Responsible Investment and Stewardship in Japan

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Abstract

Responsible investment has grown globally over the last two decades, with a movement from screening strategies towards active ownership. In the UK this development was accelerated by the launch of the Stewardship Code. Not part of the global development, however, is Japan. The Japanese financial market is the only developed financial market globally that did not see a surge in assets under management invested in responsible investment products. In 2014, the Financial Service Authority (FSA) Japan launched the Japanese version of the Stewardship Code, the Principles for Responsible Institutional Investors (PRII) in order to boost responsible investment, focusing especially on active ownership. This thesis analyses the development of responsible investment and stewardship in Japan, with a focus on the question of whether or not stewardship increases accountability. The project is based on semi-structured in-depth interviews with experts in the Japanese market. In 2014, 12 interviews were conducted with investment managers, 11 with investment analysts and 8 with academics, researchers, and consultants. The study finds that several institutional logics are currently competing in the Japanese financial market and that hybrid logics are emerging. One key aspect of a sub-set of these logics is impression management, which occurs in investor-investee meetings. The study finds that trust in the long-term alignment of incentives between investor and investee company is the main determinant for the occurrence of impression management during investor-investee meetings. Consequently, stewardship can either increase accountability and serve as an important corporate governance tool, or create a myth of accountability without any real effect on accountability.

Danksagung

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Declaration

I confirm that this is my own work and the use of all materials from other sources has been properly and fully acknowledged.

In the section "The Evolution of Responsible Investment" published material was used from the following two publications:

1. **Biehl, C. F.**, Hoepner, A. G. F. and Liu, J. (2012) 'Social, Environmental, and Trust Issues in Business and Finance', *Socially Responsible Finance and Investing*: John Wiley & Sons, Inc., pp. 110-141.
2. **Biehl, C. F.** and Atkins, J. F. (2016) 'Responsible Investment in the UK', in Hebb, T., Hawley, J.P., Hoepner, A.G.F., Neher, A.L. & Wood, D. (eds.) *Handbook for Responsible Investment*. Abingdon: Routledge.

Regarding 1: The work was clearly divided by content area and combined later on to form the publication. Only content produced by myself was used in this thesis.

Regarding 2: This work was produced by myself under the supervision of Professor Jill Atkins, my PhD supervisor.

Christoph F. Biehl, Reading 30/01/2018

1 Introduction

Responsible Investment (RI) is a development that has influenced the financial industry like no other during the recent years. The underlying idea of the consideration of non-financial aspects in investment or business in general is, however, by no means new. Aristotle (1911) discussed the concept of just exchange in his Nicomachean Ethics around 350 BC. Ethics, established often through beliefs, have since had an effect on the investments of groups within society and even society as a whole (Biehl, et al. 2012, Sparkes 2006). For example, driven by religious beliefs Quakers did not invest in business activities that were considered ‘not Christian’, like slave labour. This approach is still present in the market today through financial products, like the Ave Maria Mutual Funds, which exclude investment opportunities if they violate certain criteria (negative screening). The beliefs influencing the investment decision are by no means limited to religious groups. During the Vietnam War groups of retail investors used negative screening to avoid investment involved in the conflict, based on pacifistic beliefs. Human rights beliefs lead to the financial exclusion of the Regime in South Africa, contributing to the end of Apartheid. These examples all have in common that the investment strategy used is negative screening, which was the first step of Responsible Investment (Biehl and Atkins, 2016, Biehl, et al., 2012, Sparkes 2006).

In 2005 the nature of Responsible Investment changed with the introduction of the Principles for Responsible Investment (PRI) by the United Nations. The aim of the PRI was, inter alia, to enable shareholders to engage with companies on environmental, social and governance (ESG) issues through the PRI Clearing House (PRI 2018).

Based on research by the founder and first director of the PRI Dr. James Gifford, shareholder engagement was a more successful tool to drive change than negative screening, as the latter was seldom even noticed by the companies in question. Whilst this was not the first time that shareholder engagement emerged, it was the first time mainstream investors joined forces in support of principles for responsible investment (PRI 2018, Gifford 2010).

The underlying message was that shareholders have to take an interest in their holdings and become active owners or stewards of their investee companies. The concept of stewardship goes hand in hand with the concept of shareholder engagement. In 2010 the Financial Reporting Council (FRC) released the first version of the UK Stewardship Code as a comply or explain standard, with the Financial Conduct Authority (FCA) requiring a statement from UK Investment Managers (IM). At this point, the concept of stewardship had reached the mainstream of the finance industry. Japan, the focus of this thesis, followed in 2014 with the introduction of the Principles for Responsible Institutional Investors (PRII), which are more commonly known as the Japanese Stewardship Code as they are almost identical to the UK Stewardship Code.

1.1 Responsible Investment in Japan

> *"Responsible Investment involves the active consideration of environmental, social and governance (ESG) factors in portfolio investment decisions."*
> *(Solomon 2013, p. 309)*

Over the last decade the amount of assets under management invested under consideration of ESG issues has continuously increased in most parts of the world (Global Sustainable Investment Alliance, 2012). One strong indicator for the trend towards responsible investment is the growing support of the United Nations backed initiative 'Principles for Responsible Investing' (PRI). Starting in 2006 with twenty pension funds, more than 1910 institutions have now signed the PRI representing around $60 trillion of assets under management (PRI, 2018).

However, the situation in Japan differs from this general development. At the beginning of this study only 0.2% of assets under management (AUM) were invested in ESG, the lowest figure amongst all countries with a highly developed economy (GSIA, 2012).

The potential reasons for the comparatively underdeveloped RI market in Japan are manifold and have been analysed inter alia by Solomon, et al. (2004), and Waring & Edwards (2008). What can be seen, especially in comparison to other economically developed markets, is that there are no incentives or legislation in general provided by the Japanese government. Waring & Edwards see one of the main reasons in the economic consequences of the burst of the Japanese bubble and the Asia crisis towards the end of the 1990s. The tough economic period since then is also known in Japan as the 'lost decades'. This led to a strong focus on fast economic growth with little consideration for ESG issues (Waring and Edwards, 2008).

The development in the area of shareholder engagement is especially noteworthy, as it is contrary to the global development of stewardship. In their 2013 report, at the beginning of this study, the Global Sustainable Investment Association (GSIA) (2012) reports 0% of assets under management in Japan following a strategy that involves shareholder engagement.

1.2 The launch of the Principles for Responsible Institutional Investors

In 2014 the Ministry of Economy, Trade, and Industry (METI) published the ITO review, an analysis of the Japanese financial market, which advocated an increase in active ownership, in line with the global development (Nakagawa, 2017). In the same year, the Principles for Responsible Institutional Investors were launched in Japan, in order to address the problems identified in the ITO report[1].

In line with the global active ownership movement, the PRII were launched "to introduce better corporate governance through investors' longer-term engagement in investee companies' governance" (Nakagawa, 2017, p.340). Responsible investment is therefore seen as a tool for corporate governance, especially with a focus on shareholder activism (Solomon, 2013).

1.3 Investor-Investee Meetings

The terminology surrounding stewardship is far from standardised. Whilst some authors refer to it more broadly as shareholder activism, other authors prefer the term private reporting (Solomon et al. 2013). For this study, the term 'investor-investee meetings' will be used. It needs to be acknowledged that the existing terms have different connotations and are not perfect synonyms.

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[1] The ITO report was actually published in August 2014 and therefore after the introduction of the PRII in February 2014. Both were initially developed by METI and the consultations took place in parallel, with the PRII addressing aspects later raised in the ITO report.

The PRI (2013) have outlined four steps in the engagement process. Whilst these are describing collaborative engagements, they also fit individual engagements:

1. Preparation
2. Dialogue
3. Escalate
4. Conclusion

Shareholder activism focuses on shareholders exercising their rights during a company's AGM inter alia by filing a shareholder resolution, executing their voting right (PRI, 2013). Referring to the steps in the engagement process this would be 3 and 4. Private reporting describes the face-to-face meetings between investors and investees, which are the steps 1 and 2, according to the PRI (2013). Whilst this is also the focus of this study, the definition seems too narrow. The term reporting highlights the role of the investee company as 'the reporting entity'. By using the neutral term 'investor-investee meeting' both parties involved in the meetings are moved into the focal point of the analysis. Given the introduction of the PRII in Japan and thereby the call for active stewardship on the side of the investors, it is necessary to analyse both parties.

1.4 Research Problem

The advent and rise of investor-investee meetings, globally and in Japan, is promoted based on the concept of stewardship: The investor acts as a steward actively monitoring the company's management and by doing so guarantees the long-term orientation of the company. The critical question now is whether this narrative can actually be observed in reality. The works of Solomon and Darby (2005), and Solomon et al. (2013) focuses in their work on the question of whether investor-investee meetings in the UK increase accountability of the company as well as the investor. Their findings, however, contradicts the stewardship narrative. It seems that investors and investees create a dual myth of accountability. Whilst the meetings do take place, the investors allow impression management to occur, i.e. the company shares their version of events with the investors and the investors accept the company's version of events as fact. By doing so, all stewardship boxes are ticked, but accountability does not increase. According to this research, the expectations that are linked to the Stewardship Code will not materialise, according to the research, if the dual myth creation continues.

In order to make sense of the dual myth creation the question arises whether impression management is part and parcel of how things are done in the financial industry. Atkins et al. (2015) build the foundation for the analysis of this question through their analysis of institutional logics in the (responsible) investment industry. They find that after a period of coexistence the responsible investment logic has started to merge with the finance logic. Atkins et al. (2015) conclude with one key question in regard to the development of responsible investment: Will the two logics merge and characteristics of the RI logic lead to changes in the finance logic, or will the finance logic assimilate the RI logic and will, as a consequence, the changes made to the finance logic be superficial impression management?

This thesis will address this research problem with focus on investor-investee meetings in Japan. The interviews that build the foundation for this research were conducted during the year of the introduction of the PRII in Japan. As previously mentioned the introduction of the PRII follows the general stewardship narrative: long-term focus and improvements of governance exercised by active owners through investor-investee meetings. The introduction of the PRII in Japan marks a change in the approach towards corporate governance and investor stewardship in Japan, as it differs from the Japanese corporate governance approaches previously employed in Japan – please see 2.2.5 for details. The decision to introduce the PRII modelled after the UK Stewardship Code in contrast to the existing Japanese model of corporate governance motivates this research. The question of whether or not investor-investee meetings increase accountability is closely linked to the corporate governance discussion. Stewardship is seen as one aspect of corporate governance with the focus on the (responsible) investor. Whilst this is an important aspect of the bigger picture, this is not the focus of this thesis. This work focuses on the development of responsible investment in Japan in general and dynamics guiding investor-investee meetings in particular. Being aware of the close link, aspects of corporate governance will, be analysed where they directly affect the dynamic of investor-investee meetings.

In addition, this work will contribute to the general problem with responsible investment research stated by Bauer et al. (2006): Research in the area of responsible investment has mainly focused on the UK, the US, and continental Europe, with some coverage of

Canada and Australia. This leads to a geographic a research bias, where there is the risk that the definition of responsible investment is in fact a definition of a Western approach to responsible investment. This research project therefore sets out to contribute to the general responsible investment literature through the reduction of the geographic bias.

The consequences of the aforementioned research problems reach far beyond the realm of academia. First politics: The Principles for Responsible Institutional Investors are being introduced in Japan as part of a packet of initiatives to reform the Japanese economy, referred to as Abenomics. For this measure to be successful it is crucial to understand the underlying dynamics and whether the stewardship narrative actually holds. The results of this research project will contribute to this question and can either support the introduction of the PRII or motivate reform. Second, the (global) ESG industry: The outcomes of this study reveal dynamics and logics at play, which are currently hardly debated in the industry, due to the stewardship narrative dominating the conversation. Especially for overseas investors, who tend to apply 'lessons learned' overseas to Japan, making implicit institutional logics at play in the Japanese finance industry explicit and analysing them in regard to investor-investee meetings is a significant contribution. Third beneficiaries: It is crucial for beneficiaries to know whether their investments are working on long-term improvements of ESG issues, or whether they are involved in a dual myth creation exercise.
Given the early stage of responsible investment in Japan this study has the potential to influence the discussion in academia, politics, and the finance industry.

Based on the issues raised above this is the **research aim** of the project:
Exploring the State of Responsible Investment in Japan with focus on investor-investee meetings

Research questions

- What is the impact of the introduction of Principles for Responsible Institutional Investors in Japan?
- What are the characteristics of investor-investee meetings in Japan?
- What is the role of impression management in investor-investee meetings?
- What are the differences and similarities between investment managers, investment analysts, and academics, consultants, and researchers?

1.5 Outline of thesis

The thesis is divided in five parts:

Section one, ‘The Evolution of Responsible Investment’, provides an introduction to responsible investment globally, in the UK as model for the Japanese Stewardship Code, and Japan.

Section two, ‘Research Paradigm, Methodology, Methods and Data’, will discuss the design of this study and explain the considerations behind the choices made in regards to the research paradigm, methodology, research methods and data used for this study.

Section three, includes the presentation and contextualisation of the research findings. This section is divided into three sub-section based on the three groups of interviewees: ‘Interview Findings: Investment Managers’, ‘Interview Findings: Investment Analysts’, and ‘Interview Findings: Academics, Consultants, and Researchers’.

Section four, ‘Discussion of the Empirical Findings’, includes the discussion of the three sets of empirical findings.

Section five, ‘Conclusion’, concludes the thesis referring back to the research questions and analysing the contributions as well as the limitations of this project.

The Bibliography includes all material cited in this project and the appendices provide additional support to areas indicated throughout the thesis.

2 The Evolution of Responsible Investment

2.1 The Emergence of Non-Financial Issues in Investment

This chapter discusses SET issues and their impact on business and finance throughout history. For this purpose, a manual review of the literature serves as a basis for the analysis. The SET issues are found to emerge and advance over time. Initially, concerns centred around social issues with direct influence on people in the region and had an increasing impact on business and finance through unions and pension funds. Over time, environmental factors became increasingly important and even some social factors without direct influence on the concerned people themselves emerged. These new factors, especially some environmental disasters, have influenced business through new legislation. Recently, trust issues emerged as a direct reaction to the financial crisis. They are very important to business and especially the financial services industry.

2.1.1 Historical context on SET issues

This section provides a chronological overview of the development of SET issues over time. The discussion centres on the general atmosphere and highlights how SET issues influence business activities and investment. Each section also includes a corresponding table in the appendix, which provides a detailed list of SET events. The tables provide background for the sections and serve as a complementary resource. The analysis distinguishes between near social and far social issues. In this conceptual framework, near social issues directly influence the group voicing the concerns, while far social issues have an impact on those not directly influenced by the issue. Others might conceptualise far social issues as being ethical (SEET – Social, Ethical, Environmental, Trust). The terminology has changed over time, which is reflected by the use of different terminologies throughout. Whenever, a new terminology is used an explanation is provided in regard to why the terminology was updated and how the new terminology differs from the old one.

2.1.2 Pre-1940s: The Early Centuries

The idea of fairness and responsibility during a transaction is most likely as old as mankind. Several religions, such as Judaism through the Torah, indirectly provide the first evidence of fair-trade guidelines around 1312 BC. Apart from the religious basis, Aristotle wrote down a moral philosophical guideline for responsible trade around 330 BC. He created a framework that guarantees fair and responsible business transactions. The concept 'justice in trade' appears in his work *The Nicomachean Ethics* (Aristotle, 1911).

The activism of individuals or small groups dominates this era. For example, in 1688, the Quakers decided not to participate in the slave trade because they felt that their beliefs did not permit such behaviour (Cadbury, 1942). Similarly, in 1760, John Wesley, cofounder of the Methodist church, laid down guidelines for the responsible use of money (Sparkes, 2002). In both cases, the guidelines prohibited trade and investment in business activities that harm 'god's creation.' These guidelines created the first social and environmental exclusion rules, which are later called negative screens.

The ethical motivation influenced business activities and investment in various ways. For example, due to the introduction of negative screens, parts of society did not participate in certain business activities anymore. This process, which was motivated by the consideration of ethical guidelines, still occupies a niche in the modern SET investment industry, for example, the Ave Maria Mutual Fund (Ave Maria Mutual Funds, 2011).

[Please see Table 10-1 *in Appendix 10.5 for an overview of the events underpinning the developments discussed in this section.]*

2.1.3 1940s: The Post World War II Era

The events of World War II dominated the 1940s. The war crimes and the unspeakable horrors of the Holocaust convinced global leaders to change strategy and to create universal rules in order to guarantee the peaceful interaction and transaction among nations. Besides the moral consequences of the war, another consequence became apparent, namely, the scarcity of workers (Gray, 1983).

Based on the experiences of World War II, the United Nations General Assembly adopted the Declaration of Human Rights in 1948 (Sparkes, 2002). For the first time in the history

of mankind, an international document existed that guaranteed every human being a set of inherited rights. During this period, *near social issues*, i.e., those directly concerning the group raising them, dominated the SET landscape. In post-World War II Europe, social problems outweighed all other areas of concern.
At this time, two main challenges started to enter the stage. First, due to the existence of a ratified catalogue of human rights, business activities and investments could be compared to a new, non-financial benchmark. Second, labour unions benefitted from the scarcity of workers. Consequently, the bargaining power of labour unions increased during negotiations with the companies. Unions started to request such benefits as better working conditions and pension plans for their members. This means that near social issues entered mainstream companies through the new bargaining power of labour unions (Gray, 1983).

[Please see Table 10-2 *in Appendix 10.5 for an overview of the events underpinning the developments discussed in this section.]*

2.1.4 1950s: The Discovery of Pension Funds as a Tool

In the 1950s, the development begun during the 1940s continued. Labour unions discovered their power and started to use new (business) tools in order to support their near social claims. In the 1950s, scarcity of housing was the main near social issue. Labour unions adopted this problem on their agendas and tried to use their power to directly and indirectly involve the employers in solutions (Gray, 1983).
The labour unions adopted new tools as the following two examples illustrate. First, as Table 10-3 shows, the Teamster Union bought $1 million worth of Montgomery stocks and threatened to start a proxy fight if the company continued its ‘non-union’ policy. As a direct consequence of the threat, the company allowed unionization. This was one of the first cases of shareholder engagement to achieve a social goal. Second, Table 10-3 also shows that in 1958, the United Auto Workers filed a proposal requesting that the investment of the Ford workers’ pension fund should directly benefit Ford workers. Thus, pension funds can serve as a tool to create social and not just financial benefits for their members (Gray, 1983).

As Figure 2-1 shows, environmental issues also surfaced on the societal and political agenda. The reason lies in the London smog catastrophe during the winter of 1952 and 1953, in which 16,000 people died because of smog caused by coal fire emissions (Bell and Davis, 2001; Sparkes, 2002). As a result of the London smog catastrophe, the British parliament created the first piece of environmental legislation in 1956 called the Clean Air Act. One consequence of this legislation was that power stations had to be relocated to rural areas. Therefore, this was the first time that an environmental catastrophe led to tighter legislation, which directly affected business activities and investments (Gray, 1983; Sparkes, 2002).

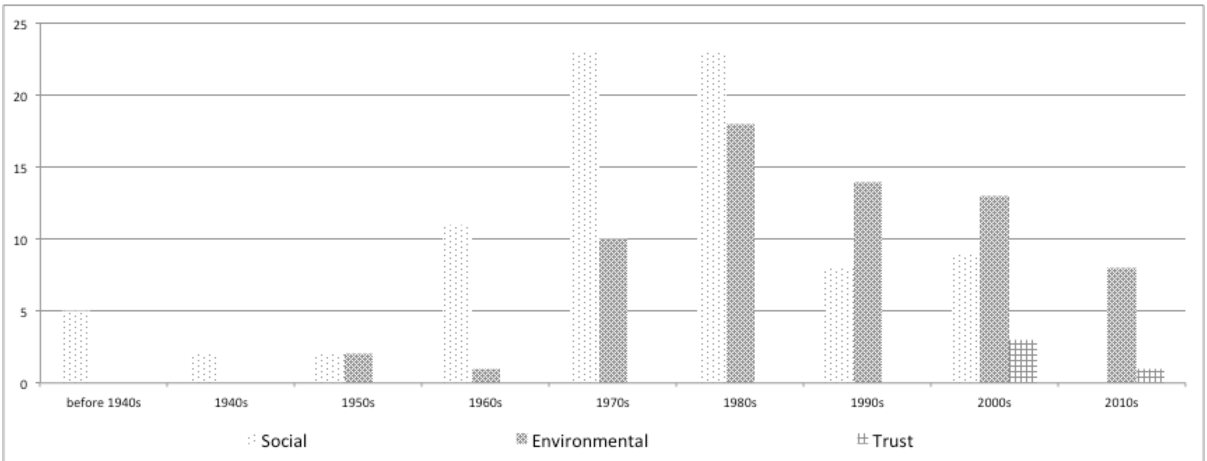


Figure 2-1: This graph illustrates the distribution of the SET issues listed in section 10.5 and shows how the focus changes over time from social to environmental and trust issues.

[Please see Table 10-3 *in Appendix 10.5 for an overview of the events underpinning the developments discussed in this section.]*

2.1.5 1960s: The Movement Decade

The 1960s marked a decade of near social movements: the civil rights movement, consumer rights movement, and anti-Vietnam war movement. This 'movement decade' serves as the bridge between the 1950s, when the social issue first surfaced, and the 1970s when some of the issues reached the mainstream of society and policy. The social protest symbolized by the different movements directly influenced business activities and investments in numerous ways.

The civil rights movement demanded equal rights for all citizens. Major achievements for the movement are the Civil Rights Act and the Voting Rights Act (Berg, 1964: Sparkes, 2002; Landsberg, 2007). Followers of the civil rights movement targeted Eastman Kodak because of its civil rights policy. The impact of the protest on Eastman Kodak's business activities forced the management to change its civil rights policy (Wadhwani, 1997).

