over 50 other companies.

Japanese students entering the workforce are beginning to take a different perspective on companies as compared to the past. Stability offered by large companies is no longer attracting top talents. Younger generation is leaning more toward companies where they can contribute to society, and the social contribution of companies is becoming an important selection criteria. CSR can even help the company's image and possibly attracts and fosters highly loyal personnel. Japanese companies are now facing a situation where they are not doing the selecting but are being selected by good talents. This situation is a clear role reversal from the past.

4. Involvement of local society

Local towns and cities are closely interdependent on companies located in their area. Companies play an indispensable role in local development and companies need local support as well. These towns where this interdependence is high is often called "castle town", referring to towns built around castles in old Japan.

Japanese companies fully understand the importance of maintaining harmony with local communities and they participate in a wide range of artistic and cultural support activities. Recent survey taken on the importance of these

activities indicates the following responses in the order of priority:

- It deepens relationship with the local community
- It improve their corporate image and brand name
- It expands company exposure
- It deepens relationship with customers
- It forms new personal networks

Many Japanese companies participate in this kind of activities as a way to ensure good corporate standing with their local communities.

Examples:

- Let's look at the community support activities of TOA Corporation located in Kobe, Japan. They have placed high priority in maintaining corporate integrity and living up to the trust placed by society. TOA makes generous contributions to a wide range of social activities by donating their products like audio and visual equipments to the local community.
- Another example involves the Hayashibara Group, a biotechnology based manufacturer of raw materials for food, pharmaceuticals and cosmetics industries. The Group is keenly aware that their growth has been supported by the local community, and as such, they have various programs in place to support local artistic and cultural activities.

There are countless numbers of such corporate support activities for their local communities in Japan.

5. Environmental management

Environmental management is one of the most advanced areas of CSR practice in Japan. According to the Ministry of the Environment in 2001, over 70% of large companies have environmental management guidelines in place and environmental management has become an important part of their company strategy toward social contribution. Shift in corporate attitude in

this area is directly related to the sharp increase in eco-friendly awareness in the public, government, and market sectors in Japan.

The public awareness of environmental issues has continued to grow in Japan. Past emphasis on price and quality has changed to environmental considerations in recent years. Selection of “green” and “energy saving” products by consumers is becoming a matter of course. There is growing number of “green consumers”, “green investors”, and even popularity in eco-tourism.

The change toward “green” products by the general public has in turn made companies deal with environmental issues as well. This can be seen by the large number of companies registering for ISO 14001 (environmental management systems) totaling 14,309 registrations in February 2004. Companies undertaking environmental management have set up management guidelines, created environmental management systems, and publish environmental accounting and related reports on a regular basis.

6. Organizational efficiency and performance

In 1985, Professor Michael Porter from Harvard University insisted on the need to create an internal value chain, but companies are now seeking to create external value chains. Value creation in conjunction with suppliers is attracting particular interest in terms of managing supply chains. In relation to CSR, this means that rather than companies working alone, they are finding that they need to work together with suppliers and customers. A strong supply chain boosts corporate value and provides competitive advantage, whereas a weak supply chain poses a risk.

Japanese companies have tended to conduct its business within an exclusive or enclosed business grouping called “*keirestu*” (subcontract-based business). However, competitive market forces are gradually dissolving these close knit business relationships within various *keirestu* groups. Growing market demand for CSR is placing a greater emphasis on business relations and transactions based on

CSR procurement. Many companies, including large-scale retailers, food and textile businesses, are creating codes of business conduct requiring their business partners to follow them. Companies emphasizing the environment are creating purchase and procurement guidelines and ensuring “green” procurement of materials, etc. A growing number of companies are going beyond green procurement to seek compliance even on issues related to child labor, sweatshops and other human rights. The new agenda for companies is how to create a CSR-based supply chain.

To achieve its philosophy of “everything we do, we do for the customer”, Aeon insists on accountability right through to the manufacturing process for the TOPVALU products it puts out under its own brand. To ensure safety, security and honesty, the company has introduced its own quality management standards that must be met by its agricultural product suppliers and an agricultural product management system. It has drawn up a code of conduct for those plants from which it commissions manufacturing and requires them to sign a declaration confirming this code and their compliance with it. This treatment applies to plants not only in Japan but also in 24 other economies. Aeon will be looking next at auditing and monitoring.

A similar trend is taking place in the manufacturing sector such as electronics, automobile, etc. Examples include:

- NEC, which makes and sells IT and electronics, works with its business partners on green procurement, greater compliance, and efforts to fulfill CSR procurement guidelines (hygiene, labor, human rights, etc.).
- SONY revealed their intention to launch a CSR procurement program with the cooperation of 4000 affiliated domestic and overseas suppliers of parts and materials. As a first step, SONY’s procurement contains the same content as IBM, Microsoft, Dell and etc. It covers 38 categories of CSR such as compliance, occupational discrimination, engineering safety, ethic management and the like. Affiliates that do not honor the procurement code are prohibited from further

business with SONY. This trend is becoming prevalent in Japan.

As more Japanese companies like NEC and SONY become active participants in the CSR procurement program, its influence will be felt not only in the Japanese domestic market but also in overseas markets where these companies secure parts and products from. In addition, this program will greatly impact the large numbers of SMEs as they are an important part of the overall supply chain.

VII. Challenges and possibilities in Japan's CSR

1. Corporate sustainability and CSR

The Japanese economy is faced with many challenges as it pulls itself out of one of the longest economic recessions in its modern history. The traditional CSR practices embodied in the Japanese-style business is now undergoing change and the global market driven introduction of Western-style CSR is further adding to the need to search for new type of CSR in Japan.

