

CORPORATE RESPONSIBILITY IN JAPAN

CORPORATIONS & CONSUMERS

Shareholder and Societal Values Move Toward the Mainstream

By Peggy Anne Salz

A spate of corporate ethics scandals and governance crises — including the unprecedented arrest in June of Katsuhiko Kawasoe, a former chief executive of Japanese carmaker Mitsubishi Motors Corp., on suspicion of professional negligence related to defective truck parts — has heightened calls for greater corporate accountability, transparency, legitimacy and responsibility in Japan.

Like their counterparts in the U.S. and Europe, Japanese companies are increasingly responding to demands to review their corporate-governance policies and evaluate their corporate behavior.

In January, a corporate-governance self-evaluation by the Japanese business community revealed a major trend toward the establishment of compliance systems. Roughly 80% of respondents reported they had either created a compliance office or revamped their existing one last year.

In March, the Tokyo Stock Exchange followed the lead of stock exchanges in New York and London and introduced a minimum set of corporate-governance principles for listed companies. The list emphasizes transparency, disclosure and shareholder rights. Guidelines also call on listed companies to enhance the supervision of management by the board of directors and other relevant groups to ensure shareholder accountability.

In April, Japan also introduced a new certified public-accounting law, which requires auditors to play a more active role in preventing corporate misconduct and brings the country in line with international corporate-governance standards and practices.

Against this backdrop, there is a growing spotlight on the role of business in society and its obligations to consumers, shareholders, partners and stakeholders. Moreover, the focus on corporate social responsibility (CSR) has moved from the margins to the mainstream.

"Corporate social responsibility has a firm place on the Japanese business agenda," says Takejiro Sueyoshi, a Tokyo-based special adviser to the United Nations Environment Program Finance Initiative in the Asia/Pacific region. "Now the central challenge for business is to demonstrate that delivering shareholder value and wider societal value need not be mutually exclusive."

While there is no global consensus on what constitutes CSR, it can best be defined as a set of management principles that ensure companies minimize the negative — and maximize the positive — impact of their operations on society.

Socially Responsible Investment

Last year also saw the launch of several socially responsible investment (SRI) funds and vehicles for both institutional and individual investors. In March 2003, the Mutual Aid Association for Tokyo Metropolitan Teachers and Officials launched the country's first SRI pension fund. The association, which serves about 112,000 public school teachers and officials, committed 2 billion yen (\$18.2 million) of its 84 billion yen pension portfolio to SRI strategies.

"Today, more Japanese companies are pursuing management practices that will improve the quality of life for employees, their families, the local community and society at large — and investors are responding," says Sho Ikeda, Tokyo-based president and CEO of Sunrise

Advisers, a CSR consulting company.

Indeed, the proliferation of SRI funds and the spread of SRI research beyond Japan's borders bodes well for the future of SRI. A June 2003 survey of Japanese, U.S. and U.K. investors commissioned by Japan's Environment Ministry documents this trend: Some 84% of Japanese investors surveyed reported they were "very much interested" or "somewhat interested" in CSR. The number exceeds the percentage of surveyed U.S. investors (80%) and those in the U.K. (67%). In addition, a huge 89% of Japanese investors answered that "corporate responsibility should be taken into account in my investment." The U.S. (92%) and the U.K. (84%) showed a similar trend.

UBS Global Asset Management also notes a growing interest in SRI. Last November, it launched the UBS Global Equity 40 SRI+. The fund, managed by UBS Global Asset Management (Japan) Ltd., selects companies that fulfill their social responsibilities and are expected to achieve sustainable growth.

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"We expect the momentum of SRI in Japan to grow, and eventually keep pace with other countries," notes Koji Wada, director, UBS Global Asset Management (Japan) Ltd. in Tokyo. "But — because it's a relatively new concept with a short track record — it will take a few years."

In terms of SRI, Japan ranks third after the U.S. and Europe, according to figures compiled by SiRi Co. Ltd., an SRI research and consulting company, headquartered in Fribourg, Switzerland. At the end of last year, the U.S. managed 200 SRI mutual funds, and had \$151 billion in assets under management; Europe had 313 funds and \$12.2 billion in assets; and Japan had 11 funds and \$1 billion.

The basis for the UBS fund, and many others like it world-wide, is information and analysis from the family of Dow Jones Sustainability Indexes (DJSI World). The DJSI, the world's first global index to track the financial performance of leading sustainability-driven companies, counts more than 50 licenses across 14 countries.

The Dow Jones Sustainability World Index covers over 300 companies from 24 countries, including 37 from Japan. Other indexes that track socially responsible

companies, and include Japanese stocks, are: Morningstar Socially Responsible Investment Index; FTSE4Good Global Index; the FTSE4Good Global 100 Index; and the Ethibel Sustainability Index Global.

"Japanese firms have shown the greatest increase in terms of participation in this year's annual review," says Alexander Barkawi, managing director of SAM (Sustainable Asset Management) Indexes GmbH. The Zurich-based independent asset-management company worked with Dow Jones to launch the DJSI in 1999.

Compared with last year, the number of Japanese firms taking part in the DJSI assessment has increased 40%. Moreover, more Japanese companies are leaders in their industry sectors.

Setting the Benchmark

Toyota Motor Corp. "continues to set the benchmark in operational efficiency," according to SAM research. Its determination to develop lower-carbon technologies — and so reduce vehicle greenhouse-gas emissions — shows "potential to gain a significant competitive edge."

The renewed focus on stakeholder dialogue is critical since the scattered activists who demanded companies practice a higher standard of CSR just two

decades ago are now a well-focused and effective global force, observes Chris Coulter, director of CSR, GlobeScan Inc., a Toronto-based company specializing in strategic analysis of global issues, including the social, ethical, environmental and economic impacts on corporations.

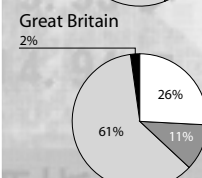
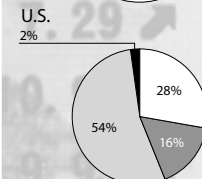
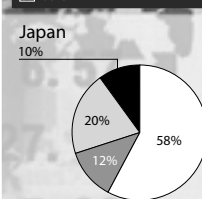
"To maintain their 'license to operate,' companies will need to ensure that they are operating in ways consistent with societal expectations, which increasingly requires them to commit to good corporate citizenship," Mr. Coulter says.

His company's continuing research confirms that ethical consumers — consumers whose purchasing decisions and behavior are based on how well a company demonstrates responsibility to broader societal issues, such as labor practices, business ethics and the environment — are a growing portion of the consumer population in Japan.

"An increasing number of Japanese consumers believe the role of companies in society should be to go beyond their economic duties and work to build a better society," Mr. Coulter explains. More importantly, consumers are "showing the first signs of ethical consumer activism" with one in four respondents reporting they had "punished a company for being socially irresponsible."

Role of Large Companies in Society Expectations of Corporate Responsibility (%)

■ Set higher standards, build better society
■ Focus on profit while obeying all laws
■ Operate between these two points of view
■ Other



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Katsumi Kashihara
Source:
GlobeScan, 2003