The anti-Vietnam war movement voiced concerns over the Vietnam War and denounced war crimes, such as using napalm against civilians (Sparkes, 2002; Schueth, 2003; Guay, Doh, and Sinclair, 2004). In this movement, activists used various tools such as shareholder engagement. In 1969, the first responsible shareholder resolution was filed at an Annual General Meeting of Dow Chemicals, the producer of napalm and agent orange, which are active ingredients of firebombs and defoliants, respectively. This marks the next step in shareholder engagement (Sparkes, 2002; Guay et al., 2004).

The consumer rights movement became a voice through Ralph Nader and his campaign against the trade-off of safety for profit (Nader, 1965). Nader directly targeted General Motors with his book *Unsafe at Any Speed*, revealing the impact of profit maximization on the safety of the consumer.

The labour rights movement pushed for stronger participation of employees in companies (Gray, 1983). Labour unions continued to gain influence over pension funds. For example, a union led strike action led to establishing a joint union-managed trusteeship at the New York Times Co. pension plan (Gray, 1983).

Besides tools such as strikes and boycotts that directly influence companies, an investment tool considering SET issues was launched in Sweden in 1965, namely, the ANSVAR SRI fund. This fund, which religious groups partially funded, allows investors to invest their money while taking social criteria into account (Guay et al., 2004) and serves as a first step towards indirectly influencing companies through investment tools.

[Please see Table 10-4 *in Appendix 10.5 for an overview of the events underpinning the developments discussed in this section.]*

2.1.6 1970s: The Organization and Implementation Decade

In the 1970s, the SET ideas previously introduced were beginning to get formally organized and implemented in societal and political systems. During this decade, many social demands concerning the near social issues start to get satisfied. As Figure 2-2 shows, this led to a shift in the focus from near to far social issues such as anti-Apartheid. Besides this change within the social agenda, environmental issues surfaced and received the attention of both the mainstream and policy makers. The publication of the Club of Rome Report called *The Limit to Growth*, in which a forecast of the world's oil reserve created an urgency of change, drew attention to the environment. People realized that the current economic growth came with a price and was unsustainable (Club of Rome, 1974; Sparkes, 2002).

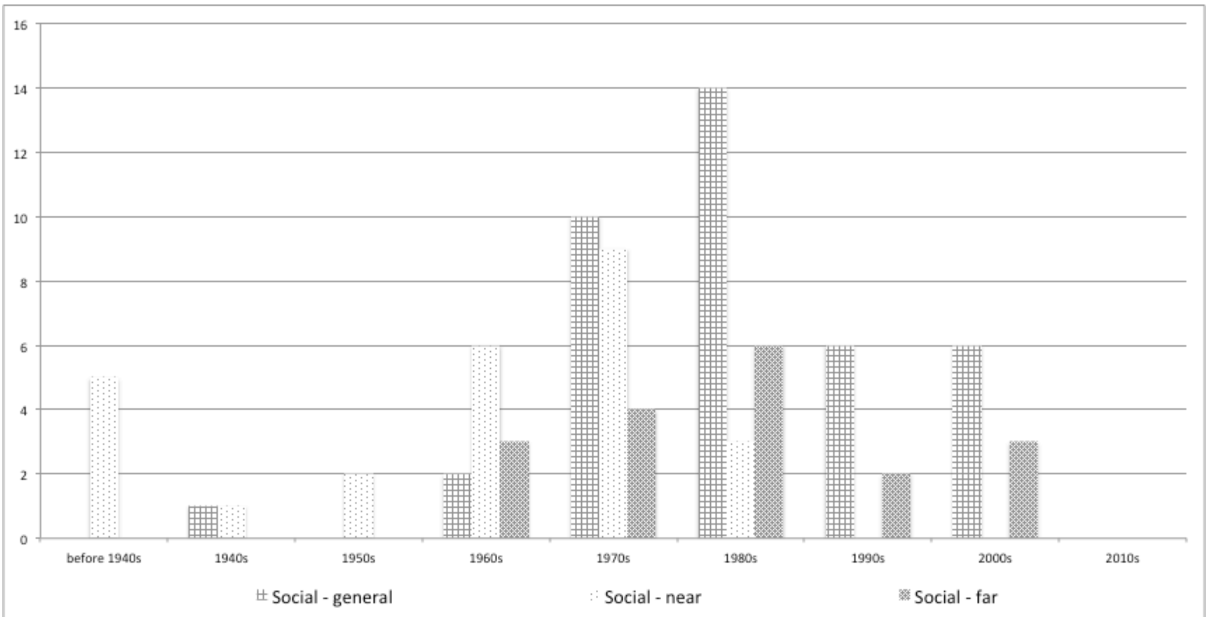


Figure 2-2: This graph shows the changing focus within the category of social issues and illustrates that the focus changes from social-near issues to social-far issues over time. Social near issues are issues that have a direct impact on the person raising the issues. With social far issues, the person raising the issue does not directly benefit from the outcome. Social-general consists of all issues that cannot be classified as social near or social far.

Social issues about the Vietnam War influenced business activities and investment. For example, in 1970, a debate on socially responsible investment took place in Yale, which represents an initial step towards establishing non-financial investment criteria (Simon, Powers, and Gunnemann, 1972; Malkiel, 1973; Sparkes, 2002). Although investments using SET criteria occupied only a small niche at this time, the introduction of the first

SET investment funds provided investors with a choice that was previously unavailable (Guay et al., 2004).

Labour unions continued to gain influence over pension funds, such as the Chrysler pension fund in 1979. This process drove another important change. Until the 1970s, a guideline called 'The Wall Street Rule' was in place. This rule stated that institutional investors either voted with the management on shareholder resolutions or sold their stock. In the 1970s, pension funds started to ignore this rule and voted against management on shareholder resolutions concerning SET issues (Gray, 1983). This shows a general increase in sensitivity towards SET issues. In this atmosphere of scepticism, the nuclear accident at the Three Mile Island power plant occurred, resulting in approximate costs of more than $2 billion. Due to a change in regulations, this accident marked the end of the construction era of commercial nuclear power plants in the United States (Sparkes, 2002; Kahn, 2007).

[Please see Table 10-5 *in Appendix 10.5 for an overview of the events underpinning the developments discussed in this section.]*

2.1.7 1980s: The Decade of Societal and Political Attention

By the 1980s, the social movements of the 1960s and the rise of environmental concerns during the 1970s had already shaped general public opinion. Problems caused during the 1980s by irresponsible economic growth become apparent through environmental accidents and scandals. The results of the European elections at the end of the decade show that environmental issues had reached the mainstream of society and policy (Curtice, 1989). The shift from near social towards far social and environmental issues continued.

The dominant social issue was South Africa and its Apartheid regime. The process started with the Sullivan Principles, which provided a guideline of how to engage in business with South African companies. Although established in 1977, these principles did not reach the mainstream of society, business, and policy until the 1980s (Sullivan, 1983; Posnikoff, 1997; Sparkes, 2002).

Concerning environmental issues, a series of accidents and scandals occurred. For example, Sparkes (2002) and Kahn (2007) note the following: (1) in 1984, a toxic gas leak in Bhopal killed 3,500 and left 50,000 injured; (2) in 1986, a nuclear meltdown in

Chernobyl spread dangerous radiation over large parts of Europe; and (3) in 1989, the Exxon Valdez ran aground and spilt 11 million gallons of crude oil (Knight and Pretty, 1997; Cavanagh and Linn, 2006). the European elections at the end of that decade reflected the public reaction to these accidents. For example, the Green Party in the United Kingdom reached 15 percent in European elections, forcing Margaret Thatcher to add environmental issues to her profile (Curtice, 1989; Sparkes, 2002).

Social and environmental issues affected not only policy but also business activities and investment. Socially responsible investment reached a milestone when the U.S. Department of Labour legally permitted the use of non-financial criteria to make investment decisions (Gray, 1983). In the light of these developments, the Public Employees Retirement System of California and the State of New Jersey Division of Investment began contacting the management of companies in their portfolios in order to find out about their investments in South Africa (Gray, 1983).

Furthermore, environmental issues gained importance. The accidents during the 1980s dramatically illustrated the costs of environmental ignorance. For example, the Exxon Valdez spill cost $11.5 billion and the Bhopal leak cost $527 million (Kahn, 2007). The new green trend in politics directly influenced the investment environment because investors feared the costs of tighter environmental regulations. These events resulted in introducing SET criteria in the decision-making process of funds and launching of specialized environmental funds (Sparkes, 2002; Guay et al., 2004). At the end of the 1980s, the focus changed from social to environmental issues.

[Please see Table 10-6 *in Appendix 10.5 for an overview of the events underpinning the developments discussed in this section.]*

2.1.8 1990s: SET Issues Reach Finance

Environmental concerns dominated the SET agenda of the 1990s. Although investments considering SET issues slowly entered the stage in the 1980s, this growing trend gained traction in the financial markets during the 1990s.

One change regarding consumers was the development of a holistic responsibility. While in the past, most issues were SET related, the movement of ethical consumerism connected all three areas of concern. For example, the fair-trade label certifies and promotes sustainability. In order to reach this aim of sustainably high social and environmental standards, the applicant needs to overcome hurdles to receive the fair-trade label. Due to the fact that an independent association awards this label to companies, a level of trust needs to be created (Irving, Harrison and Rayner, 2002; Sparkes, 2002).

The societal discovery of the bargaining power of consumption for environmental issues also reached the interstate level. International attention during the 1990s focused mainly on two treaties: the Kyoto Protocol and the Convention on Biological Diversity. The Kyoto Protocol became a synonym for the fight against climate change. In 1997, 37 countries committed to reduce their greenhouse gas emissions starting in 2005. By 1982, 158 countries had signed the Convention on Biological Diversity, which became a legally binding document of international law in 1993. The target of the convention was to fight the rapidly increasing extinction of animal and plant species in order to preserve a sustainable ecosystem (Cropper, 1993; Sparkes, 2002).

Concerning the influence of SET issues on business activities and investment during the 1990s, three major developments occurred. First, through the creation of certified labels such as fair-trade, the consumer could directly consider and promote SET concerns through consumption. For example, coffee producers and wholesalers not certified by the fair-trade association experienced a direct financial impact (Irving et al., 2002; Sparkes, 2002). Second, as the Kyoto Protocol and the Convention on Biological Diversity show, international regulations were rapidly increasing. These regulations directly influenced business activities, such as the Kyoto Protocol's limitation of greenhouse gas emissions (Sparkes, 2002). Third, the process to 'price the environmental risk' started in the financial markets. The increasing numbers of green investment products, such as the launch of the Green Project Fund Netherlands or the Eco-Fund Japan, reflect results of this process (Guay et al., 2004).

[Please see Table 10-7 *in Appendix 10.5 for an overview of the events underpinning the developments discussed in this section.]*

2.1.9 2000s: The Era of Responsible Investment Starts

At the end of the 1990s, environmental concerns were the dominating SET issues, while social concerns played a secondary role. In the 2000s, trust issues entered the stage and changed the SET landscape yet again.

The reasons for the rise of trust issues in society lie in the change of the global business structure. In the 2000s, the consequences of globalization became apparent. The power of companies increased through deregulation and globalization of markets. Companies took over former public services and gained influence in areas of society that the state had previously controlled and protected. This development created scepticism amongst large parts of the population (Sparkes, 2002). In this atmosphere of scepticism, the 'big bang' of trust occurred—the sub-prime crisis itself and its direct consequence, namely the economic crisis and global recession. People felt that companies, especially banks and other financial institutions, had abused the new freedom of deregulation (Hall, 2008; Fariborz, 2011). In the court of public opinion, the consequences of the economic crisis, such as the loss of employment, was directly linked to banks and the financial sector in general.

Besides this new set of concerns, environmental issues kept emerging. In 2005, the European Union (EU) launched the largest multinational trading scheme for greenhouse gas emissions (European Union, 2010). Also, in the 2000s, the German government introduced legislation that led to a shutdown of all nuclear power plants over the next decades, depending on their age (Independent, 2000; Sparkes, 2002). The legislation not only entails the closure of all nuclear power plants but also comprises the promotion and subsidization of renewable forms of energy production.

In terms of business activities and investment, the 2000s marked the beginning of a new era. In 2005, Kofi Annan, the United Nation's (UN) secretary general, launched the Principles for Responsible Investment (PRI). This UN initiative works together with its signatories to put the six underlying principles in practice. In 2011, the signatories held $30 billion of assets under management, which represents about 20 percent of the entire global market. Through the PRI, SET issues have reached the mainstream investment industry (Principles for Responsible Investment, 2011).

The costs of environmental negligence also became apparent as, for example, evidenced by the settlement of law suits against construction firms producing and using asbestos products. As a consequence of these settlements, many firms had to declare bankruptcy and environmental negligence became a severe business risk (Sparkes, 2002). The changing German legislation concerning nuclear power plants and the introduction of the EU Emissions Trading Scheme revealed other business risks related to the natural environment.

[Please see Table 10-8 *in Appendix 10.5 for an overview of the events underpinning the developments discussed in this section.]*

2.1.10 2010s: Social and Environmental Issues Enter the Mainstream

The shift of attention away from social issues towards environmental and trust issues has continued during the current decade. Environmental catastrophes dominate the beginning of the decade. In 2010, the BP oil rig called Deepwater Horizon exploded and sunk. Because the emergency systems failed to stop the oil flow, more than 4 million barrels of crude oil leaked into the Gulf of Mexico (Mervin, 2011). In 2011, an earthquake and tsunami led to a core meltdown in the Tepco nuclear power plant in Fukushima, Japan (Campbell, 2007; Campbell and Pancesvski, 2011; Layne and Uranaka, 2011). Both events led to a global increase in regulations concerning deep sea drilling and nuclear power, respectively. Shortly after the Fukushima catastrophe, and for the first time in history, a member of a Green party was elected as governor of a developed country state, Baden-Wuerttemberg in Germany (Campell and Pancesvski, 2011).

Given the environmental consequences of the catastrophes, understanding that an important trust issue is also involved is important. These catastrophes occurred after other events at the start of the 21st century had already damaged the general trust in businesses and financial institutions. Besides the aforementioned environmental disasters, a severe financial crisis shook the Eurozone in 2011, which is partly blamed on banks, rating agencies, and excessive consumer spending. As a direct reaction to these events, the global 'occupy movement' became a symbol of the lack of trust in financial institutions (Sapienza and Zingales, 2011).

The impact of the occupy movement and the consequences of the Eurozone crisis can only be determined ex post. The financial consequences of the BP and Tepco disasters, however, can be approximated. In order to cover the clean-up costs, as well as the compensation of those involved in the fishing industry and other directly affected persons, BP set aside $41 billion. This equals 2.5 times its 2009 profit (Mervin, 2011). Concerning the Fukushima disaster, Tepco reported a £9.4 billion loss almost exclusively caused by the melt down (Campell and Pancesvski, 2011; Layne and Uranaka, 2011). Besides these direct financial consequences, the effects of the events on societal and political opinion are likely to lead to further material consequences.

[Please see Table 10-9 *in Appendix 10.5 for an overview of the events underpinning the developments discussed in this section.]*

2.2 Mainstreaming Responsible Investment Strategies: From Negative Screening to Stewardship

The previous section shows in detail the general development of non-financial issues being considered in the investment process. Whilst the general developments are similar in most countries of the industrialised world, the extent to which the aforementioned movements and characteristics can be found in specific countries differs.
This section will therefore cover analyse in more details the developments within responsible investment in the UK and Japan. Japan was chosen as it is the subject of analysis. The UK was chosen due to its advanced responsible investment industry (Biehl and Atkins 2016). In addition, the UK's Stewardship Code provides the basis for the Japanese Principles for Responsible Institutional Investors. Because of this, the UK is often used as a point of reference in Japan when matters relating to responsible investment or stewardship are being discussed.

In the following, I will first analyse the development of different RI investment styles in the UK and the compare this to the evolution of RI in Japan. Finally, I will discuss the status quo – Stewardship – and the academic discussion related to the engagement aspect of it.

2.2.1 Responsible Investment in the UK

2.2.1.1 Ethical investment – Screening Approach

Until the 1960s, ethical investment was practiced predominantly by religious organisations. The early roots of responsible investment involved the creation of dedicated portfolios invested on an ethical basis. These specialised funds were run according to a screening strategy whereby companies were screened in or out of the portfolios according to strict ethical rules. Clients selected portfolios which were most suited to their personal ethical profiles and preferences. Screening has been defined as,

> *"[a]voiding investments in companies that do not reflect an investor's values. […] The screening process is the inclusion or exclusion of corporate securities in investment portfolios, sup-porting companies with strong records in certain screens and avoiding investments in firms that fall short in these areas."* (Henningsen, 2002, p. 163)

Screening was employed by the earliest forms of ethical investment and is still used by specialist ethical funds. In 1991 approximately £312 million was invested in UK green and ethical retail funds (UKSIF, 2011a). The UK Social Investment Forum (UKSIF) was officially launched in 1991, signifying the growth of ethical investment and the need for a common platform within the UK institutional investment community for collaborative discussion in this increasingly important area. By 1996 investment in UK green and ethical retail funds surpassed £1 billion (UKSIF, 2011b). In 2002, it was estimated that UK investment in ethical funds had grown over the previous 10 years from £318 million to almost £4 billion (Pensions Week, 2002b). These figures demonstrated an increase in traditional ethical investment but not an uptake of 'ethical' investment by the mainstream institutional investment community. It was only when the strategic approach towards ethical investment changed that the mainstream started to become interested.

2.2.1.2 Best-in-class Approach

There is a clear distinction between 'ethical investment' and 'socially responsible investment' (SRI). Essentially, ethical investment refers to specialist investment which employs screening, whereas SRI implies a mainstream investment strategy of engagement and inclusivity (Clarke, 2002). Sparkes (2006) defines SRI as an investment philosophy which combines ethical or environmental goals with financial goals. Screening can have negative impacts on portfolio investment as modern portfolio theory emphasises the enhanced risks associated with a restricted investment universe (Boatright, 1999, 2008; Solomon, 2013). It is this refocusing of this investment strategy which has effectively allowed ethical investment to evolve from a marginal into a mainstream form of institutional investment (Solomon, 2009d). Since the late 1990s the most significant change has been the shift from screening to a 'best-in-sector', or 'best-in-class', approach whereby investors do not screen out specific industries (such as oil and gas or those producing alcoholic beverages, for example) but select the 'best' companies in every sector according to a range of social, ethical and environmental (SEE) factors. In the investment industry the shift of terminology from 'ethical investment' to 'SRI' (socially responsible investment) and investment according to 'SEE' (social, ethical and environmental) issues signified this change in approach. This change in strategic approach involved a move from screening applied exclusively to dedicated ethical funds to a best-in-sector approach applied across mainstream investment portfolios. A best-in-sector approach is accompanied by tactics of active engagement and dialogue, as the strategy is based on active investors whose direct contact with their investee companies is assumed to improve corporate behaviour in the SEE domain (GSIA 2012, 2014, 2016).

2.2.1.3 The Engagement Approach

Engagement and dialogue involve voting by institutional investors and one-on-one meetings between the institutional fund manager and a manager from the investee company as well as shareholder resolutions. An engagement strategy began to be used increasingly in active corporate governance and was endorsed by recommendations of corporate governance codes of practice (Cadbury Report, 1992; Hampel Report, 1998) as a means of improving relationships between companies and their major shareholders. Around 2000, an example of an engagement approach involved an institutional investor engaging with 11 major clothing retailers asking them for information relating to the ethical standards they set for the factories they sourced from around the world. Initially only three of the companies had any code of conduct covering issues such as child labour and working conditions which were in line with the institution's standards. However, within a year the rest of the companies improved significantly their approach to these issues, introducing codes of conduct and/or performing ethical audits of the source factories (Litvack, 2002). This engagement within the clothing sector was carried out by Friends Ivory and Sime (as it was at the time). Another large institutional investor, Morley Fund Management, launched a socially responsible investment engagement programme in 2002 which aimed to monitor investee companies' social, ethical and environmental behaviour (Pensions Week, 2002c). Around the same time, many pension funds also started to advise their fund managers to adopt a socially responsible investment strategy of active engagement. For example, the trustees of the Church of Scotland pension fund were instructed to review the financial implications of the church pension fund's socially responsible investment policy. Baillie Gifford was the pension fund's investment manager at the time, and as an investment institution the church took a lead in active socially responsible investment engagement strategies. The Church of Scotland agreed to move away from a screening strategy and towards a strategy of engagement with investee companies on social, ethical and environmental issues. This shift was primarily due to fears that screening reduces investment return (Wadsworth, 2002). Around the turn of the century, UK pension fund members (Targett, 2000) and social/environmental lobbyists (Solomon, Solomon and Norton, 2002) began to demand that pension fund managers develop SRI policies and participate in engagement. A best-in-sector approach appeared to be the only way of responding to this demand without reducing investment returns. Increasing awareness in society of social, ethical and environmental issues and a general increase in 'ethicality', a need to be ethical, linked to this heightened awareness, led to a broader societal interest in SRI. For example, in a discussion of the historical development of SRI, Sparkes (2006) suggested that SRI may be a response to major geopolitical issues, including global warming and the impending climatic crisis. Sullivan and Mackenzie (2006) comment that "There is a growing belief that investors, in particular large institutional investors, have a responsibility to work proactively to address the environmental and social impacts of their investments" (p. 13). Public resentment for poor business practices and unethical corporate activity was growing (Clarke, 2002). The individual investor (client of investment institutions) began to feel responsible for ensuring that the institutions invested in a way that was acceptable to the client. The potential power held by the financial institutions can be invested 'for the good of all' or can deny any social responsibility (Monks, 2001). Indeed, there has been a growing consciousness that the immense collectivised funds held by investment institutions can be ‘used or abused’ (Solomon, Solomon and Norton, 2002). Research showed that socially responsible investment by UK pension funds, and in the UK institutional investment community generally, had grown significantly in the decade preceding the new millennium. In the years from 1997 to 1999 a growth of 78.6 per cent in assets under management by UK SRI funds can be seen (Friedman and Miles, 2001). Furthermore, during the decade from 1990 till 2000 the number of SRI funds grew from 18 to 44 (Friedman and Miles, 2001).