One of the basic challenges faced by Japan is to ensure that CSR not just a temporary phenomenon but it can be continued as an integral part of corporate sustainability. As appropriately stated by Fuji Xerox Chairman Kobayashi, "CSR should be a deep-seated and unchanging corporate commitment; we should strive for trust, acceptance and high regard by society". Therefore, Japanese management needs to better understand the basic concept that the essence of CSR is corporate sustainability.

2. Reproduction of CSR

CSR's overall objective is to ensure that companies fulfil all three aspects of social, economic and environmental commitments simultaneously. However, many companies in Japan view this as a contradiction that necessitates a trade-off between social and economic (or financial) commitments.

In order to overcome this perceived dilemma, company's first need to recognize CSR as an "investment" as opposed to being a mere "cost" center and secondly they must look at CSR investments in a longer term framework. In other words, without the consideration of CSR as an investment with long term payback period it would be difficult for companies to reproduce CSR on a on-going basis. This in turn brings about the need to look at the strategic approach to CSR as all of these factors are interconnected and interdependent.

The challenge going forward is to insure that Japanese companies have the adequate means and proper incentives to develop CSR projects on a reoccurring basis.

3. Establish platforms for sustainable CSR reproduction

In order to achieve the goal of sustainable CSR reproduction, a suitable platform needs to be established that brings about the benefit of each company's CSR and society as a whole are the same. One type of platform often used in Japan is a forum whereby relevant stakeholders are brought together to exchange ideas and to develop a comprehensive strategic CSR programs. These forums can be organized in many different ways such as by key issues to be addressed and/or by stakeholder types, and the like.

The role of Japanese government on CSR cannot be neglected or minimized given the historical precedent established between the public and private sectors in Japan's economic development. At present, there is a leadership void in spearheading CSR's acceptance into Japan. Two of the key stakeholders to Japan's CSR approach, i.e., government and private companies, must take the initiative and spearhead the task of creating and managing this CSR platform.

As one successful example, Japan's experience in addressing environmental issues can be used as a basis for looking at how other CSR components can be properly adopted and simulated into the Japanese economy. In fact, a precedent established in the environmental area

with ISO 14001 is already being applied to some aspect of CSR implementation in Japan.

The government role in CSR should be to assist companies in such areas as law, tax, and financial assistance, overseas CSR information database, and the like.

4. Strengthen the CSR efforts of individual companies

Japanese companies' strength lies in their ability to put things into practice. In this regard, Japanese companies have pursued CSR related issues like the environmental with certain uniquely Japanese qualities and methodology and the outcome has proved successful. Many of these efforts on the environment and social contributions could very well become world's best practices.

What Japan needs to do now is to incorporate what is being done in other leading CSR economies and to apply domestic best practices like "Kaizen", "TQC" and "Kanban" in order to implement their own CSR agenda.

One area in particular where Japan can learn from other leading CSR economies is the area of strategic approach to CSR and related method of implementation. In this regard, several important tasks to be addressed in Japan are stakeholder management, closer ties with NPOs and NGOs, and international supply chain management.

5. Small & Medium Size Companies (SMEs) and CSR

SMEs make up about 99% of the all companies in Japan and it is imperative that this segment of the industry accepts CSR as part of their corporate sustainability. Unfortunately, most of the CSR related data mentioned in this paper reflects the response and actions of Japan's large leading companies. There is no publicly available data to my knowledge that focus on the CSR activities of SMEs and, therefore, it is one of the most important tasks on the CSR agenda for Japan. A forum needs to be established and key members from government, industry

association, and representative companies must address the issues relevant to SMEs.

CSR for Japan without the active participation of SMEs would be very limiting to say the least but it will have far reaching implications throughout the entire Japanese economy. Historically, SMEs played a vital role in the economic development of Japan and many of these companies are interconnected to larger and smaller companies through the system of subcontracting. Large companies must take the lead on CSR and become a role model for SMEs. They must help one another in every possible way and only then can CSR be properly disseminated into the Japanese economy.

Given the resource constraint of SMEs, large companies and government should consider the possibility of offering some form of incentives to undertake CSR. There exists some connection already to SMEs through such things as CSR procurement program and supply chain management system. These existing channels needs to be fully explored and new ones developed.

6. CSR management and human resource development

Human resources aspect to CSR in Japan cannot be overlooked and there vital importance needs to be recognized. Greater commitment to CSR by top and middle management ranks of Japanese companies needs to be made. The proper allocation and training of resources for a successful and sustainable CSR can only be done by top management commitment and investment. While progress is being made in this area, further education is necessary to convince these management ranks to the relevance of CSR

As discussed earlier, corporate governance and CSR management go hand in hand. Japan is currently in the midst of debating the ins and outs of corporate governance and the placement of CSR committed senior management will greatly help to further the CSR cause in corporate Japan.

It is also vital to foster leaders among the ranks of middle management and CSR specialists at all levels of the company. This will ensure that CSR programs will continue to be developed and managed in spite of changes in company leadership.

7. CSR and international cooperation

CSR practices among companies and economies needs to be elevated on a global basis through an established process of mutual coordination and international exchanges of views. Give the establishment of CSR procurement programs by leading multinationals, there is a greater need to extend CSR beyond national boundaries. International exchange of information and cooperation must be established at the government to government levels to support and recognized contributions made by companies throughout the world.

APEC can play an important part in helping to establish these mechanism and/or identifying institutions to bring about a more coordinated and global CSR efforts.