2.2.1.4 Entering the Mainstream

Since this transition period around the turn of the century from ethical to SEE investment, SRI has become a mainstream issue in portfolio investment decision-making. Most large institutional investment houses now have a dedicated SRI manager and analysts specialising in SRI issues. Around 2005 there was another shift within the City of London to an approach where institutional investors began to consider ESG – environmental, social and governance – issues in their investment decision-making, influenced by the emergence of the Principles for Responsible Investors initiative. The United Nations-backed industry association advocates an integration of ESG information as well as the engagement approach and refers to this investment style as ‘Responsible Investment’ (Gifford 2010). The Responsible Investment approach takes into consideration ESG issues. It is important to note that Governance in this context includes but is not limited to Corporate Governance. Again, this shift to ESG investment signified a centralising of SEE issues into the heart of investment as they became more firmly linked with corporate governance. The global financial crisis has highlighted the need for a greater ethical approach to business, especially in the banking sector (Biehl et al., 2012). Further, UK institutional investors were blamed to a large extent for an alleged lack of engagement with banks prior to the credit crunch. Indeed, the Walker Review (2009) highlighted the need for institutional investors to take a more active role in engaging with investees in order to proactively monitor, and effect change in their behaviour. The outcome of this review was the Stewardship Code (FRC, 2010), which highlights the need for institutional investors to escalate their engagement activities where an issue of social or environmental concern is detected. Shareholders have, over time, been concerned that SRI may restrict the investment universe and result in lower financial returns. Boatright

(2008) explains that finance theory implies screened funds should have a lower return because of reduced diversification and higher transaction costs. However, evidence from around 2000 suggested that SRI benchmark indices were outperforming the market (Martin, 2002). Indeed, the change from SRI to RI and ESG has been accompanied by a growing perception in the financial markets that (S)RI enhances rather than reduces investment returns (Mansley, 2000; Mayo, 2002; Solomon and Solomon, 2006). Recent empirical evidence from interviews with UK fund managers and pension fund directors indicates that although there is no strong statistical evidence, there is a growing belief that financial returns to investment are positively linked to SEE performance in companies and therefore to (S)RI (Solomon and Solomon, 2002; Solomon, 2013). Indeed, the risk-driven approach to (S)RI endorses (S)RI on the basis that improved corporate management of SEE risks through improved internal control leads to improved financial performance and better returns to investors (ACCA, 2000; Cowe, 2001; Montagnon, 2002). As explained in Louche and Lydenberg (2011), responsible investment can be motivated by a desire to identify social and environmental factors which may lead to financial risks which could affect the investment portfolio. The endorsement in 2006 by the United Nations of the Principles of Responsible Investment has highlighted the significant risks associated with 'irresponsible investment' and has shown the financial as well as societal benefits of responsible investment. It is largely the acknowledgment that ESG issues present a significant and material financial risk, which has forced the responsible investment agenda into the mainstream (Solomon, 2010; Solomon et al., 2011).

2.2.2 The Development of Stewardship in the UK

In addition to voluntary codes of corporate governance best practice and shifts in societal attitude towards a more socially responsible approach to investment there have been some regulatory and legal developments which have influenced both the financial and corporate sectors. The change to pension fund law, which was operationalized in July 2000 and which forced pension fund trustees to disclose the extent to which (if at all) their funds consider social, environmental and ethical factors in their investment decisions, had a substantial impact on attitudes towards and practice of SRI in UK pension funds (ACCA, 2000; Cowe, 2001; Solomon and Solomon, 2002). As a result of the change in pension fund legislation, there was a significant increase in the value of UK equities held under SRI mandates (Brown, 2006). The Myners Report (2001) further highlighted the need for trustees to be more aware of their responsibilities, especially in terms of being aware of, and understanding, the risks involved in their portfolio investment. Ensuring that investee companies have a good track record in the SEE area is as important an issue for trustees as ensuring investee companies are managing currency effectively or avoiding bad debts. These moves, however, to improve the role and responsibilities of trustees were initially confined to the UK, as the European Commission decided not to apply the new trustees' SRI disclosure regulation across EU member states (Pensions Week, 2002a). Another important influence on SRI was the Modern Company Law Review which called for greater stakeholder accountability. In recent years, the topic of responsible investment has built up momentum. This led inter alia to the passing of the Companies Act in 2006 which included the mandatory disclosure of voting records of institutional investors. However, this part of the Companies Act has not yet been brought in force (Eurosif, 2012).

The UK Stewardship Code in 2010 provided a set of good practice standards for engagement with companies. Whilst in general it is a voluntary code for asset managers, asset owners and service providers, it is mandatory for UK-regulated asset managers to report on a 'comply or explain' basis (Eurosif, 2012). Two years after the UK Stewardship Code, the latest UK Corporate Governance Code was published by the Financial Reporting Council in 2012. This report has been continuously developed since its introduction by the Cadbury Committee in 1992. It can be seen as a "guide to a number of key components of effective board practice" (FRC, 2012), including long termism and sustainable success. Similarly, the FRC updated the Stewardship Code in 2012. A report produced by the FRC in 2013 assessed the effectiveness of the Stewardship Code and asserted that in December 2013 there were 290 signatories to the Stewardship Code (FRC, 2013).

[Please see Table 10-10 *in Appendix 10.5 for an overview of the events underpinning the developments discussed in this section.]*

2.2.3 Private Social and Environmental Reporting

One-on-one meetings between institutional investors and their investee companies have evolved more quickly and to a greater degree in the UK than in other countries, and "the UK is widely recognized as a global hub for sustainable and responsible financial services with about 14 per cent of that total managed by our world leading practitioners and firms" (UKSIF, 2011a, p. 4). The UK's advanced position in responsible investment is partly due to the investors being more proactive but also due to greater receptiveness and openness on the part of their investee companies. It seems that the UK institutional investment community has to some extent led the way in achieving detailed dialogue with their investee companies, and now other countries' investors are beginning to follow suit. The shift from a screening strategy to a best-in-sector approach changed the ethical investment landscape to a new era of socially responsible investment which began to infiltrate the mainstream of UK institutional investment. ESG considerations have become the cornerstone of the new age of 'responsible investment' on the basis of material risks and opportunities arising from this approach. A substantial body of research has borne witness to this evolution, especially to the development of private social and environmental reporting, namely the one-on-one meetings between institutional investors and their investee companies devoted specifically to social and environmental issues.

One interview-based study found that the process of private social and environmental reporting (SER) had developed significantly since around 2000, with investors asking detailed questions of their investees in private meetings regarding their social and environmental impacts and policies (Solomon and Solomon, 2006). This study also uncovered an interchange of information between the two parties which was becoming increasingly 'dialogical' (i.e. two-way rather than unidirectional): companies were asking investors about social and environmental concerns, as well as investors asking investees. Further, the study found evidence that the private disclosure process was feeding into public sustainability reporting such that private SER was informing sustainability reports and helping to improve the quality and quantity of reporting. By 2006, assets managed responsibly in the UK had grown to about £540 billion in 'Broad SRI', mainly engagement and integration (UKSIF, 2011a, p. 9). There were concerns raised in the literature as to whether private SER represented a genuine exercise in enhanced stakeholder accountability, through the consideration of ESG issues in investment decision-making, or whether the meetings were more about a 'joint green myth' being created between the companies and their investors to enhance their public image (Solomon and Darby, 2005). A further study found that private SER was especially focusing on climate change issues and that private climate change reporting was accelerating in quality and quantity (Solomon et al., 2011). Climate change risks and opportunities were receiving increasing attention within meetings, and investors were asking detailed questions about the strategies their investees were developing to deal with these upside and downside issues. The research also suggested that private SER was increasingly dominated by a discourse of risk and opportunity in relation to climate change concerns.

2.2.3.1 The Role of Institutional Investors in the UK

In the area of pension fund investment, a study commissioned by the Association of Chartered Certified Accountants (ACCA) found significant deficiencies among the pension fund trustee community in relation to their consideration and understanding of climate change issues. From a series of interviews with trustees from corporate pension funds, the researcher found that trustees had generally a very poor understanding of how climate change could represent a material issue for pension fund investment (Solomon, 2009a). Furthermore, the trustees were largely ignorant of their fund managers' programme of engagement and dialogue and often did not read the annual or biannual reports provided by their fund managers on their activities. A follow-up study found that there had been a sharp improvement in their attitudes and approach as the trustees interviewed had sought counsel on climate change risk by, in many cases, calling in their fund manager to give a presentation on climate change materiality and its implications for pension fund investment (Solomon, 2009b).

Work carried out by UKSIF mirrored these findings to some extent. The third biennial survey (2011) of the UK pension funds of companies seen as leaders in social responsibility showed early signs of a step change in the number of these corporate pension funds that were responding to the case for responsible ownership and investment. The findings suggested that once pension funds chose to adopt a responsible investment policy, they tended to deepen their practices over time (UKSIF, 2011b). The report ranked pension funds according to platinum, gold and silver, with three achieving platinum status (as opposed to only one in the two earlier surveys). These were the BT Pension Scheme, the Co-operative Pension Scheme (PACE) and the F&C Asset Management Ltd. Pension Plan. The report also found that responsible investment policies are increasingly being applied to a diverse range of assets, including private equity, bonds and property. Despite these improvements, the report suggested that the majority of corporate pension funds still need to accelerate their progress in implementing responsible investment practices to respond effectively to the risks and opportunities posed by ESG issues.

2.2.3.2 The Current State of Responsible Investment in the UK

The latest figures show substantial amounts of investment funds being managed on an ESG basis. It can be seen clearly that the 'Engagement and Voting' (RI) strategy is increasing, whilst the 'Norms-based Screening' (Ethical Investment) is decreasing, in line with the aforementioned shifts in investment strategies.

EuroSIF (2016)[2]	Best in Class £ million	Sustainability Themed £ million	Norms-based Screening £ million	Engagement and Voting £ million	Exclusions (All) £ million	Impact Investing £ million
2013[3]	2,772	10,689	59,393	1,427,525	393,119	1,164
2015[4]	6,159	15,473	5,746	1,894,385	1,377,066	3,359
Change	3,387	4,784	-53,647	466,860	983,947	2,196
Change	122%	45%	-90%	33%	250%	189%

Table 2-1: Responsible invested AUM in the UK in 2016.

[2] The same investment can fall into several categories. Therefore, it is not possible to aggregate these figures without facing the problem of double counting.

[3] The AUM were reported in EUR. For consistency, the figures were transformed to GBP using the exchange rate from 31/12/2013. 1.2031041326

[4] The AUM were reported in EUR. For consistency, the figures were transformed to GBP using the exchange rate from 31/12/2015. 1.3586102694

The UK currently ranks second in terms of the number of signatories to the UN-backed Principles for Responsible Investment, with 268 signatories. Only the US has more, and European countries have significantly fewer signatories (e.g. France, 172; Germany, 67) (UNPRI, 2017). Evidence suggests that over half (54 per cent) of all British adults with investments want to "make money and make a difference" with their savings and investments (UKSIF, 2011a, p.11).

2.2.4 Responsible Investment in Japan

This section will review the development of Responsible Investment in Japan, using a similar approach as used in the previous international and UK section. The first sub-sections will therefore show the chronological development, discussing the role of key-event, in line with the approach used in the previous sections. This will be followed by several short sections providing additional background information specific to Japan, which does not directly fall under responsible investment or stewardship but is crucial to understand the development in Japan.

2.2.4.1 Pre-1940: The Early Centuries – 'Edonomics' and Sanpo-yoshi: Rise of the Omi Merchants

The same as in the West, questions regarding 'being good' have been asked and answered for a long time. Two concepts that often appear in the *current discussion* around responsible investment and corporate governance are 'Edonomics' and 'Sanpo-yoshi'. Due to the attention that is still seems to be paid to these concepts, they will be covered in more detail in following next section.

Edonomics refers to the (economic) thinking and developments during the Edo era, which lasted from 1603 till 1867. The era can roughly be divided into an early and a late period. The early period can be described as a rice-economy with the power in the hands of the Samurai clans. Rice was used as a currency and money did not play a role in day-to-day economic transactions. In the second part of the Edo era the economy changed into a money economy and as a consequence the power of rich merchants rose. Given the social class system at the time (Samurai, farmers, craftsman/artisan, merchant/trader) this was a fundamental change. During the time of the Edo era Japan was a closed economy in term of foreign trade. Trade only took place with China and the Netherlands, who were physically confined to an allocated 'Dutch area' (Totman 2000).

1705 marks an important change for merchants: Whilst there was little control over the merchants' business practices in the early Edo era, the rise in wealth and power led to suspicions in the eyes of the steward. As a consequence, the assets of the most powerful clan, who until then had worked together with the steward, were confiscated and its operations stopped. Following these events, the concept of Sanpo-yoshi spread. The concept also known as the way of the Omi merchants followed meant that the business must benefit the seller, the buyer and society. In order to achieve this, three moral rules were followed: Hoku – to serve society (including government, community, competitors, suppliers, etc), Taimen – to create trust and credibility (inter alia through support of the community and philanthropy), and Bugen – to receive the entitled share or do not take more than you deserve (Tanimoto 2013).

In modern terms the approach can be interpreted as an ESG risk hedging. By following these moral standards, the merchants made sure to not provide the authorities with any reason to shut down their business operations.

The economic thinking of the Edo period saw the rise of three economists: Ihara Saikaku (1642 – 1693), Ishida Baigan (1685 – 1744) and Sontoku (1787 – 1856). The teachings of these three economists are concerned with the question of how can a sustainable economic system be created (Totman 2000).

Whilst the basic rule at the time was to not keep money overnight, Saikaku realised the role of money as capital and the power of compounding interest: money creates more money. Baigan linked the economic theory with a framework based on moral philosophy (whilst different in content the approach is similar to Adam Smith who lived at roughly the same time). He would argue that merchants play an essential role in society and that they should not be at the bottom of the (Buddhist) class system: 'The way of the merchant is to earn profit, the same as it is the way of the samurai to earn honour through dedication.'. This is, however, not to be understood in the sense of a profit-maximising doctrine. He noted that the single owner of money is society and that the economy cannot expand if the money is horded in one pace / by one person. Money has to go around (Totman 2000).

Sontoku postulated a system where all economic activities should be based on three types of gratitude: Gratitude towards the sky, gratitude towards the earth and gratitude towards humankind. Based on the teaching of Confucius he argued that all financial institutions should be based on five principles: Humanity, justice, courtesy, wisdom and integrity. At this time, the usual annual interest rate for lending money was around 20%. Despite this, Sontoku created an interest-free money lending system, with the option for the lenders to express their gratitude by paying additional money at the end of the term. The payment for the lender was happiness and satisfaction of helping people. He argued that one should work hard, safe money and give money to others and oneself. A similar concept was proposed by Max Weber several, who was born eight years after Sontoku's death. Weber argued in his work 'Die Protestantische Ethik und der Geist des Kapitalismus' (The Protestant Ethic and the Spirit of Capitalism) that one should work hard and gain as much as one can. Then one should give the extra money away to people who need it. This money will be saved up as treasure in Heaven (Totman 2000, Weber 2017).

The underlying idea, which united all three economists is that money is merely 'means' not 'end in itself'. In all three economic and philosophical frameworks, the important role of money and economic activity is being recognised, however emphasise lies on the extra- financial factors, which have to go hand-in-hand with the financial factors. Referring back to the earlier comparison this is not unlike Adam Smith, who would argue that the economic framework of markets should not be separated from the moral-philosophical underpinning, as it is unfortunately done so often, by reducing his work to the 'invisible hand' (Totman 2000, Smith 1999).

Finally, when analysing the economic thinking of the Edo era, it is important to note that some of the businesses founded during this era turned out to be very sustainable. The international upmarket department store chain Mitsukoshi, for example, was founded during the Edo period in 1673 by a Kimono merchant. In fact, based on a study conduct by the Bank of Korea there are 5,586 companies in the world which are older than 200 years. Out of those 3,146 companies are Japanese, i.e. 56%. To put these figures in perspective: Germany, who comes second, is home to only 837 companies, or 15% (Taikoku Databank, 2010).

2.2.4.2 1945 – 1960: Survival and Redirection

Totman (2000) refers to the time between 1945 and 1960 as a period of "Survival and Redirection" (p.442). By the end of World War II the Japanese people were plagued by hunger. Only in the fall of 1946 the situation started to improve, due to the arrival of foreign help and a good harvest. However, as the bombings towards the end of the war had destroyed the cities and the infrastructure and left the country without the necessary resources required for the restoration, the economy did not start to recover until 1948. During this period of time ESG issues regarding survival became the cause for discontent and protest amongst the population (Totman 2000, Kosai 1988).

In consequence, the workforce started to unionise, realising their collective power. Although the details regarding the forces at play differ, the phenomenon itself is in line with the previously discussed developments in the US and Europe. In the 1950s as the economy started to grow and the situation started to improve, the rhetoric of the unions became less aggressive. By the 1960s the unions were working constructively with the employers, which was helped by the general boom of the economy (Deakin and Whittaker 2009).

As aforementioned, although the reasons differ, the development in regard to ESG issues follows a similar trajectory as in the Western countries: the focus is clearly on near social issues, which are directly relevant for the local population. At the beginning of the 1960s these issues were largely resolved.

2.2.4.3 Showa Genroku 1960 – 1990

The period from the 1960s till the 1990s is referred to as 'Showa Genroku' and is seen as the most prosperous era in Japan, in general, or at least since the early 1900s (Totman 2000, Tsuruta 1988).

When analysing the development of ESG issues in Japan during this period, it can be seen that with the rapid development of the economy positive and negative externalities arise. The general development is in line with the previously discussed international developments: once the near-social issues are addressed, environmental issues increase in priority.

The following two sections will analyse and discuss the specifics of this phenomenon for Japan, i.e. the economic boom and the externalities followed by the societal and political attention towards these externalities.

2.2.4.3.1 1960s: Economic Boom and Environmental Pollution

The negative side effect the economic boom was the highest level of pollution ever present in Japan. This was especially true for the urbanized areas of Japan, being caused not only by industrial manufacturing, but also as aside-effect of the development of the cities, e.g. transportation and construction. Japan started addressing the environmental problems through stricter regulation, inter alia from the new environmental agency which was established in response to public pressure (Sakuma Louche 2008, Totman 2000, Tsuruta 1988). The concerns voiced by society were mainly 'near' issues, i.e. pollution, deforestation, resource depletion in Japan. This is in line with what has been discussed previously in regard to the international development.

2.2.4.3.2 1980s: The Decade of Societal and Political Attention

The decade of the 1980s can be described as 'The Decade of Societal and Political Attention'. Starting in the 80s and reaching into the 90s, inter alia the European Union introduced strict environmental standards, forcing companies to offer reverse supply chain solutions for consumers. These measures also arrived in Japan, leading to the Japanese Ministry of Environment introducing mandatory reporting measures in 1997 (Solomon et al. 2004, Sakuma Louche 2008). By the end of the 1990s Japan had successfully reduced the domestic pollution, addressing the most pressuring concerns of the public. Especially with the aforementioned introduction of mandatory reporting measures environmental issues have moved from a niche topic to a key public concern receiving political attention and have become an important agenda item for companies operating in Japan.

2.2.4.4 1990s: The Introduction of Eco-Funds and the Establishment of the FSA

The period of the 1990s in Japan can be described as "soul-searching" (Sakuma & Louche, 20118, p.426). Following a decade of recession of the overall economy Japan was looking for ways out of the crisis. Towards the end of this decade SRI was introduced to Japan with the launch of environmentally-themed funds, i.e. Nikko Eco Fund in 08/1999. These funds were very popular with retail investors, whose interest in environmental issues had been raised through the 'national disaster' of pollutions in the 1970s. This is the first time that non-financial issues were addressed through the financial market in Japan.

The 1990s were also the time of significant change with the financial market reform starting in 1997. In 1998 the FSA was established to address structural problems and misconduct in the financial sector, quickly gaining the respect of the whole sector and the reputation of the 'financial FBI' (Solomon et al. 2004).

2.2.4.5 2000s: The Eco-Fund Crash and Rise of ESG

In the beginning of the 2000s Eco-funds start to experience a boom. However, due to the fact that the market for eco-funds consists predominantly of retail investments, large variations of capital in- and outflows could be observed. Sakuma-Keck (2016) highlight that during the boom period in 03/2000 USD2.25 billion were invested in eco-funds. However, the AUM of the funds dropped to just USD730 millions by 09/2003, as a consequence of the burst of the IT bubble in 2001. After the drop came, once again, the recovery: in 10/2007 the market reached its highest level at USD12.7 billion, just to be hit again, this time by the global financial crisis (GFC) (Sakuma-Keck 2016).

Parallel to the developments concerning eco-funds the concept of the new holistic RI, i.e. towards the consideration of ESG factors and not just environmental factors, arrived in Japan in 2000 through the newly created ASrIA (Association for Sustainable & Responsible Investment in Asia) and following in 2001 through SIF Japan (Japan SIF 2017). ASrIA was set up in Hong Kong to raise awareness for responsible investment in Asia, similar to the SIFs (sustainable investment forums) in the West (Sakuma & Louche 2008). Following these developments and the increasing awareness, in the year 2000 the first fund was launched that does not only focus on E, but also on S (Solomon, et al. 2004).

In the light of the struggling retail funds, a shift in asset classes can be observed. After the global financial crisis retail investors seemed to have lost trust in equity. Whilst the AUM in SRI equity products dropped, the AUM in ESG fixed income products increased, namely impact investment products, i.e. social contribution bonds. The first bond was introduced in 2008 (Sakuma-Keck 2016). In 07/2014 Sakuma-Keck (2016) counts 78 retail impact investment products with a total AUM of USD5.97 billion.

[Please see Table 10-11 *in Appendix 10.5 for an overview of the events underpinning the developments discussed in this section.]*

2.2.4.6 1990s/2000s: Long-term funds vs. Eco & ESG

Sakuma-Keck (2016) refers to the development of responsible investment in Japan as "A tale with two narratives" (p.207). There is one narrative, which is often told: The Japanese SRI markets developed following similar steps and stages as the global market. There were significant differences, e.g. in timing, AUM and in regard to the drivers, however the steps of the general development were in line with what can be observed globally.

At the same time, there is also a second narrative: In 1999 a primarily Japanese phenomenon started, which, apart from a very small number of exceptions, cannot be found anywhere else. This phenomenon is the introduction of long-term focused funds, aiming to improve the situation of retail investors and it started with the introduction of a long-term fund by Sawakami Asset Management.

To understand the approach of these long-term funds, one has to understand the existing problems, which they are trying to address:

First, in Japan, roughly 50% of assets are still cash or cash-equivalent. Given the consequently relatively small size of the retail investment business in Japan, large financial institutions do not focus on the interests of retail investors.

Second, the fund turnover in Japan is significantly higher than in the UK and the US, by the factor of three (Sugita, 1997). Given the high sales commission on retail funds, sales teams are trying to attract customers with 'new' products. This means that inflows and

outflows are frequent and unpredictable. In order to protect the fund's performance, the fund manager has to be able to sell large holdings at any time. The result is a short-term focus in order to be prepared for net outflows and therefore a long-term focus cannot be achieved (Takehara & Yamada 2003).
Third, in a situation dominated by short-term considerations and high fund turnover, the common front-load fee structure of retail products reduces the customers' returns. If customers change their funds frequently, partly pushed by incentivised sales teams, they have to pay a large amount of fees during the first months of holding the new fund, due to the front load.

The aim of the long-term funds, starting with Sawakami Asset Management, is to provide a solution for retail investors that solves all the aforementioned issues of 'traditional' retail investment. Reading through the mission statements listed in table 1.2.2.6-1 it can be seen that long-term value creation for a broad stakeholder group and building trust between beneficiaries, investors and investee companies are at the core of their business model.

At the heart of the philosophy of the long-term funds is therefore the concept of active ownership, or as Common Asset Management put it:

> *"Dialogue: As a truly long-term and stable shareholder, we build trust with management and participate in value creation."*
> Commons Asset Management (Sakuma-Keck 2016, p.211)

[Please see Table 10-12 *in Appendix 10.5 for an overview of the events underpinning the developments discussed in this section.]*

2.2.4.7 2010s: The Rise of Engagement

The common factor of the two aforementioned narratives is that whilst vastly different in their approach, they both reach the conclusion that active ownership has to be part of the proposed solution. For long-term funds, ongoing dialogue and trust-building between the investors and the investee companies is at the core of their business model. But as discussed in section 2.2.4.5, also the more conventional SRI funds are starting to adopt principles of stewardship leading to an increase in engagement activities. In 2003 the Pension Fund Association (PFA) published corporate governance criteria and started to engage on those during AGMs (Solomon et al. 2004). Whilst the trend started in the 2000s it is gaining traction in the 2010s: A clear sign of this trend is also that the previously discussed 'Association for Sustainable & Responsible Investment in Asia – ASrIA' became a part of the PRI in 2015 (PRI 2015). The fact that ASrIA decided to join the PRI and dissolve its identity shows that the focus has shifted to engagement, as promoted by the PRI. It also shows that the need for collaborative engagement and therefore global networks.

2.2.4.7.1 Japanese financial markets: The Yakuza and Sokai-Ya

Analysing the increasing focus on engagement in the 2010s it is important to highlight that financial markets were not well regarded, and a specific form of 'activism' was very common: The post-World War II period saw Japanese financial markets that lacked transparency and efficiency. Insider trading was common and the Yakuza was heavily involved in the business sector. Whilst regulations of the Japanese financial institution, especially in the 80s, and the establishment of the heavy-handed FSA improved the situation, a practice known as Soukai-ya was still common up to 1990s/2000s, with the exact dates varying depending on the source (Sakuma-Keck 2016). Soukai-ya was a tool used by the Yakuza to extort money from companies. During the business year the Yakuza would collect incriminating material about the top management of a company and then threaten to release it during the company's annual general meeting (AGM), setting the management on fire, figuratively speaking (Rostrom 1987, West 1999). It is said that companies had a position in their accounts which was dedicated for the money paid to the Yakuza in advance of the AGM. It is important to note that the memory of these exploitations is still rather vivid, given that these practices were still widespread until the early 2000s. This created a very negative image of ‘activism’ from outsiders (Delaney, 2016).

2.2.4.8 The Current State of Responsible Investment in the Japan

This section provides an analysis of the Responsible Investment market in Japan, with focus on the development of the assets under management (AUM) with a specific focus on ESG.

At the beginning of this study the Japanese Responsible Investment fund market was one of the smallest amongst the developed economies, as can be seen in Table 2-2. Only 0.2% of all assets under management are invested considering ESG criteria. This means that Japanese RI only accounts for 0.1% of global ESG related investment (Global Sustainable Investment Alliance, 2012).

Country / Region	**ESG assets / Total AUM**
Europe	49.0%
Canada	20.2%
Australia / New Zealand	18.0%
United States of America	11.2%
Asia ex-Japan	2.9%
Japan	0.2%

Table 2-2: This table was created using data from the Global Sustainable Investment Review 2013 (Global Sustainable Investment Alliance, 2012).

Table 2-3 shows the AUM allocated towards different investment strategies in Japan relative to the AUM allocated towards those strategies globally. In line with previously discussed developments in Japan an increase in AUM in the area of ‘corporate engagement / shareholder action’ can be seen. Whilst this trend can clearly be seen, one has to be careful with further interpretations as those are figures relative to the globally assigned AUM.

RI Strategy	AUM Japan / Global AUM	
	Review 2013	**Review 2016**
Sustainability themed investing	3.0%	3.2%
Impact community investing	8.1%	2.6%
Positive / best in class screening	0.1%	2.4%
Norm-based screening	0.0%	0.9%
Corporate engagement / shareholder action	0.0%	3.5%
Integration	0.0%	1.2%
Negative exclusionary screening	0.0%	0.1%

Table 2-3: This table shows the AUM allocated towards a certain strategy in Japan as a percentage of the globally allocated AUM towards the strategy in question. It was created using data from the Global Sustainable Investment Reviews 2013, 2014 and 2016 (Global Sustainable Investment Alliance, 2012 / 2014 / 2016).

The development towards engagement can also be seen looking at the increase in the number of PRI signatories from 23 at the end of 2013 (JSIF, 2014) to 60 at the end of 2017 (PRI, 2017). Whilst this is still a small number compared to the 268 signatories in the UK, it is now at the same level as Germany, in terms of PRI uptake.

2.2.5 2010s: The Development of Stewardship in Japan

This section will focus on the development of investor Stewardship in Japan in the 2010s. However, in order to put this development into context the following two sub-sections will analyse the role of the financial sector in the corporate governance system in Japan and the change in ownership structure.

2.2.5.1 The Financial Sector and Corporate Governance

2.2.5.1.1 Post-WWII Era

The corporate governance system in the post-WWII era can be described as a system of close networks and indirect financial markets. Companies relied primarily on bank loans to fund business activities, which is especially relevant in this period of rapid growth. Financing through stock markets as we know it today was not available, with stock markets having the reputation of a gambling establishment. Given the companies' reliance on banks as the most important provider of capital, companies allowed banks to play an active role in the governance of the company. For example, If the bank did not have faith in the management anymore it could ensure that the management would be replaced. If the problem was even more substantial the bank would lead restructuring measures in the business. Given the long-term nature of the loan-dominated relationship between companies and banks, an alignment of incentives in favour of long-term performance was in place (Redding et al. 2014, Solomon 2013, Ahmadjian and Okumura 2006, Hoshi et al. 1991).

In order to support the business relationship with their customers banks held shares of the customer companies. However, this approach was not limited to banks, companies would also hold shares of important suppliers or customers. This approach led to a network of cross-shareholding, built to align interests and create a stable long-term oriented environment. In this environment shares were hardly sold, as they were considered as a part of a bigger system of business relations and not an independent tool of wealth creation. In terms of corporate governance, the result was a stakeholder network system of governance, with the bank being in a dominant position. Every member of the network had an incentive in good governance of the other members, given the reliance on each other. This led to an ownership system where towards the end of the 1980s 40% of shares were held by financial institutions and 24% by non-financial corporations (Mizuno 2010, Araki 2009, Miwa 2006a).

The concept of life-long employment plays an important role in the creation of these networks. In the post-WWII period companies guaranteed their employees employment from when they left school till retirement. It was therefore very unusual for employees to change companies, instead they rose through the ranks within the company. The exception to this rule is the network created through cross-shareholdings, within which employees could change, especially when they reached higher positions. This led to a situation where the senior-management of all companies involved in the network would know each other and would have worked with each other for sometimes more than 40 years. The network of companies was de facto mimicked by the personal network of the employees (Ahmadjian and Okumura 2006, Abegglen and Stalk 1985).

The close links between companies, suppliers, customers and employees created a system in line with the previously discussed concept of Sanpo-yoshi: the members of the network were perceived as the main priority, not the wealth creation of unrelated shareholders (Tanimoto 2013, Ahmadjian and Okumura 2006).

2.2.5.1.2 1980s – 2010s: Changes in the Ownership Structure

The period from the mid-1980s till today can only be characterised as a period of change. Many different developments and counter-developments took place in the area of corporate governance, this section, however, will focus on the impact on the financial industry and the role of financial institutions within corporate governance in Japan.

Starting in the 1980s companies revisited the 'house bank' approach, i.e. relying on one bank for all financial services required. The financial market has started to become more international, inter alia through the liberalisation of regulation, and companies sourced financial services from different providers. In addition, the stock market has lost some of its bad reputation. The role of cross-shareholding was reduced indirectly as a side-effect and directly through regulation in the early 2000s. As a consequence, the system of corporate governance through a tight network of stakeholders was weakened, as the reduction in reliance on a bank also reduced the power of this particular bank to oversee the company's management (Seki and Clarke 2014, Dore 2009).

As cross-shareholdings were reduced the ownership structure in Japan changed fundamentally. As can be seen in Figure 2-3 the percentage of shares held by foreign institutions increased from 4.9% in 1970 to 30.1% in 2016. A catalyst in this ongoing development was the financial crisis in Japan starting in the 1990s. Banks had lent money to increasingly riskier business endeavours, resulting in a bubble, which burst with the Asian Financial Crisis in 1997. This caused considerable financial pressure on financial institutions, forcing them to sell off holdings in Japanese companies. The opposite effect can be observed in the global financial crisis in 2008: Foreign investors have to sell and Japanese financial institutions, businesses and individuals increase their holdings of Japanese companies. This, however, was only a brief and temporary development, not reversing the overall trend (Ahmadjian and Okumura 2006).

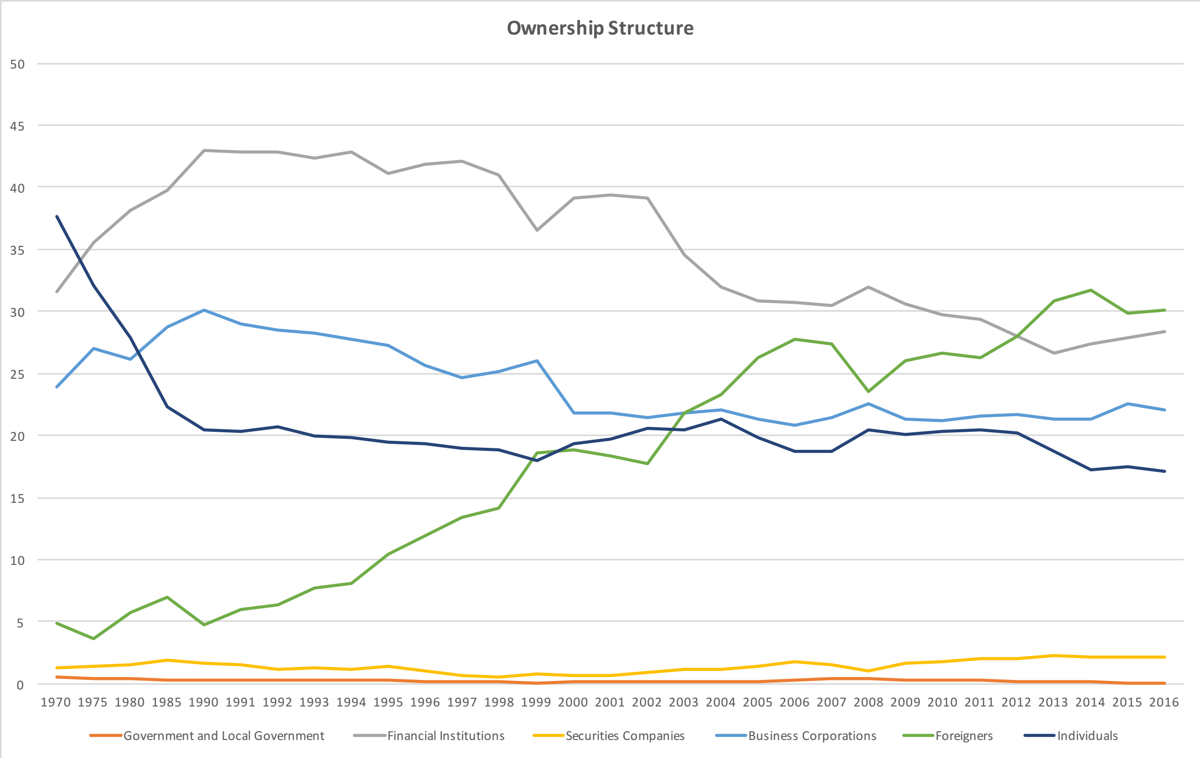


Figure 2-3: This graph shows the change of ownership structure over time in Japan. The figures are in percentage of total ownership. The data for this graph comes from the Shareownership Survey 2016 carried out by the Japan Exchange Group (2017).

2.2.5.1.3 The Effect of the Global Financial Crisis

The aforementioned developments seem to be clear at first sight. Having said that, one should be careful in accepting these changes at face-value. Jacoby (2009) shows the complexity of the Japanese financial sector when it comes to reform: In his research Jacoby discusses the involvement of Calpers in the Japanese market. The analysis spans from the 1980s till 2000s. What can be seen clearly in Jacoby's analysis is that even though changing, the old networks still exist, especially as they are not only business networks formed through cross-shareholdings, but also personal networks forged over decades due to the lifelong employment system. Calpers ended up withdrawing from the Japanese market in the mid-2000s as no changes to the governance system could be achieved that could be sustained in a meaningful way.

In this situation with old networks still in place and considerable hesitation turning into open pushback to avoid change at times, Sakuma-Keck (2015) notes that the US-style corporate governance system, and financial system overall, has lost credibility, as a consequence of the global financial crisis. A system that could not prevent the sub-prime crisis and is considered to have caused the global financial and economic crises, is bound to have credibility problems. Where this affects the investor-investee relationship it will be discussed in detail at a later stage, in the light of the interviewee findings.

2.2.5.2 The New Openness to Stewardship

The change in ownership structure in favour of foreign investors led to new ideas and expectations being brought forward towards the Japanese companies. Keeping this and the development of the UK system in mind, the following section discusses the development of the 'Stewardship' concept in Japan. The previously discussed UK system is especially important in regard to the development of the Stewardship concept, as the Principles for Responsible Institutional Investors (PRII) are also referred to as the Japanese Stewardship Code. This is because of the close resemblance of the two codes. In fact, the PRII were developed on the basis of the UK Stewardship Code, actively seeking the advice of the UK Financial Reporting Council. Whilst the time periods differ from the UK developments, it is important to understand the international developments, as those influenced the foreign investors, who are now driving the request for change in Japan.

It has been mentioned several times already that historically speaking companies did not pay much intention to investors, unless those investors also played a role in the close stakeholder network. This started to change in the mid-2000s, mainly under the pressure of foreign investors. Japanese companies started, for the first time, to create investor relations (IR) departments. Whilst departments existed with similar names, their main role was to deal with racketeers and the Yakuza. In addition, to the creation of IR departments senior management started to talk to investors that were not part of the stakeholder network. For the first-time investors were recognised in their function as shareholders, as opposed to being recognised only as a business unit of a financial company with an existing loan, insurance, etc. business relationship. This also means that for the first time the interest of shareholders enters the agenda, i.e. shareholder value. This must not be understood as shareholders and their interests moving up to the top of the priority list, it is mainly a recognition of their existence. The focus of these developments were foreign investors. This can partly be explained through the pressure that foreign investors started to build up through cooperation. Foreign investors use industry associations and initiatives like the PRI to combine their voice and achieve change, to a degree that it is difficult to ignore (Seki and Clarke 2014, Ahmadjian and Okumura 2006, Miwa 2006b).

In 2014 the final report of the ITO review was released by METI (Ministry for Economy, Trade and Industry), which was entitled 'Competitiveness and Incentives for Sustainable Growth: Building Favorable Relationships between Companies and Investors'. The review was conducted as a response to the changes in the Japanese financial market, as discussed in the previous sections. With the title already conveying a clear message the main finding of the review was that the investor-investee dialogue needs to be strengthened and long-term collaboration between investors and investee companies needs to be built. Consequently, the five key recommendations of the report were (METI 2014):

1) *Sustainable Value Creation through "Collaborative Creation" by Companies and Investors*
2) *A Capital Efficiency Revolution in which ROE Exceeds the Cost of Capital*
3) *Reforming and Optimizing the "Investment Chain"*
4) *Becoming a "Dialogue-Rich Country" that Pursues High Quality Dialogue between Companies and Investors*
5) *Establishing a Management Investor Forum (MIF)*

Following the outcomes of the report the responsibility moved from METI to the FSA, which was asked to work on ways to implement the suggestions from the ITO review. The decision was to follow a two-step approach: First, to address the investors through the creation of a Japanese version of the UK Stewardship Code, and second to address the companies through a Corporate Governance Code. The plan was that investors would have already bought in to the concept at the time when the latter was to be introduced. The pressure for companies to adopt the Corporate Governance Code was therefore expected to come from the investors, as part of their commitment to fulfil the Japanese Stewardship Code – The Principles for Responsible Institutional Investors (PRII).

These are the principles included in the PRII (FSA 2014):

1) *Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.*
2) *Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.*
3) *Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities and support the sustainable growth of the companies.*
4) *Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.*
5) *Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies.*
6) *Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.*
7) *To contribute positively to the sustainable growth of investee companies, institutional investors should have in-depth knowledge on the investee companies and their business environment and capabilities to appropriately engage with the companies and make proper judgments in fulfilling their stewardship activities.*

Given that the UK Stewardship Code served as a template for the Japanese PIIF it is not surprising that four out of seven principles in the Japanese code are identical to the UK principles. However, it is interesting to see that there are difference and where those differences lie (FRC 2012):

<u>Principle 3</u> – The phrase ‘sustainable growth’ does not exist in the 2012 UK version of the Stewardship Code. The orientation of the Japanese PIIF is towards long-term collaboration.

Principle 4 – In the UK code this principle is about the possibilities for escalation within the stewardship process. The concept of escalation was removed in the PIIF and replaced with the concepts of ‘common understanding’ and ‘constructive engagement’.

Principle 7 – There is no equivalent principle in the PIIF to Principles 5 in the UK code, instead principle 7 was introduced to the PIIF, which does not exist in the UK code. The concept that was deleted was ‘collaborative engagement’. Instead the focus on long-term and sustainability was introduced again through principle 7. Investors are expected to be interested in the sustainable growth of the company and to achieve this they are also expected to be well informed about the company and its business environment (METI 2013. FRC 2012).

These changes make sense in the light of the old corporate governance system of networks: The target is a stable system of mutual control with aligned long-term incentives. This control is exercised through constructive dialogue rather than through open (collaborative) engagement. More details regarding the potential reasons for these changes will be provided and discussed in the results and discussion sections in connection with the interview findings.

In 2017 the PIIF were revised, the principles, however, were not changed apart from minor rephrasing that did not influence the content of the principles (FSA 2017). As part of the 2017 review the FSA reported that in May 2017 over 200 institutional investors have signed the PIIF. It also stated, however, that the activities seem to be often 'mechanical', i.e. tick box exercises (FSA 2017).

2.2.5.3 The Role of Institutional Investors in the Japan

The role of institutional investors in the UK and in Japan are very different: Whilst the institutional investors in the UK were a driving force in the development of Responsible Investment and Stewardship this cannot be said of Japanese institutional investors. Sakuma and Louche (2008, p. 431) write in their analysis of the development of RI in Japan that "[f]inancial institutions have been a passive group of actors in Japan's SRI arena.". This iterates earlier findings by Solomon et al. (2004, p.560) who call institutional investors "silent shareholders". Solomon et al. (2004) explain the reason to be the passive role of investment in the old system, as discussed previously.

An important change can be seen with one key driver in the development of the concept of stewardship in the Japanese financial industry being the proactive adoption of the PIIF by the largest pension fund in the world, the Japanese Government Pension Investment Fund (GPIF) in 2016 (White 2017, GPIF 2017). However, as the interviews for this study were conducted predominantly in 2014, the study focuses on the time period after the introduction of the initial principles. Further research needs to be conducted to analyse the developments since then.

2.3 Making Sense of Change: From Aristotle to Stewardship

The sections 2.1 and 2.2 show the development of responsible investment over the decades and even centuries, starting with the inclusion of non-financial issues in business and investment, and leading up to a stewardship approach to responsible investment. Analysing this development it is crucial to include an analysis of the processes of change. Section 2.3 and the following two sub-sections – sub-section 2.3.1 and sub-section 2.3.2 – focus on exactly this question: First, a review of the literature, analysing processes of change in the UK investment industry through the lens of institutional logics. Second, a critical analysis of those processes applying the lens of impression management to the engagement processes which are at the heart of stewardship.

2.3.1 Institutional Logics in Investment[5]

> *"Each of the most important institutional orders of the Western societies has a central logic – a set of material practices and symbolic constructions – which constitutes its organizing principles and which is available to organizations and individuals to elaborate." Friendland R. & Alford R. (1991, p. 248)*

> *"Institutional logics are cultural beliefs and rules that shape the cognitions and behaviors of actors […]. Logics are socially shared, deeply held assumptions and values that form a framework for reasoning, provide criteria for legitimacy, and help organize time and space […]. Embodied in practices and ideas, institutional logics shape the rules of the game […]." Dunn, M. & Jones, C (2010, p.114)*

[5] It is important to note that the focus of this study lies on investor-investee meetings and stewardship in responsible investment. There is a certain degree of overlap with existing discussions around corporate governance of investee companies, as well as corporate governance of mainstream investors. However, the focus lies on the relationship between investors and investee companies; not on the governance within the investee companies nor the governance within the investment company.

In the mainstream investment industry, there is a dominant 'finance logic' at play, as inter alia Atkins et al. (2015) and Lounsbury (2007) point out. This means that the behaviour of the actors as well as the processes in the investment industry are supra-organisationally aligned, forming the 'finance logic' (Atkins, et al. 2015). Lounsbury (2007) refers to the finance logic as performance logic: The characteristic of this logic is that at its heart lie active management strategies aiming to achieve short-term annualised financial (out)performance against a benchmark. The clear and sole focus in this logic is the (short-term) return for the shareholder. It is therefore an institutional logic of shareholder primacy.
Underpinning, this logic is a perception of corporate governance that relies on agency theory (inter alia Atkins et al. 2015, Fiss 2008): The shareholder as the principle needs to control the management as the agent, as there is an inherent conflict of interest between the principle and the agent.

2.3.1.1 Focus on change of institutional logics

> *"Although most studies underscore institutional change as replacement of one dominant logic for another and assume that professions are guided by a single logic, professions that operate in multiple institutional spheres often have plural logics." Dunn, M. & Jones, C (2010, p.114)*

The early studies on the change of institutional logics have mainly focused on a 'replacement' approach to change, i.e. in essence one institutional logic gets replaced by another institutional logic through normative, mimetic and coercive processes (Atkins et al., 2015, Dunn & Jones 2010, Lounsbury 2007). Lounsbury (2007) analysis describes this as a two-stage process where first movers establish a new logic due to perceived advantages based on technical progress. In the second stage the other players follow, however without going through a process of (rational) consideration, but merely mimicking the first movers. It can be seen that in a two-stage model driven by the aforementioned processes, it is not possible for institutional logics to coexist (Atkins et al. 2015, Lounsbury 2007).

Lounsbury (2007) analysis the developments in the US finance industry. He concludes that the industry moved from a trustee logic to a performance (shareholder primacy) logic. However, he finds that a complete replacement did not take place. Instead the trustee logic 'survived' in parts of the industry and coexists with the performance logic, even though these two logics have conflicting assumptions.

These findings are in line with Meyer and Rowan (1977) who move away from the two-stage model towards a multiverse of institutional logics, allowing for more than one institutional logic to exist. Analysing the existence of more than one logic a key aspect of analysis becomes the relationship between the existing logics and the question of whether the logics are conflicting or compatible (Laughlin et al. 1994). The relationship between the logics determines the next steps of the development: if the logics conflict strongly it is unlikely that a hybrid logic emerges, instead the coexistence of logics or the prevalence of the dominant logic, assimilating aspects of the new conflicting logic, are the most likely outcomes. However, if the logics include compatible aspects, then the emergence of a hybrid logic is likely, i.e. the two logics evolve to form an alternative logic (Atkins et al. 2015, Dunn & Jones, 2010).

It is important to note that when analysing institutional logics of the finance industry, Lounsbury (2007) and Atkins et al. (2015) focus on analysing institutional logic on an industry level emphasising the decisions as well as behaviour of the relevant actors in the finance industry.

2.3.1.2 The Emergence of a Responsible Investment Institutional Logic in the UK

Atkins et al. (2015) apply the theoretical framework of institutional logics to private reporting, i.e. investor-investee meetings in the UK. They analyse the emergence of a Responsible Investment institutional logic in private reporting. The set-up of the study involves 39 in-depth semi-structured interviews with FTSE100 representatives and UK investment institutions, an approach in line with the literature on private reporting as well as institutional logic (Atkins et al. 2015).

Atkins et al. (2015) find that when private reporting developed in the 20th century, investor-investee meetings followed the dominant financial logic. From 2000 – 2007, however, a new institutional logic emerged, a responsible investment logic. As a consequence, private reporting meetings started to take place, which followed the new logic. During this time period, therefore, two types of investor-investee meetings took place: one set following the dominant financial logic and one following the emerging responsible investment logic.

In their study Atkins et al. (2015) find evidence in the interview data of a beginning hybridisation process, i.e. meetings that used to follow the financial logic start to incorporate ESG issues and therefore aspects of the responsible investment logic are being incorporated. One of the key questions that Atkins et al. (2015) raise in their research regards the future development of private reporting and the institutional logics guiding it. In regard to the hybridisation process of the two institutional logics, they identify two potential scenarios:

Scenario 1: The RI logic and the finance logic start to merge into a holistic integrated logic, where the character of the RI logic is preserved.

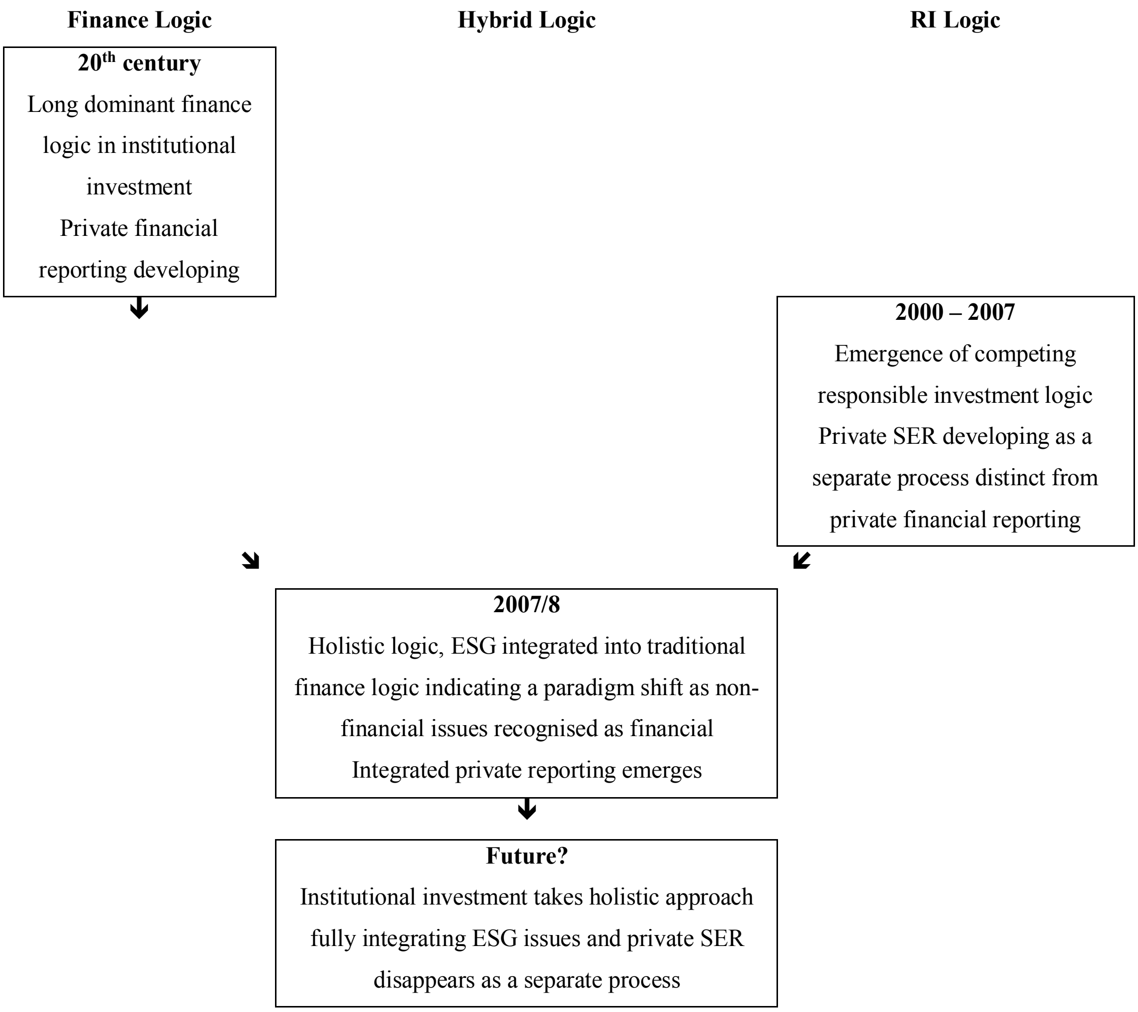


Figure 2-4: Hybridisation scenario 1: Two logics are combined to form one holistic logic. Figure based on Atkins et al. (2015, p.51).

Such a development would be in line with what Dunn and Jones (2010) found in their study of the medical sector. They find that the two logics of care and science co-exist as a hybrid logic, where the existing logic adopts elements of the competing logic to form a new hybrid-logic. Therefore, it is more of a development or evolution of the existing logic than a replacement.

Scenario 2: The dominant finance logic assimilates selectively aspects of the RI logic, without a change occurring in the general assumptions of the dominant logic.

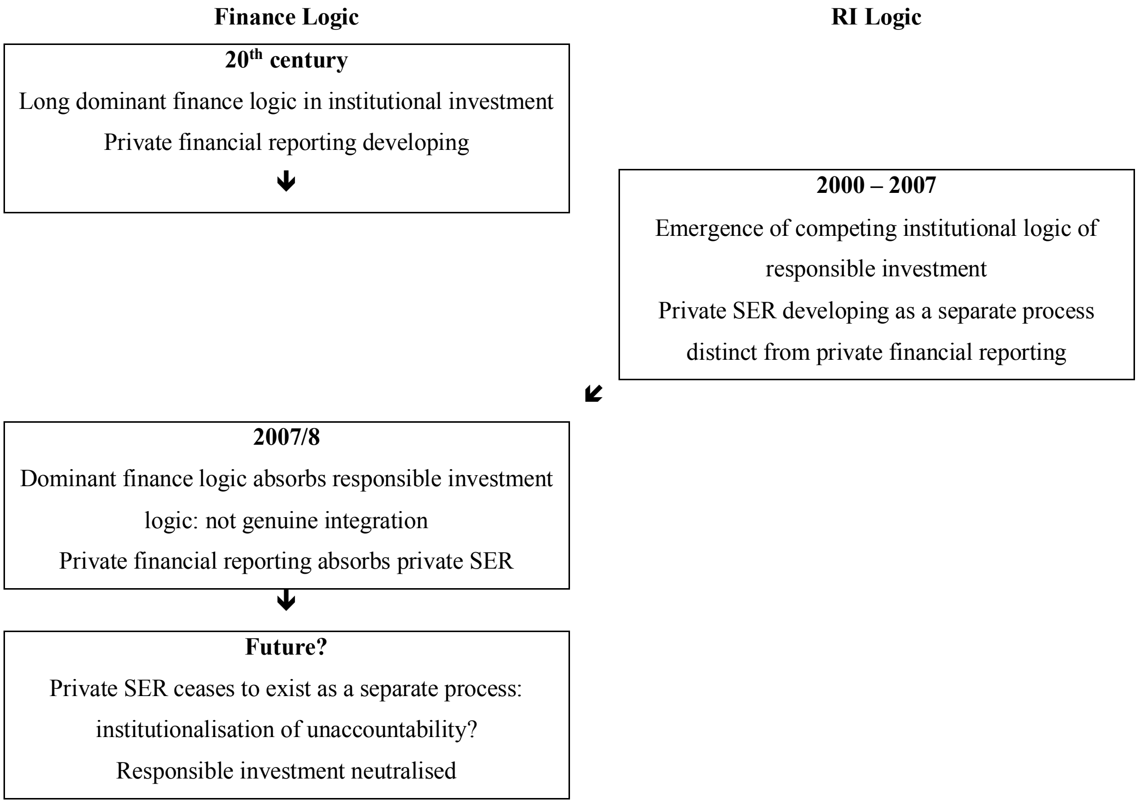


Figure 2-5: Hybridisation scenario 2: The dominant logic assimilates selective aspects of the alternative logic. Figure based on Atkins et al. (2015, p.51).

In this case the responsible investment logics gets absorbed and effectively neutralised. The process becomes one of window dressing and greenwashing. Several studies present evidence of such a development, inter alia Solomon and Darby (2010) and Solomon et al. (2013), which will be analysed in the next section.

2.3.2 Evaluating Change: The Role of Impression Management

In the previous section the question of the development of the institutional logics underpinning investor-investee meetings in the financial industry was raised. The second scenario discussed in the previous section outlines a situation where including ESG issues during investor-investee meetings is merely an act of window-dressing to create the perception of including aspects which have started to attract attention as part of the competing responsible investment logic.

Research exploring this process in detail, with a focus on the accountability of the meeting itself is limited. Solomon and Darby (2005) conduct and analyse 24 in-depth semi-structure expert interviews with FTSE100 representatives working in a position that is directly linked to ESG issues, e.g. CSR manager, sustainability manager. The research sets out to explore the details of the ESG investor-investee meetings. The study falls into the period where private ESG reporting meetings had started to emerge, but took place separately from the meetings with a financial focus. The authors conclude that the meetings produce common benefits to both investors and investee companies; inter alia investors receiving information which they found was missing in the public reporting documents, and companies finding out about information that investors consider to be important in order to include it in the public reports. The authors following Freire's (2000) framework of education where dialogue is seen as the requirement for change and trust is seen as a prerequisite for meaningful dialogue. Applying this framework to the findings, a development of dialogue can be seen when analysing ESG investor-investee meetings. However, there is the risk of myth-creation, which means that one group tries to dominate and shape the dialogue based on a hidden agenda, making it impossible for the other group to achieve meaningful change (Freire 2000). In the context of private investor-investee meetings, Solomon and Darby (2005) argue that based on research by Thomson and Bebbington (2003), there is the risk of companies using their position of power to shape the meetings. The interview data suggests that there is in fact no dominant group in the analysed meetings. Solomon and Darby (2005), however, conclude that this does not translate into change in regard to ESG issues either, as the groups concerned by the issues are excluded from the meetings. As a consequence, investors and investees seem to jointly create the myth of addressing ESG issues in order to receive the benefits involved, while in fact ESG issues are not being addressed.

Based on these findings the development of institutional logics of investor-investee meetings seems to follow 'scenario 2', as discussed in section 2.3.1.2.

Solomon et al. (2013) conduct a study amongst UK institutional investors involve in investor-investee meetings in order to further analyse the dynamics at the meetings. In their study, the authors conduct 20 in-depth semi-structured expert interviews with senior members of the UK institutional investor community. The interviewees are involved in investor-investee meetings concerning ESG factors.

The theoretical framework used in this research is based on Goffman's (1959, 1974) work on impression management in social interactions. Goffman (1959, 1974) argues that participants in social interactions try to create a perception which they think is in line with the expectations of the other participants. He compares this with a performance on stage, where the actors play a role and are perceived by the audience as the character they play. Goffman (1959, 1974) refers to two main aspects of impression management: creating a front and concealment. When creating a front, the participant actively shapes the impression that, when applying concealment, the participant creates an impression through omission of information.

Regarding private reporting meetings and the development of the underlying institutional logic, the key questions are:

Does any of the two parties use tools of impression management in order to convey an image that does not reflect the underlying reality? This would suggest that there is one party shaping the meetings to fit a hidden agenda.

Do both parties participate in the creation of a join impression, which does not reflect the true nature of the private reporting process? This would suggest that a join myth, as described by Solomon and Darby (2005), exists between both parties.

Solomon et al. (2013) find that during the investor-investee meetings companies provide a staged performance. In line with Goffman (1959) they find that embarrassment is a key driver in impression management: The companies do not want to embarrass themselves in front of their (key) investors, by exposing a reality that differs from the expectations of said investors. The investors respond in the meetings with acceptance, i.e. they do not challenge the image that they are presented with. The driver for this behaviour is again embarrassment according to the findings by Solomon et al. (2013). The investors do not want to be seen as having invested in a company that performs worse on ESG than they expected. It would be embarrassing as it implied that they are not as knowledgeable about the company as they assumed they are. Based on this mutual fear of embarrassment a joint myth of ESG accountability is created between the investors and investees, which means that private reporting is merely a “cosmetic exercise” (Solomon et al. 2013).

These findings suggest that the institutional logics guiding private reporting meetings, are developing according to scenario 2: ESG aspects are included in the meetings, but only as a superficial add-on, rather than a meaningful dimension of enquiry.

The alternative would be that even though companies provide a staged performance, investors do not accept this performance, but challenge the impression in order to receive information on the underlying reality. In this case investor-investee meetings would turn into meaningful tools to increase ESG accountability.

3 Research Paradigm, Methodology, Methods and Data

For this study semi-structured in-depth interviews and therefore a qualitative method of inquiry was chosen. The approach chosen is in line with the key academic literature that this study seeks to contribute to: Atkins et al. 2015, Solomon et al. 2013, Solomon & Darby 2005, Solomon et al. 2004. In the following sections, first, the research paradigm and the appropriate methodology and methods will be discussed. Then, an overview of the data will be presented.

3.1 Research Paradigms: Interpretivism

	Positivism	Post-positivism	Critical theories	Interpretivism
Ontology	Naive realism - “real” reality but apprehensible	Critical realism - “real” reality but only imperfectly and probabilistically apprehensible	Historical realism - virtual reality shaped by social, political, cultural, economic, ethnic, and gender values; crystallised over time	Relativism - local and specific co-constructed realities
Epistemology	Dualist/ objectivist - findings true	Modified dualist/ objectivist - critical tradition / community - findings probably true	Transactional / subjectivist - value- mediated findings	Transactional/ subjectivist - co-created findings
Methodology	Experimental/ manipulative - verification of hypotheses; chiefly quantitative methods	Modified experimental/ manipulative - critical multiplism - falsification of hypotheses - may include qualitative methods	Dialogic / dialectical	Hermeneutical /dialectical - contextual factors are described - primarily qualitative
	Paradigm continuum			

Table 3-1: Overview of the ‘Paradigm continuum’ based on Lincoln et al. (2011), Crotty, M. (1998) and Schwandt (1998).

The paradigm of Interpretivism is based on the German concept of hermeneutic and 'Verstehen' (understanding). The line of argumentation was that it is not constructive to apply rules of natural science to social science, due to the different nature of natural science and social science. Whilst the aim of natural science is to explain a phenomenon, the aim of social science is to understand the meaning of a social phenomenon (Schwandt 1998).

3.1.1 Ontology: Relativism

> *"Ontology is the study of being. It is concerned with 'what is', with the nature of existence, with the structure of reality as such."*
>
> *(Crotty 1998, p.10)*

Ontology answers the question of 'What is reality?'. The two ontologies relevant for this research study are realism and relativism. The assumption of realism is that there is a reality independent of the observer, whilst relativism assumes that reality does only exist within the observer and therefore is created by the observer (Levers 2013). As a consequence, relativism assumes the existence of "local and specific co-constructed realities" (Lincoln, et al. 2011, p.100).

3.1.2 Epistemology: Subjectivism

> *"An epistemology [...] is a way of understanding and explaining how we know what we know."*
>
> *(Crotty 1998, p.3)*

Epistemology answers the question 'How can I perceive a meaningful reality?'. The two opposing stances in this regard are objectivism and subjectivism, where objectivism is often connected to realism and subjectivism to relativism (Crotty 1998). Objectivism states that meaning is independent from the (observing) subject, but dependent on an object. This means that any subject observing an object would receive the same result, given the removal of bias, distortion, etc. Subjectivism however argues that reality is created within the subject observing an object. Perceiving a meaningful reality therefore depends on this subject, as the reality only exists within the subject (Levers 2013). As a consequence, the methods of research need to involve discourse with the subject(s) in questions.

3.1.3 Qualitative Interview Methodology

> *"Methodology: the strategy, plan of action, process or design lying behind the choice and use of particular methods and linking the choice and use of methods to the desired outcomes."*
>
> *(Crotty 1998, p.3)*

Based on the existing literature, in order to capture meaning around the concepts of responsible investment as a sub-area of accounting and finance, an interview methodology is considered most suitable (Solomon & Solomon 2006, Parker & Roffey, 1997). The methodology chosen for this study is based on the grounded theory framework, adapted in line with the body of literature that this study aims to contribute to, inter alia Solomon et al 2011, Jones & Solomon 2010, Brennan & Solomon 2008, Money & Schepers 2007, Solomon & Solomon 2006, Solomon & Darby 2005. In the following, the development of the grounded theory methodology will be discussed, before discussing the detailed research methods used in this study – see section 3.2 Research Method: In-depth Interviews.

The first, rather general, note is that grounded theory is not a theory, but a methodology, introduced by Glaser and Strauss (1967). The aim of the grounded theory methodology was originally to create a theory from the data. However, it can also be used to contribute to existing theories, especially if the existing theories are still developing (Strauss & Corbin 1994) or have not yet been applied to a specific situation, which is the case for responsible investment and stewardship in Japan.
Glaser and Strauss (1967) created grounded theory within the post-positivist paradigm, assuming an ontology of critical realism and an epistemology of objectivism (Levers 2013). Therefore, they created a methodology to be used to discover facts about a reality

that exists independent of the observer (duality). Over time and through the work of Corbin grounded theory moved from the post-positivistic paradigm to the interpretivist paradigm, as can be seen in Corbin & Strauss 2008. Based on this, duality is no longer an underlying assumption and therefore the new assumption is that reality cannot be distinguished from the individual. The ontology and epistemology inherent in this approach is relativism and subjectivism, respectively.
The methodology used in this study, in line with the relevant literature, is based on the interpretivist interpretation of grounded theory rather than the post-positivistic interpretation.

The key stage in methodologies based on grounded theory is the process of microanalysis and coding. During the process of microanalysis and coding every line of the interview transcripts is analysed and emerging themes that indicate consensus between interviewees are identified and coded. At the point of 'theoretical saturation' the researcher will not conduct any further interview, i.e. once no new themes emerge anymore during the interviews no further interviews are conducted (Solomon & Darby 2005, Strauss & Corbin 1998).

3.2 Research Method: In-depth Interviews

> *"It is defined as an interview with the purpose of obtaining descriptions of the life world of the interviewee in order to interpret the meaning of the described phenomenon."*
>
> *(Kvale & Brinkmann 2015, p.6)*

3.2.1 Semi-structured interviews

The interviews were conducted as semi-structured in-depth interviews, in order to be able to build a dataset for analysis. The topic of 'Responsible Investment in Japan' especially with a focus on engagement and stewardship has not been researched extensively. As therefore the area is not very well explored yet, the amount of existing literature is limited. In addition, with the Principles for Responsible Institutional Investors just being introduced weeks before the interviews, no Japan-specific literature was available that would have allowed for fully-structured questions to be created. Thus, semi-structured in-depth interviews were chosen in order to not restrain the interviewees and to draw on the expert knowledge of the interviewees, rather than imposing the interpretation of the interviewer (Brinkmann 2013). A common disadvantage of semi-structured interviews is that interviewees tend to 'venture out'. However, knowing about this risk the interviewer minimised this tendency, when there was a feeling that the interview went off topic. This is an advantage over unstructured interviews, as the semi-structured interview is guided along relevant themes (Brinkmann 2013). The relevant themes were created based on the existing literature in similar fields, i.e. private reporting and stewardship in the UK and responsible investment and corporate governance in Japan – see 10.9 Appendix D: Interview Themes for the themes that were used.

3.2.2 Transcription, Quotes and Coding

Once the interview was conducted, a verbatim transcript was produced; all interviewees but two (in one interview) agreed for the interview to be recorded and transcribed. Whilst noises were edited out – e.g. coughs or clearing the throat – no changes were made to grammar, word order, etc. at this stage.

The transcript was then coded based on the themes identified in the literature, which already shaped the questions of the semi-structured in-depth interview. Level 1 themes are:

- Engagement and Dialogue
- Japanese Culture
- Materiality and ESG Performance
- RI / ESG in Japan
- ESG Data
- Japanese Stewardship Code
- Japanese History / Development / Economy

There are 52 level 2 sub-themes and 58 level 3 categories – please see '10.6 Appendix A: First Coding' for details. As shown below, the coding processes 'coding 1' and 'coding 2' were iterative analyses of the underlying data and took place in several stages:
<u>Coding 1, stage one:</u> Reading through the interview notes and transcripts, highlighting content that falls within the existing level 1 themes. The level 1 themes are derived from the existing literature and are based on the themes around which the semi-structure interviews were conducted. Themes were amended or added during the interviewing process, based on the interview data.

<u>Coding 1, stage two:</u> Identifying broad topics that overlapped amongst the different interviews. The level 2 sub-themes are sub-themes within the overarching level 1 themes. These level 2 sub-themes arose from the data, however guided by the framework provided through the level 1 themes and therefore the existing literature.

<u>Coding 1, stage three:</u> Breaking down the broad topics identified in stage two and creating narrower categories suitable for critical in-depth analysis. The level 3 categories arose from the analysis of the underlying data. However, whilst to a lower degree than levels 1 & 2 they still exist in the framework provided by the existing literature.

First Coding Process

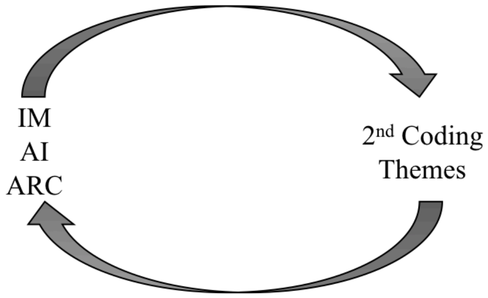
Level 1: Themes	Themes from the literature to guide semi-structured interviews
Semi-structure, in-depth interviews: **Level 2: Sub-themes** **Level 3: Categories**	Notes & Transcripts Sub-themes & Categories
Theoretical Saturation	End of the interviews: No new themes, sub-themes or categories come up.
Database	After line-by-line microanalysis and coding all quotes were collected in three databases. Total number of quotes: IM – 721, IA – 458 , ARC – 265

Figure 3-1: Overview of the methodology used for this study with focus on the first coding process.

Coding 2: During the second coding the three groups of interviewees were treated as one set as the three databases were combined. In this step themes arising across all the available data were identified, beyond the previously established framework of levels 1, 2 and 3, please see Appendix B: Second Coding – Codes and Appendix C: Second Coding – Details for details.

Second Coding Process

Themes	Coding without any guiding themes using the data from all three groups.



Database	Cross-referencing database between the codes from the 1st Coding and the codes from the 2nd coding. 68 codes were created in the 2nd Coding.

Figure 3-2: Overview of the second coding process.

Coding 1 was done to give the qualitative interview data a structure that allows for an in-depth analysis and critical discussion of the data in light of the existing literature. It also allows to compare and contrast the three distinct groups of interviewees.
Coding 2 was done to unearth themes overarching the previously determined levels. This step is necessary for the critical analysis of the collected data of all three groups of interviewees, without the restrictions provided by the literature through the themes used during the first coding.

When selecting the final quotes for the text, grammar was corrected and filling words were removed. Any changes made to the quotes are highlighted through the use of brackets. Please see section '3.2.2.1 Examples: From Literature and Data to the Code' for a detailed example of the process.

3.2.2.1 Examples: From Literature and Data to the Code

Please see 'Appendix D: Interview Themes' for the information that was provided to the interviewees in advance.

In this section the previously mentioned processes will be illustrated through the use of examples.

<u>Coding 1, stage 1, level 1 themes:</u>

Based on the existing literature the trend in responsible investment is towards active ownership and engagement. Within the area of engagement, the trend is towards dialogue (inter alia Solomon, et al. 2013). Therefore, the level 1 theme 'Engagement and Dialogue' was chosen to guide the semi-structured interview and the first stage of coding. At this stage the following quotes were identified:

> ”But today I can see that several medium and small cap companies, even if they are family owned, the CEO from the family or founder might be very sensitive over their stock price because they are the largest shareholder of the company. So you know that to maximise the value of the company, of his own company, I think that I'd say one factor he or she is interested in is how to communicate with the non-Japanese institutional shareholders, not only at your meetings but also such governance and employment and social issues as well." **IA6**

> "I would say that once you start a dialogue with the Japanese companies, and this is not just with me, it's, I think, across all research houses as well, that they are the ones that are most keen to have an ongoing intensive dialogue. No, it wouldn't be a one-way dialogue. As I said, they would try to understand the details of the criteria to the last letter, and so there would be the process of understanding the criteria to begin with. But also, I think because they are in general quite honest in their responses, so they will give you updates on they've got 14 per cent done now, 21 per cent done now, 35 per cent done now, and we had certain rules about until you reach a certain point you wouldn't be considered…" **IA7**

> "Yes, and so we had, we make appointment to meet them, company, then we visit, and then we just discussed about ESG things, yeah." **IA11**

Coding 1, stage 2, level 2 sub-themes:

Analysing the content of these three quotes, influenced by the existing literature the sub-theme 'Views on usefulness of engagement and dialogue' was created, to group these and similar quotes in preparation for further in-depth analysis.

Coding 1, stage 3, level 3 categories:

Analysing the content further it can be seen that quotes 1 and 2 fall into a shared category. They both describe a situation where the investee company tries to understand the investor. Based on this the level 3 category 'Understanding the Investor' was created, allowing for a critical in-depth analysis of this aspect of 'Engagement and Dialogue'.

Given that levels 2 and 3 emerge from the data within the framework of level, some sub-themes and categories were only coded for one or two of the groups of interviewees. RIJ2B 'Integrated reporting / international initiatives' was not coded for the Investment Manager group, as it did not clearly emerge from the data. However, it was coded for the Investment Analysts group, where it did emerge from the data. Similarly, JH2A 'Global Financial Crisis' only emerged clearly in the data of the 'Academics, Researcher and Consultants' group and was therefore only coded in that group.

Editing the final quotes:

All changes made to quotes were highlight through the use of brackets. Words or letters surrounded by brackets indicate that this word was added or letter were added or changed. The use of […] indicates that parts of the quote were removed.

> "But today I can see that several medium and small cap companies, even if they are family owned, the CEO from the family or founder might be very sensitive over their stock price because they are the largest shareholder of the company. So you know that to maximise the value of the company, of his own company, I think that I'd say one factor he or she is interested in is how to communicate with the non-Japanese institutional shareholders, not only at your meetings but also such governance and employment and social issues as well." **IA6**

> "But today I can see that [in] several medium and small cap companies, even if they are family owned, the CEO from the family or [the] founder might be very sensitive [concerning] their stock price because they are the largest shareholder of the company. So you know that to maximise the value of the company, of his

> own company, I think that […] one factor he or she is interested in is how to communicate with the non-Japanese institutional shareholders, not only at your meetings but also [regarding] such governance and employment and social issues as well." **IA6**

<u>Coding 2:</u>

From grouping and analysing the data within the relevant peer-group to analysis across the peer groups.

For example, ED10 is 'Trust and reputation' (level 2) within 'Engagement and Dialogue' (level 1). Here the following quote by an investment manager appears:

> "The guy that runs that company, because I've met him probably 15 times, he is so open. He will say so much about how the business is doing, and why it's doing it. And maybe it's because I've built up a bit of a relationship with him. And I'll say, yeah, they can be open, and they can tell you the truth. I'll say that you need to develop a relationship and trust first of all." **IM11**

The following quote from an Investment Analyst, however, talks about a different concept of 'Trust and Reputation' when it comes to passive investment and is coded as M7C:

> "But actually, the Japanese company is doing that kind of things, for […] instance the Dow Jones is going to be the next question et cetera, because I think the situation is different. When they talk to us […] I think they talked honest and truth but if they answer those questionnaire, the Dow Jones or FTSE for good, I think they are pretend[ing], […] they try to get the higher score because […] because they increase up the index." **IA8**

Whilst these two quotes are coded differently, they share a common theme. This does not mean that the new theme can be seen as a replacement of the themes from the first coding, it is still necessary and important to discuss the quote in their original context. However, it is also important to discuss the new theme which they both share, breaking out of the framework created in the first coding process. The theme that arose during the second coding is '14: JP: Gaining trust / becoming part of the network is important'.

3.3 Data: Overview and Sampling

For this study 31 interviews were conducted with experts in the financial industry with exposure to Japanese investments. Each interview lasted for ca. 60 minutes with the average interview lasting for 62 minutes. The interviews were conducted in person in the UK, Japan and Germany, via telephone and via video conference. All 31 interviews were conducted in English. During one of the interviews two interviewees were present, i.e. the total number of interviewees is 32.

The sample was divided into three groups: Investment managers (*12 interviews*), investment analysts (*11 interviews*), and academic, researchers and consultants (*8 interviews, 9 interviewees*). The key element of distinction between the three groups is the distance between the interviewee and the investment decision along the investment chain: The first group, Investment Managers, directly manage money and make investment decisions. The second group, Investment Analysts, directly influence the investment decision by providing data that is use by the investment managers to make the investment decision. The third group, Academics, Researchers and Consultants influence either of the first two groups indirectly through consulting and or research reports, which are not directly concerned with the investment decision around specific assets.

Please see below tables for details about the interviewees. Unfortunately, the level of detail provided regarding the interviewees has to be rather general. This is due to the fact that the number of professionals who work in the responsible investment industry and focus on Japanese equity is very small. Providing any further detail would increase the chance of the interviewee becoming identifiable. As this would be a clear violation of research ethics, the descriptions in the tables below cannot be more specific.

Code	Description
IM1	Fund manager, working for an international company, in charge of investment decisions, with a focus on corporate governance, stewardship and long-term sustainability, holding Japanese assets and engaging Japanese companies. The asset management division has a total of more than GBP 100bn assets under management.
IM2	Fund manager, working for an international company, in charge of investment decisions, with a focus on long-term ESG and stewardship, holding Japanese assets and engaging Japanese companies. The asset management division has a total of GBP 30 – 50bn assets under management.
IM3	Fund manager, working for an international company, in charge of investment decisions, with a focus on stewardship and long-term sustainability, holding Japanese assets and engaging Japanese companies. The asset management division has a total of below GBP 10bn assets under management.
IM4	Fund manager, working for a Japanese company, in charge of investment decisions, with a focus on ESG, holding Japanese assets. The asset management division has a total of more than GBP 100bn assets under management.
IM5	Fund manager, working for an international company, in charge of investment decisions, with a focus on ESG, holding Japanese assets and engaging Japanese companies. The asset management division has a total of more than GBP 100bn assets under management.
IM6	Fund manager, working for an international company, charge of investment decisions, with a focus on ESG and stewardship, holding Japanese assets and engaging Japanese companies. The asset management division has a total of more than GBP 500bn assets under management.
IM7	Has withdrawn from the study.
IM8	Fund manager, working for a Japanese company, in charge of investment decisions, with a focus on corporate governance and stewardship, holding Japanese assets and engaging Japanese companies. The asset management division has a total of GBP 30 – 50bn assets under management.
IM9	Fund manager, working for a Japanese company, in charge of investment decisions, with a focus on conventional investment, holding Japanese assets. The asset management division has a total of GBP 10bn assets under management.
IM10	Fund manager, working for an international company, in charge of investment decisions, with a focus on corporate governance and stewardship, holding Japanese assets and engaging Japanese companies. The asset management division has a total of more than GBP 500bn assets under management.
IM11	Fund manager, working for an international company, in charge of investment decisions, with a focus on conventional investment, holding Japanese assets and engaging Japanese companies. The asset management division has a total of GBP 10bn assets under management.

Code	Description
IM12	Fund manager, working for a Japanese company, in charge of investment decisions, with a focus on corporate governance and stewardship, holding Japanese assets and engaging Japanese companies. The asset management division has a total of GBP 30 – 50bn assets under management.

Table 3-2: This tables provides a list of the investment managers interviewed for this study with a brief description.

Code	Description
IA1	Investment analyst, working for an international company, with a focus on ESG data, covering Japanese companies and providing ESG data for investment decision making.
IA2	Investment analyst, working for an international company, with a focus on ESG data, covering Japanese companies and providing ESG data for investment decision making.
IA3	Investment analyst, working for a Japanese company, with a focus on ESG data, covering Japanese companies and providing ESG data for investment decision making.
IA4	Investment analyst, working for an international company, with a focus on ESG data, covering Japanese companies and providing ESG data for investment decision making.
IA5	Investment analyst, working for an international company, with a focus on ESG data, covering Japanese companies and providing ESG data for investment decision making.
IA6	Investment analyst, working for a Japanese company, with a focus on ESG data, covering Japanese companies and providing ESG data for investment decision making.
IA7	Investment analyst, working for an international company, with a focus on ESG data, covering Japanese companies and providing ESG data for investment decision making.
IA8	Investment analyst, working for a Japanese company, with a focus on ESG data, covering Japanese companies and providing ESG data for investment decision making.
IA9	Investment analyst, working for a Japanese company, with a focus on ESG data, covering Japanese companies and providing ESG data for investment decision making.
IA10	Investment analyst, working for a Japanese company, with a focus on ESG data, covering Japanese companies and providing ESG data for investment decision making.
IA11	Investment analyst, working for a Japanese company, with a focus on ESG data, covering Japanese companies and providing ESG data for investment decision making.

Table 3-3: This tables provides a list of the investment analysts interviewed for this study with a brief description.

Code	Description
ARC1	Japanese consultant regarding ESG, stewardship and long-term sustainability, working for an international organisation.
ARC2 – 1	Japanese financial industry professional in a consulting role on stewardship and corporate governance, working for a Japanese organisation.
ARC2 – 2	Japanese financial industry professional in a consulting role on stewardship and corporate governance, working for a Japanese organisation.
ARC3	Japanese financial industry professional in a consulting role on stewardship, ESG and long-term sustainability, working for a Japanese organisation.
ARC4	Japanese academic researching in the area of stewardship and corporate governance, working for a Japanese organisation.
ARC5	Japanese consultant regarding ESG, stewardship and long-term sustainability, working for an international organisation.
ARC6	Japanese financial industry professional in a consulting role on stewardship, ESG and long-term sustainability, working for a Japanese organisation.
ARC7	Japanese consultant regarding, stewardship and long-term sustainability, working for a Japanese organisation.
ARC8	Japanese regulator in the area of ESG, stewardship and corporate governance, working for a Japanese organisation.

Table 3-4: This tables provides a list of the academics, researchers and consultants interviewed for this study with a brief description.

3.3.1 Snowball sampling

The interviewees were selected through a snowball sampling method, this means that in the first round, subjects known to the researcher were selected and interviewed who fit the necessary requirements to be included in the study. From that point onwards, interviewees recommended colleagues, who also fit the criteria to be included in the study (Seale et al. 2007).

The first interviewees were experts who I had been introduced to during my work at the PRI Academic Network or through fellow attendees at academic and industry conferences. After the first set of interviews, the interviewees recommended me to colleagues, who were also invested in Japanese stocks, and so on. Snowball sampling is usually used in a situation where tight networks exist and the researcher as an outsider has only limited access to those networks. The advantage is that the researcher gains access to the network on the basis of recommendation by previous interviewees. The disadvantage is that the sample cannot be specified with the same precision as if wider access to potential interviewees existed in the first place (Hennink et al. 2011).

The aforementioned description of a situation that requires snowball sampling is a fitting description of the situation in the financial market in Japan, especially with focus on responsible investment and corporate governance. The networks are tightly woven and the number of potential interviewees is small, given that the number of experts in these areas is already small to begin with. Therefore, snowball sampling was chosen as a suitable sampling method for this study.

4 Interview Findings: Investment Managers

Chapter 4 includes the findings of the expert interviews carried out with 'Investment Managers'. The findings are presented by introducing first the theme. For example, the theme is 'Engagement and Dialogue. Then a set of sub-themes is introduced, for example 'Impact of Engagement'. Within these sub-themes frequently occurring topics are collected, for example 'Post Event Changes'. In the case of this example the structure would then look as follows:

Level 1 – 'Engagement and Dialogue'

Level 2 – 'Impact of Engagement'

Level 3 – 'Post Event Changes'.

For a detailed overview of the themes, sub-themes and categories please see Appendix D: Interview Themes.

The themes are as follows:

4.1 – Engagement and Dialogue

4.2 – Japanese Culture

4.3 – Materiality of ESG

4.4 – Responsible Investment in Japan

4.5 – Access to Data

4.6 – Japanese Stewardship Code

4.7 – Japanese History

4.1 Engagement and Dialogue

Under the theme 'Engagement and Dialogue' (ED) all sub-themes are coded, which relate to aspects of the engagement and dialogue process between investors and the investee company. The following sub-themes will be analysed in this section:

4.1.1 Impact of engagement

The data shows that according to the interviewees there is an impact of engagement on the companies.

General impact of engagement and dialogue:

> "So, I think it is having an impact at that level. Is it having an impact to the level of really shifting the companies around and making an impact on the bottom line?" **IM10**

Effort invested in engagement and dialogue:

> "We engage annually about 700 to 800 companies, but we try and contact almost every single company we can. We probably succeed in contacting about 7000 the year, at least once. Just in a big mailing.
> But in terms of the companies that we do focused engagement on, what we do firstly is we work out where the biggest financial exposure is, on an aggregate level so…" **IM5**

Positive and negative outcomes possible:

> "Interviewer: Do you feel the difference, this is maybe a bit of an odd comparison, do you feel a different situation when you engage? Like if you have any public engagement, that you kind of lose privileges with the company in the way, so that it gets harder to get information, and these kind of things?
>
> Interviewee: Yeah, we do fear that! We haven't done anything that public in Japan really and that is mainly because of that." **IM2**

4.1.1.1 Post event changes

In addition to the general comments made by the interviewees on the impact of engagement and dialogue, examples of changes were mentioned, which occurred after engagement or dialogue meetings.

General impact of engagement meetings:

> "We engaged with Deutsche Post about that and they [noise] changed what they were doing, so that was good." **IM1**

Impact of engagement meetings in Japan:

> "I think it was about a couple of days later the company suddenly announced that they will […] withdrew that proposal to pay that CEO that bonus payment. So they actually changed their mind." **IM6**

4.1.2 Views on usefulness of engagement and dialogue

4.1.2.1 Meetings called by companies

The interviewees suggested that investee companies do not know what to do and see the investors as a source of information and support. Especially Japanese investors are seen as a source of help to meet the expectations of the Western investors, when it comes to ESG, engagement or the Stewardship Code.

> "We are the main shareholders base. And so suddenly you're finding that Japanese companies are much more proactively reaching out to the rest of base and travelling over to London, then New York to speak with investors about our views, you know and we are going to vote on the AGM and are we going to target them for engagement etc." **IM5**

> "[T]hey want to have a better understanding of a shareholder approach to corporate governance issues or ESG, especially how we would vote so the proxy voting guidelines and what would be the decision behind it. Or in case […] portfolio managers are present they would […] ask how we make the investment decision." **IM6**

This section seems to suggest that the companies are exposing a shareholder-centric reality, an approach to governance and accountability which supports shareholder primacy.

At the same time, in the interviews investment managers talk about meetings with the companies. The perception exists that some of the meetings are driven by the companies' agenda:

> "If the meetings are conducted passively or receptively it's the company that typically has the agenda that they want to discuss." **IM6**

4.1.2.2 Meetings called by investors

There is some discussion in the literature about who drives the agenda for meetings and whether the investors or companies initiative dialogue (Roberts et al. 2006, Solomon et al. 2013).

The interviewee describes three ways for the meetings to be arranged: First, requesting a meeting through a broker, e.g. as part of the company's roadshow. Second, the company requests a meeting with the large shareholders and third trips to the companies:

> "So that's one way. And the third way is often just trips that I do to various parts of the world to actually go and meet companies. So I will arrange trips to different countries, and I will use a broker to actually arrange those trips most of the time. And I'll say to the broker, look, these are the companies I want to meet, can you put together a schedule for me? And then go and meet management on that. So there are three different ways really." **IM11**

> "I think it falls in two patterns: One is when we have a crisis situation. Where, you know, companies suddenly […] file maybe false accountings or dilutive share solutions or other sort of issues that might impact shareholder interest. In that case I do sometimes […] proactively approach the company and mostly meet with the senior management of those companies, to understand […] what led them to those decisions." **IM6**

The interviews suggest that they took the initiative in crisis situations, such as false accounting, supporting Solomon et al. (2013), who also found that engagement and dialogue on ESG issues was stepped up when companies were found to be misleading them.

4.1.2.3 Wall street rule

In terms of voting at AGM the *Wall Street Rule* is interpreted as ‘vote with management’. In the Japanese context I find the following:

> “[S]ometimes the Japanese companies are very, got angry about asset managers because […] now the […] voting and analysts are different! So sometimes the companies, Japanese companies got angry.” **IM12**

This shows a difference between perceptions of ‘who holds the bigger stick’ in Japan compared with a more Anglo-Saxon environment (Berger and Luckmann 1966). Japanese investors perceive their position as weaker, whereas US investors perceive they hold the power.

4.1.2.4 Concept of hostile investor / activist / Houka-ya (Sokaiya)

Voting against the company management is seen as a hostile act, even by the investors:

> “You want to, you know, […] visit the management, visit the companies often and we start the dialogue, but [investor name] will rarely vote against the management's proposals. And we tend to support the management's decisions on proposals. So we are not sort of a hostile activist investors.” **IM3**

This suggests investors are far less able to influence companies than in the Anglo-Saxon context.

> “But, as I mentioned, we want to understand. Our focus is not to sort of become emotional, I would call it, but more to understanding what led them to those decisions so understanding the backgrounds so that we can have a constructive dialogue, rather than a sort of unfruitful, hostile one.” **IM6**

This is an important finding as it explains why the investors do not engage more actively.

> “I think it depends on the speaker actually. So the speaker would be: we like to meet with the senior management, rather than the IR people or in Japan it’s actually – how is it called- the general affairs people who actually takes care of the shareholder meetings. And they know about better the history, but in Japan shareholders were basically seen as corporate raiders in Japan. So it used to be the general affairs people that took care of the shareholders rather than IR people. So it’s not even the investor relations [IR] […] people thought that shareholders were basically yakusas. It was, you know, some very hostile sort of gunman type of people would show up to those meetings. I am not joking! […] [I]t was like this 20 years ago.” **IM6**

This investor desires to be perceived in a more positive light is emphasised here. Further, because of Japanese corporate history investors are trying hard to move away from corporate perception that they are like the Yakuza from bygone years.

> “But that has sort of changed over time: I think very much over the last decade. […] The companies are becoming more aware of that the shareholders has changed from the Yakusas to normal institutional shareholders and setting up a constructive dialogue is good for them as well as for the shareholders.” **IM6**

There was also evidence that this investor’s strategy is working, as companies now perceive them as less hostile:

> “10 years ago I think if you were working for [investor name] or if you worked for an investor I think the perception was that they could be hostile in a sense. But I think it has dramatically changed!” **IM6**

Clearly the interviewees suggested they were trying to develop a more collaborative ‘partnership’ with their investees.

> “When the company actually sees you as your partner they tend to listen quite much. So once you become an insider it is very easy to get that message, you know, and companies would change their behaviours.
>
> But if you take the hostile approach they will just see you as an enemy! They will […] take a hostile approach of course. So I think it’s just the right approach and if you take the right approach and become trusted by the companies it’s very easy for people, for outsider to change the behaviour of the company. Of course, it depends on the company and the situation. But broadly speaking it’s not so difficult.
>
> And the other aspect is you need to speak Japanese…” **IM6**

Culturally only a polite and less hostile approach will gain access to the companies.

> “And I think this is one of the issues with the foreign investors who actually like to go hostile in a sense. They come banging the door and a company refuses that, of course! They will never become insider…they can’t answer the door. And they get frustrated and talk about companies, Japanese companies being very closed or hostile towards shareholders. So it’s just, you know, a wrong first step.” **IM6**

Another cultural concept highlighted by the investors was ‘gaiatsu’, which inspired again that could be resistant to investor influence as they perceived it to be pressure.

> “And then we’ve basically said we’re not, sort of, Children’s Fund, or whatever they are. We’re not telling you to give us dividends at the price of anything. So, I don’t know exactly how we’re perceived, but, there is a word in Japanese called gaiatsu, don’t know if you know? Gaiatsu just means, like, external pressure. And a lot of things in Japanese history happened through external pressure. And they resist it a lot, for right reasons, but yeah, it’s quite impactful.” **IM10**

4.1.2.5 Engagement strategy

In this section I collect quotes on the engagement strategies described by the investors. This provides an insight in how engagement is carried out in the Japanese context.

> "We engage annually about 700 to 800 companies, but we try and contact almost every single company we can. We probably succeed in contacting about 7000 the year, at least once. Just in a big mailing.
>
> But in terms of the companies that we do focused engagement on, what we do firstly is we work out where the biggest financial exposure is, on an aggregate level." **IM5**

Despite engaging with a large number, active, continuous dialogue is only carried out with a handful of investees.

> "For intensive engagement, in Japan it's about five this year." **IM5**

Including the wider ecosystem into the engagement approach. Engaging one company alone, does not bring results in Japan:

> "So yes we engage, Japan is a classic example where company engagement alone won't [get] you results. You really need to engage the entire ecosystem of people who are, you know, around the policy, the investor base… So yeah that our approach. I mean Japan is a classic example." **IM5**

Another means of influencing investees through engagement is to focus on specific investees most resistant to the engagement process.

The approach is to 'raise the whole market':

> Interviewer:" So it's kind of if you get the major players, the whole market moves.
>
> Interviewee: That has been our tactic. So we, and the last three years, have focused almost all our engagement in the very big names which have been resistant to change. And anything which was market wide. We you know didn't see the point of engaging in 100 mid-caps on spending a lot of time on that, because actually you can achieve that a different way." **IM5**

One ESG area where investors are focusing their engagement is engagement and specifically independence.

> "So we, my goal in Japan is to raise the whole market. So we looked at much larger companies, maybe their parent companies of a whole bunch of subsidiaries, and trying to get them to engage on this governance standards. And again, instead of honing in on certain issues like capital management and dividend payment and RE, I'm focusing on independence." **IM10**

Often pursued by foreign investors:

> "And that's the approach that foreign investors are taking with Japanese companies, it's not to give them lots of segregated, but similar voices, it's to just to give them a single message." **IM5**

> “I mean in some ways you need to do both, you need to reinforce the message with face-to-face meetings and express your intuition you and your rationale. But at the same time you get most attention from the board and senior management, when suddenly it is a lot of them.” **IM5**

On engagement regarding ESG topics:

> “They are not fools, but they just don’t know. So it’s low hanging fruits in that sense.” **IM8**

Final step divestment: This supports the finding for UK investors, whereas the decision to divest is always the very last resort and only chosen when all else fails (Solomon et al. 2013).

> “Yes, we try to, first we state our opinion. Our opinion basically […] be logical in terms of the market and economies, but anyway we say to the company management our opinions and sometimes the company doesn’t accept our ideas but […] if we have […] their shares or we have some stakes in their companies, we try to again, but […] [if] they […] disagree [with] us then we will sell, yeah.” **IM12**

4.1.2.6 Understanding the investor

Another reason companies are starting to accept investor engagement, and are less resistant, is their desire to attract and retain foreign investors:

> “[I]t’s now the foreign […] shareholders that are sort of on the rise. So in a sense […] companies are obligated or partly forced, they don’t have a choice, but to face these foreign investors and have a constructive relationship with these shareholders, so that they can convince these shareholder as their new stable shareholder.” **IM6**

This coincides with advice from OECD for harmonising governance structures, which emphasise the need for foreign investment.

In addition to investors holding companies accountable, the emergence of a two-way dialogue can be seen. This is supported by the long-term focus of the Japanese companies (Solomon & Solomon 2006):

> ”And in another meeting they ask us how we analyse the ESG issues; how and what areas we use or something.” **IM9**

> ”Yeah, I think they wanted to know what kind of information the investor wanted.” **IM9**

What comes out in these interviews is that the reality of investment in Japan has started to change to include ESG factors:

> Interviewer:” OK, so they’re asking you

Respondent: Because they want to know […] what […] ESG is so I think it's started changing very well, that's the reality." **IM12**

4.1.2.7 Collaboration vs. confrontation

The reports on the fact that companies tend to ask for meetings to explain to the investors what they are doing and why they are doing it, already indicates that the relationship between investors and investee companies is more collaborative than confrontational. As shown in Solomon & Solomon (2006) it is not only companies being approached by investors, but increasingly companies are approaching investors for advice.

> "So I think that is a relatively new trend, but I think it's a growing trend, you know, working together with the portfolio managers to help the investment decisions more, I think this is a growing trend." **IM6**

Notably interviewees contrasted the relationship between investors and companies in Japan with the nature of the relationship in the UK.

> "[I]n the UK […] in a sense […] shareholders and companies are partners, but I think it's a bit more confrontational, I would call it. It's not so working together, it's about […] protecting the shareholder's interest, more focused, I would call it. So I think in Japan first that section on the shareholder interest is embedded in the objective, but the focus is more on working together in a constructive relationship between shareholders and companies to promote the long-term growth of companies. And that less hostility has led to the code dismissing the […] collective engagements for pressurising the company, I think that is a big difference!" **IM6**

Again, the in interviewees highlighted the importance of gaining trust forming a 'partnership'. However, getting to this stage seems to be the challenge:

> "When the company actually sees you as your partner they tend to listen quite much. So once you become an insider it is very easy to get that message, you know, and companies would change their behaviours." **IM6**

Interviewees seek to provide a definition of what 'Japanese engagement' looks like:

> "[W]e tried to take […] culturally Japanese way of engagement. […] [L]egally speaking Japanese shareholders have a very strong right, but, you know, you never exercise those rights, because it's culturally touchy. So that we don't necessary rely on those rights, but we rely instead on the insiders or management.
>
> So before we investment, pre-investment stage, we do have to figure out how insiders or management are eager to change, or eager to listen to outsiders like us." **IM8**

4.1.3 Collaborative engagement

The interviewees felt strongly that collaborative engagement may not be suitable in the Japanese context:

> ”It’s my personal opinion but collective engagement is hard to take place in Japan because we don’t have those customs and we don’t know each other, what company we invest. I can’t imagine how we can find collaborative engagement.” **IM9**

Interviewees indicated that RI engagement in Japan was at an earlier stage of maturity than in the UK. This is consistent with an interpretation of the findings that investor engagement on ESG in Japan is now similar in many ways to SEE engagement in the UK in the 1990s.

> “Japanese, I think management situation is not mature like the UK because as I said before there when management, the group meeting with the management may ask manager, ask for next sales, next month’s or something that situation, so it’s very difficult to collaborate with the other managers, maybe.” **IM12**

There are also positive voices, describing what is happening in the space already:

> “So what we try to […] leverage other investors, we leverage policy or our relationship with policymakers, we leverage, various things we consider [to] pressure the companies from various sides.” **IM5**

Collaboration does seem to be working, however, with foreign investors indicating a new trend:

> “And that's the approach that foreign investors are taking with Japanese companies, it's not to give them lots of segregated, but similar voices, it's to just to give them a single message.” **IM5**

Interviewees provided an illustration of collaborative engagement in form of shareholder pressure:

> “So, one of the initiatives that basically kicked off this year is that 20 global investors came together, and then we all decided, there was 4.6 trillion between us, but that’s global money, not just Japan’s, about 10% of that would be in Japan, and then we said that we’d be voting against all boards pretty much in 3 years’ time if they don’t have at least a third of the board consisting of independent directors.” **IM10**

Collaborative engagement is seen as a way to avoid, aforementioned, potential negative consequences of engagement:

> “I think that they are not really in the position to backlash! By that I mean it's not as if they can single us out for special treatment anymore. You know, what are you going to do? Single out 20 major global investors? Who are huge names. So they can't do that, you know, they are advised not to.” **IM5**

4.1.3.1 Communication amongst investors

Currently in Japan there is no community of investors where views are exchanged:

> "So there was a thing about how do you escalate engagement, but yeah collaborative engagement was the other, they couldn't get their head around it. […] Japanese investors don't have a community, whereas in the UK there is much more forums for us to meet and share our opinion, and that's a bit different." (IM5)

The interviews provided evidence of change whereby Japanese investors are starting to collaborate and work as a community together.

> "[T]here is an investor forum working group set up under METI, Ministry of Economy Industry and Trade, and we are actually discussing…how we can develop this forum or platform that institutional investors could discuss issues, not agree on issues but discuss issue." **IM6**

> "So it's not only the best practices it's also about sharing the best practices among investors, institutional investors, so sharing the institutional investors best practices on what might be an good engagement, e.g. what would be the agenda, what would be an ideal approach to the companies on developing a constructive engagement. So sharing that best practice among the institutional investors is the other side of that expected role." **IM6**

In a way, it seems from this evidence that the investors are applying practices common amongst UK investors.

4.1.3.2 Legal requirements (filing of block holdings)

Legal concerns were mentioned as a reason stopping investors from engaging in collaborative engagement:

> "We…it is very difficult to do collective engagement in Japan, if I understand you[r] question correctly. The legal side of it all, it's difficult to sort of discuss issues and engage collectively. Because once you do that you need to file your holdings, as an aggregate." **IM6**

4.1.4 Impression management

There is existing literature highlighting substantial impression management during engagement undertaken by UK investors (Solomon et al. 2013).

> "[…] It was the same when the Tokyo stock exchange came around and came to tell us how wonderful things were, with the changes in independent directors and that there is now one on every company or 60% of the companies or something like that. And you know we asked them a couple of direct questions and they just literally blanked it. You ask them 'at what point are you going to do something about company responsibility and what companies should do' and they just don't answer the question. **IM1**

Avoiding answering questions has been identified as a form of impression management, but also of concealment in ESG engagement (Solomon et al. 2013).

> "Just because typically the meeting would go on for an hour and I wouldn't be comfortable sitting in a room listening to a 30 minute presentation…it's just a waste of time in a sense." **IM6**

Again, interviewees indicated that companies avoid answering their questions. The companies do only provide the information that they want to provide:

> "They might give more specific examples, for example, but they if they have limited disclosure on remuneration, for example, if you ask them they wouldn't necessarily give us more, they might be able to talk a bit around it…" **IM2**

Based on the interviewee's comments, there seems to be the attempt to create a myth of ESG accountability by the companies. This is in line with what can be observed in regard to ESG engagement in the UK (Solomon & Darby, 2005).

> "[T]he way they go about doing it, rightly or wrongly, is they spend the majority of time going through their presentation. And usually through a translator, which means it takes double the time. And what that means is, either they want to explain their position very well and/or they don't want to have Q&As. They're not very good at Q&As, especially if the language barrier's involved." **IM10**

One interviewee talks about similar experiences with traditional Japanese companies, but also mentions a contrasting example of a CEO who she calls ‘Westernised’:

> “So last time I met them was in Japan and the guy who met us is quite senior from the executive board. He was dressed in a track suit and a pair of trainers. Westernised, he lived a lot of his time in the US, he is Japanese but he lived a lot of his time in America. We sat on sofas in a room an chatted very casual, he was very open.
>
> We met with a Japanese water company last week here […]: There was six of them all immaculacy dressed, very formal, all those Japanese cultural rituals: translator in the meeting […] didn’t answer any of the questions we asked. They gave us the answer they wanted to tell us.” **IM1**

The contrast between styles of dress highlighted by the interviewee play a significant role in terms of impression management by the company. These findings are in line with findings by Solomon et al. (2013) about body posture, dress and physical appearance.

To describe the current situation and to contrast with a best-practice example one investment manager cites an example from a US company:

> “I met a company in the US last month. We literally met with the guy who is the next CEO, the CFO and one other guy. And they said ‘We are the investor relations department. We sacked them three months ago. Because we realised the lunatics are running the asylum.’ And the investor relations department listening too much to the investor community and giving them what they wanted, and fuelling this Wall Street craziness, trying to pump up and go faster, go faster. They said ‘We lost complete track. People started misunderstanding us and lost complete track of what we are about. And we are about running the company concernedly, sensibly.” **IM1**

Companies do not refuse meetings with investors, but they try to avoid following through by lobbying. This is similar to what we have seen before in regard to METI (Jacoby 2009):

> “The big point is are they going to implement? Acknowledgement and reading it is one thing, thanking us for our comments is another. Actually implementing it, dragging their feet, you know, for the other one is using the business lobbies to do like a bit of scorched earth policy on, you know, approach the public policy. This has really been the historical approach: to stop any meaningful public policy getting through. So there are ways that they can resist that, but by the very unlikely to refuse meetings there is only a few companies that do that now, major companies and even they are changing.” **IM5**

The interviewees also report that the way the meetings develop depends strongly on the approach taken by the investors:

> “But if you take the right first step and the right approach towards the companies they are very receptive and open. So I think it’s just…much better than the other Asian countries in comparison. Or maybe in the US or in the UK where people have a better presentation to do.” **IM6**

There is also an awareness that getting to the truth is part of the job when attending a meeting, assuming that the version presented by the company does not represent the truth:

> “OK, you get the storyline from a company and your job is to analyse it and to question it, and to debate it. [I]t’s all very well companies giving you their version of things, but you need to drill into it to make sure it actually makes sense. So […] maybe on the first meeting it’d be OK, but apart from the first meeting it would be a, kind of, waste of time for me to just sit there
>
> And just nod my head, going, OK, cool, that sounds, so, yes, it’s much more about kind of drilling in and making sure you do actually understand what the company’s saying.” **IM11**

4.1.4.1 Activities are not reported / presented to stakeholders

Japanese companies do not report on their activities, even though they are very positive:

> “They tell you a great story when you meet with them or their activities are great, but they just fail to tell that story or pack it into a presentation so that others external stakeholders can understand it. As in I think the other countries is too much presentation and the content is missing. So the issue is much different in Japan!” **IM6**

Interviewees suggest that Japanese companies are less used to thinking above impression management than US companies.

> “I like to, I’d like them to get better at marketing themselves. I think their IR marketing communication team should be full of English speaking people, who not only speak English but they’re going to be putting presentations for English speakers. Forget pages and pages of recycled paper and whatever. Just understand how things should be communicated.” **IM10**

In fact, investors see Japanese companies’ lack of impression management as a negative factor.

One investment manager describes the situation well by contrasting it with US companies:

> "Interviewer: Yeah. And do you see a difference with the Japanese companies, when you meet with Japanese companies?
>
> Interviewee: Oh, yes, hugely. Hugely different. And part of that is obviously cultural differences, where, I mean, well … looking at Japanese companies, and you do notice that Japanese companies will very rarely tell you how good they

are. And they, I kind of understand the perspective. Part of it's cultural where in Japanese culture, kind of like, modesty and humility are very, very important. So, like Japanese companies will never say, oh, we're brilliant, we're fantastic. That just never, ever happens. That's, so there's a cultural side to it, in terms of that'll be their approach, which contrasts hugely with US companies. You could not imagine a bigger contrast." **IM11**

However, also based on the interviews, some of the companies do not understand that ESG information is important to investors:

> "…because some companies are not open for all ESG issues so we need to talk and ask them how things are going because some companies are not aware of disclosing this information and investor needs this information." **IM9**

During the interviews possible reasons that were cited for the lack of reporting, especially in the areas of E and S, were that companies feel that it goes without saying that one has to take care of E and S:

> "The other is I think as I mentioned since E and S issue are so much so taken for granted, people have the expectation that those are already delivered. So I think that is one of the reasons why Japanese companies really don't have set up policies on how they approach environmental issues or social issues. They think that it is very natural for them to take care of them. So they really don't set up a policy to explain what their approach is or what their philosophy is, it's just too natural for them. It's so much embedded in their daily jobs or in their daily life, I would call it. I think that just people when it's so natural for you, you just stop explaining about it, because it doesn't really make sense, it is just there!" **IM6**

4.1.4.2 Japanese companies are honest

The information on perceived honesty of Japanese companies differs between investors. Here the interviewee reports that on certain metrics, especially in the social area, she does not expect to receive an honest answer. This is in line with what Solomon et al. (2013) find in the UK in terms of companies' attempts of impression management. However, it also indicates that there is no creation of a dual myth, as the investors challenge the companies on the points in question.

> "So on many S metrics they will look… for employee engagement and employee satisfaction I suspect it is quite poor as well. I suspect you would not get an honest answer, which makes it tricky as well. Our challenge with Japan is that you actually do not get honest answers all the time." **IM1**

> Interviewer:" Ok. And…in general do you have the feeling that you get a truthful answer from management?

> Respondent: No, you need multiple, you know, due diligence." **IM8**

However, there is also the side that links to the lack of reporting in the sense of self-marketing. One interviewee summarises it well:

> "I think Japanese companies are very honest when it comes to presentations; in a good was and in a bad way." **IM6**

Another investment manager distinguishes between directly lying when asked a question and avoiding answering the question:

> "Yes. I do. They don't really lie. They might dodge the question. They might not really answer it. But I don't feel like they lie." **IM10**

This indicates attempts of impression management from the companies through omission of information, in line with what Solomon et al. (2013) find in investor-investee meetings in the UK.

4.1.5 Pre investment meetings

Investment managers conduct pre-investment meetings that include ESG issues:

> "Pre-investment, yes. We tried to visit the companies, we try to see the top management as much as possible, and of course if we find environmentally unfriendly behaviours or facts, of course we try not to invest. And we try to confirm that this company is ESG correct company." **IM3**

However, compared with post-investment (engagement) meetings they occur less frequently:

> "[…] [P]re-buying is probably less frequent, but I have had a few cases and again we don't know how much of our input will be used in the final decision, but surely they wouldn't ask if they think it is completely useless. […] [B]ut most of the cases where we engage […] we […] have holdings already, our clients have some holdings […]." **IM2**

4.1.6 Management vs. Investor relations

It was also mentioned during the interviews that the company's management should not be involved in meetings with investors, which seems to indicate a lack of importance assigned to the investor-investee meetings:

> "[…] I mean, the management of companies haven't really got time to hear my questions. They've, quite rightly, got far more important things to think about." **IM11**

However, the same interviewee also stated that meetings with the management are very useful, in fact more useful than meetings with the investor relations department:

> "Yeah, I mean, we try to meet with the management if we can, before we invest in a company. It definitely helps, getting a sort of much clearer understanding. And it's actually much better than meeting IR of course, because you can actually speak to the people who are actually directing these investments or directing business strategy, rather than hearing it second hand." **IM11**

It becomes clear in the interviews, that the character of the meetings depends on the company representative who attend the meetings. There is a clear difference if members of the 'senior management' are present:

> So in that sense a lot more executive or senior managements tend to show up to these meetings. And when you have those senior management people in the room they like to deviate from the agendas. […] [T]hat's in a good way, because […] they have more information of the company and they can speak in their own words, so to speak. So in that case I think apart from the agendas we typically have very good discussions on…or we will typically form a better understanding on how companies are working or how companies discipline. **IM6**

This indicates that less impression management takes place in the meetings when the meetings are with senior management instead of with the investor relations department.

4.1.6.1 IR information limited

There seems to be a perception that meetings with investor relations departments are not very useful, as they provide limited information, which is in line with the aforementioned tendency of impression management occurring in those meetings:

> "I think that when I talk with the company […] the person who knows the issue most is the management, […] you know investor relations person doesn't know, she has to research […]. And also sometimes a social responsibility department person don't know what the investor relation person [is] doing, so actually at the back […] management is […] top of there, so they know everything. So I think [to get to know] ESG matters, to contact management is best." **IM12**

In line with what discussed before companies seem to try to create an impression, in this case through the IR team. However, the investors do not seem to accept this and request meetings with management where they feel they get meaningful information. A dual myth creation as described by Solomon and Darby (2005) and Solomon et al. (2013) does not seem to take place.

Regarding the attempts to management impressions, there seems to be a higher risk of scripted answers during meetings with IR:

> "[…] [T]he quality of IR is very variable. But in general they're not as close to the business decisions, and so therefore they would probably be closer to give you, sort of, the scripted answers. Management have more freedom I think to answer." **IM11**

Whilst investors acknowledge that it is more beneficial to talk to company representatives on the board level, there is a challenge when it comes to access:

> "Yeah the difficulty in Japan probably is compare to the UK especially where you can have quite good access to board level, in Japan it is not that easy yet." **IM2**

An investment manager during the interview cites the history of 'engagement' in Japan as a reason for difficult access:

> "[…] [I]n Japan shareholders were basically seen as corporate raiders […]. So it used to be the general affairs people that took care of the shareholders rather than IR people. So it's not even the investor relations [IR] […], people thought that shareholders were basically yakuzas. It was […] some very hostile sort of gunman type of people would show up to those meetings. I am not joking! It […] was like this 20 years ago." **IM6**

The amount of meetings with management opposed to IR or general affairs (GA) is increasing, but the majority of meetings still seems to take place with IR / GA:

> "So in that sense we try to have the senior management speak as much as possible when, you know, they ask for a meeting with us. And that tend to be increasing. I think within those 150 companies, I think 30-40% is with the senior management." **IM6**

4.1.6.2 Silos within the company (CSR, IR, Legal, Management)

Based on the interviews there is still a strong separation between the different departments inside the companies, i.e. the CSR department does not necessarily talk to the investor relations department, or the general affairs department or the legal department, let alone senior management. The interviewee sees integrated reporting as a tool to encourage these inter-company conversations, a tendency that is in line with developments in the UK (Solomon et al. 2013):

> "Yeah, recently it conversed a little bit in Japanese companies but still no disparity was there over their different ways, so I sometimes […] companies came to me and ask me […] what should they do about […] writing the annual report or an integrated annual report, integrated report or something. By that time at least there is the CSR person and there is a high up person, but they don't talk to each other, they talk to me […]." **IM12**

It is interesting to note one example where the contact person below board level was hoping for help from the investor to push change in the company:

> "So I had one incident of a company where the board itself was quite traditional, and he said to me, can you please keep voting against us? Because if you don't vote against, we can't push for anything from internal […]." **IM10**

4.1.7 Obstacles to engagement

The timeframe for engagement prior to AGM voting is seen as challenging, as most of the AGMs are during the same period:

> "They tend to be in June. I don't know the numbers, but maybe 90% of Japanese companies finished their fiscal year at the end of March. So they announce some time in April or May, and annual general meeting [are] in June […]." **IM3**

The availability of material – in English – is also seen as an obstacle to engagement:

> "[S]ome of the leading companies [have] very good disclosure levels, but you know a

> on average it's not. Especially language barriers, not issuing English ones." **IM4**

4.1.7.1 Cross shareholdings

In addition to general obstacles to engagement, interviewees mention critically the cross shareholdings, which are still present in Japan. These cross shareholdings exist between financial intuitions, which tend to be part of a groups, and investee companies:

> "[T]hey might be cross holding, whatever, but if one is doing a better job, they have the possibility of bringing more best practices across different affiliated companies. Now I don't want to promote cross holding, or the kind of affiliated directorships, but there is something to be said about rotating good ideas." **IM10**

This line of argumentation is linked to the traditional system as discussed in section 2.2.5.1.1 Post-WWII Era, i.e. the idea that benefits can be shared through a tightly woven network of companies.

However, there is also the issue of conflict of interest within the groups that are created through cross-shareholdings in the financial industry:

> "But there is a bigger issue with this, because all asset managers, investment managers are related to big financial groups, so they are related with business, so it's not independent." **IM4**

This can be seen referring to the examples in section 10.2 Financial Groups in Japan.

4.1.7.2 Conflict of interest – strategic holdings

The reason for the aforementioned conflict of interest to arise is that, strategic holdings are shares that are mainly held by the asset manager to improve the relationship between the financial group and the investee company. This can be the case where the company is a customer of the insurance, bank or corporate pension fund, within the financial group. This can be seen referring to the examples in section 10.2 Financial Groups in Japan. This then creates an obstacle for the asset management side, as these holdings ‘cannot’ be sold:

> “So people feel like ‘oh my gosh now I just said a bad thing to these corporations and these corporations might have business with my parent bank, [name] bank’. So that kind of stuff.” **IM4**

> “[…] [W]e can't say anything to plan sponsors, because my clients, pension plans don't want to say anything to plan sponsors […] or intervene […] with management stuff. Because […] it's kind of a great business relationship […].” **IM4**

One interviewee provided an example of this situation:

> “[…] Mr [name] […] told me a similar story. He worked before [company name] Insurance for almost forty years. He was an officer with the planning division when he was young. He was asked to manage the investment division where he was and it was around the peak of the Japanese equity markets in 1990. Then when the Japanese equities fell some of the investee companies had financial problems, managerial problems and very loose internal control and he wanted to sell the stocks of the companies to protect its equity portfolio but the sales division of the Property Insurance company resisted and they didn’t let Mr [name] sell the holding of the Japanese companies because those Japanese companies were clients of the insurance business.” **IM9**

> ”He got really mad that he couldn’t… because the sales division is stronger than the investment division within the organisation of insurance companies.” **IM9**

To clarify the interviewee was asked about the current situation and whether this is still the case nowadays:

> Interviewer: “And when looking at […] insurances, do you have that often? […] [D]o they […] make more money by selling or keeping their insurance running than they lose in their investments in the company?

> Respondent: Yes, yes.” **IM9**

> Interviewer: “Do you have this in banks as well, […] where the loan part of the bank kind of pushes the investment part of the bank or discourages the investment part, or does that not happen so often?

> Respondent: Yes, it happens with banks as well.” **IM9**

However, whilst still existing, the described situation is changing:

> "[…] [T]hey are getting more and more independent these days because fiduciary duty has been introduced to the Japanese financial community […] for several years; seven or eight years and many people now understand that the asset management companies have their fiduciary duty and should work only for the economic performances, economic profits of their clients. So the parent companies or sales divisions cannot say that they should follow the management decisions strongly." **IM9**

In addition to not being able to sell, engagement becomes difficult as it might interfere with other business within the group:

> "The parent company […] discouraged Mr [name] to vote against the agenda proposed by the management of the companies. **IM9**

The interviewee acknowledges that this seems to be a phenomenon unique to Japan:

> "Technically they are, like Mitsubishi bank and Mitsubishi investment house are different entities, but it's still a wider Mitsubishi group and that's, maybe that's unique conglomerate thinking of Japanese companies. Yeah that might be a unique issue." **IM2**

The situation of cross-shareholding and the pressure on the asset manager from within the group seem to lead to a situation where the creation of a dual myth of accountability is likely to occur, which would be in line with the findings in the UK (Solomon et al 2013), although for different reasons:

> "They are still existing […]. They engage, have a dialogue but in reality it is just not, they just not do the job, something like that." **IM4**

4.1.8 Japanese vs. Non-Japanese investors

The question whether or not the investee company's willingness to be engaged with changes depending on the investor being Japanese or not, came up repeatedly during the interviews. The interviewees report a situation that is in line with the traditional Japanese system of stakeholder-focus, as discussed in sections 2.2.4.1 and 2.2.5.1.1:

> "Yeah absolutely. This is our main criticism of the Japanese attitude towards investors. And within the shareholder base traditionally international foreign shareholder was right at the bottom." **IM5**

> **"**We still have many companies, I wouldn't say they are stuck with the old way of things, because that would be harsh, but I will say that they haven't reformed sufficiently enough, to change their approach to foreign investors. […] I think that'll change and I think also they finding that foreign investors are increasingly speaking with the unified voice.**"** **IM5**

The difference in the treatment of domestic and foreign investors seems to be based on the different approach followed by the investors:

> "And I think this is one of the issues with the foreign investors who actually like to go hostile in a sense. They come banging the door and a company refuses that, of course! They will never become insider…they can't answer the door. And they get frustrated and talk about companies, Japanese companies being very closed or hostile towards shareholders. So it's just, you know, a wrong first step." **IM6**

The deciding question seems to be whether one is inside or outside of the network, in line with the traditional Japanese system. If one is not a part of the network, then meetings will not take place.

4.1.9 Trust and Reputation

Being part of the inside network and therefore being trusted is one important theme in the interviews. The interviewees highlight that companies are open to be engaged with, if the investors show interest in the long-term development of the company:

> "[…] I think it's a very good way to look at company long term because we can have the good discussion with the companies." **IM12**

Trust plays a role between *the company* and *the investors*, but also on a personal level. Due to life-long employment these professional and personal networks build over time:

> "The guy that runs that company, because I've met him probably 15 times, he is so open. He will say so much about how the business is doing, and why it's doing it. And maybe it's because I've built up a bit of a relationship with him. And I'll say, yeah, they can be open, and they can tell you the truth. I'll say that you need to develop a relationship and trust first of all." **IM11**

4.1.9.1 Company wants investor to understand the company

Building on the findings in the previous section, the companies are more receptive, if they see that the investors want to understand the company and are interested in long-term investment:

> "[…] [W]e do homework and we study their industry, their competitiveness, their business itself so that they IR people typically understand that we are committed to this business and to that particular company. […] So that kind of difference makes a very big difference in the end." **IM8**

Once trust is established between the company and the investors, communication is open during the meetings:

> "And that tend to be very fruitful, because, you know, you get you understand what will be the issue of the company […] what will be the true issue of the company […] you know, what are the true backgrounds to a certain issue. So I think that once you have that perception and an established relationship with the company you…it's not so hard to get that information." **IM6**

This seems to indicate an absence of impression management once trust is established and both parties see each other as part of the same network.

4.1.9.2 Language barrier: English vs. Japanese

There does not seem to be a language barrier with non-Japanese investors, as much as cultural differences:

> Respondent: "[Speaking Japanese] probably would help a bit. But I'd say it's probably, I think Japanese people in general, they will just read quite a lot into the way you conduct yourself. And if you conduct yourself in, sort of like, a humble and modest way when you're interrogating, you're not too aggressive, and you don't show any emotion, I think … about the language that much, because they pick up on those things. And so, yeah, you just need to act in a way that's sympathetic to their way of doing business." **IM11**

This echoes the aforementioned statements where a trustworthy relationship seems to be the key determinant, rather than the question of whether the investor is (non-)Japanese.

4.2 Japanese Culture

The theme 'Japanese Culture' analysis influences of the Japanese culture, in general, and specifically the Japanese Business Culture on responsible investment, corporate governance and engagement.

4.2.1 Japanese corporate attitudes to ESG

Notions of the previously discussed old Japanese system with the pyramid of priorities for the business and shareholders being at the bottom, keep reappearing throughout the interviews:

> "There is definitely, I think more than any other country, there is an understanding in Japanese companies of being a good corporate citizen in terms of having numerous roles other than simply making as much profit as possible." **IM1**

This quote summarises very well the interviews, when it comes to the role of the company in Japan, in general. The sub-themes will explore the differences when it comes to the different aspects of environment, social and governance.

4.2.2 Japanese culture and ESG

The interpretation of ESG is Japan-specific and varies strongly with the respective sub-theme. One example is the social component of ESG. It goes beyond 'corporate attitude' and is based on cultural aspects, according to the interviewees:

> "Yeah and in a way they make their employees work crazy hours, but at the same time traditionally employment was quite secure and progression was almost guaranteed and people didn't change jobs and still don't." **IM2**

This indicates that the system of life-long employment is still very much in place. Also it seems that based on the interview findings job-security and progression are valued higher than work-life-balance.

Another example for an ESG issue that manifests itself in corporate culture, but seems to be linked to the national culture is gender diversity:

> "Yeah, but you know the culture as a whole, the country as a whole has issues with gender diversity." **IM1**

Whilst this is a cultural ESG issue, it does manifest itself clearly on the corporate level:

> "And this is were you get ESG themes. They are not ESG issues, they are simply business issues. I mean any country that is going to take 50% of the population out of the equation by not hiring women, …. Hallo?!?!" **IM1**

The following subsections (4.2.2.1 – 4.2.2.9) cover sub-themes that came up in the interviews and were considered relevant by the interviewed investment managers, in this context.

4.2.2.1 Japanese-style governance

The first sub-theme is 'Japanese-style governance' which is seen as a Japan-specific factor, unlike S or especially E, where there is a large amount of international overlap.

> "But governance they somehow they consider it a bit more private or something special about Japan." **IM2**

The road ahead is not quite clear, however since the Global Financial Crisis the US has lost credibility when it comes to leadership in good corporate governance. Therefore, a close focus on the UK seems to have started with the Japanese Principles for Responsible Institutional Investors reassembling the UK Stewardship Code:

> "[…] I think they've switched [to] maybe thinking, oh, maybe we shouldn't follow the US. I think they kind of caught onto that. […] So they're looking at UK and maybe some other European companies, and maybe Australia […]. Which is good, because I think it's much more progressive." **IM10**

4.2.2.2 Consensus as a driver / market moves as 'one'

When it comes to ESG interviewees describe that there is a hesitation of companies to implement changes, but then many companies changes at once.

> "It's always been the case. And I said, you just need to get certain things over the hurdle, and you don't have to worry about the rest." **IM10**

> "Consensus and also… It's kind of, you know, they feel ashamed if they are not doing something everybody else is doing.**" IM2**

The driver here seems to be 'feeling ashamed', which is in line with the motivational drivers of impression management as discussed by Scheff (2006) in general and applied to investor-investee meetings by Solomon et al. (2013).

There seems to be a link between the cross-shareholdings, as a representation of the traditional system, and the way change occurs:

"Because I think in Japan it's more useful because there is a concentration of influence amongst the very large leading companies. And if you get those right you can actually affect the entire market, partly because of the cross-shareholder ownership system. And then because of the supply chain you get a lot of influence down the supply chain that is due to its behavioural patterns." **IM5**

4.2.2.3 NGOs

There is a link between the development of ESG and an active civil society channelled through NGOs. This can be seen in the previous discussion of the international and UK development of responsible investment (Biehl et al. 2012, Biehl and Atkins 2016).

"For a lot of the global companies in terms of their offshore offices I think they take a separate approach. And this is a result of regulation, especially in the Asian regions, but also it's the existence of the NGOs or the NPOs that actually pressurises a company on those issues, right or wrong I am not sure. So I think when the companies have been put in an environment where they are been actively asked questions on these issues or topics, they will respond to those…they will adapt to those environments to provide the right answers to those questions." **IM6**

However, in Japan NGOs and the external pressure for accountability regarding ESG hardly exists:

"Also lack of NGOs, I always think, is also a cause like in terms of presence at number and the size of them, like if you think about Amnesty International it's a big organisation and the UK section has like hundreds of people but in Tokyo, which is, I think, the biggest in Asia, or was, as far as I know and it has like seven people." **IM2**

4.2.2.4 Ethical investors (e.g. churches)

In the UK ethical investors, e.g. churches and charities played an important role in the development of (S)RI (Biehl and Atkins 2016). However, in Japan these investors do not exist:

"And the second reason is really don't see any so-called ethical investors, like Christian church investors or something like that, you know, more faith-based investors." **IM4**

4.2.2.5 Japanese culture and environment

It is seen as one of the companies' responsibilities to look after the environment. This is embedded in society, according to interviewees:

> “People really like environmentally friendly products and are really conscious about the environment. Each individual is very high standards and the company also has a good standard.” **IM4**

Society also expect this from the companies and people take it for granted that companies fulfil their responsibility:

> **“**There is a huge focus on environmental issues in the country. I think that's one thing I would definitely say! And specific incidence recently, such as the earthquake, and the meltdown just reinforces Japan's very clear focus on the environmental issues. What you find in Japan is that the companies themselves are leaders in providing products and services to mitigate climate change or and environmental degradation. And so I would even vouch to say that Japan is one of the kind of leading proponents of improving the global environment.**” IM5**

The awareness towards environmental factors is in line with the findings of Sakuma-Keck (2015) and with the background provided in section 2.2.4.3.1.

4.2.2.6 Japanese culture and long-term

In terms of corporate culture there seems to be a difference between companies and asset managers.

There is short-termism amongst Japanese asset managers:

> “[…] [There is] really so much short-termism in Japan, so […] after introducing Stewardship Codes the asset manager must do something to comply with them...” **IM12**

This is in contrast with the desire of Japanese companies for long-termism, as represented by the stable holdings in the traditional system:

> “I agree with the point: it's Japanese companies are very long-term, culture is really favourable to responsible investment towards ethical consideration.” **IM4**

There seems to be the idea that the logic guiding the traditional Japanese system and the logic guiding responsible investment have similarities.

4.2.2.7 Japanese culture and the community

Looking after the community plays an important role for Japanese companies and investors:

> “I think Japanese companies understand they have a role in their community. They understand they have a role both in terms of employment [and] in terms of environmental impact” **IM1**

> **“**Well, my personal view is that I’d like to see Japan not follow the footpath of the UK or the US in a blind form. Because I think Japan […] has succeeded is that connection with employees, the connection with communities in a lot of areas.**” IM10**

The quotes reflect again the traditional Japanese logic of business and stakeholder-focus.

4.2.2.8 Inside Japan vs. Outside Japan

The focus is on Japan, i.e. some issues that do not exist in Japan do not receive much attention.

> “So there is social issues, but not domestic issues, so people tend to feel that there is no big social issues, in Japan.” **IM4**

This is in line with the international development after WWII where the focus was mainly on ‘near issues’, i.e. ESG issues that directly influenced the people in question. However, over the last decades this has evolved to a more global perspective in Western world (Biehl, et al. 2012).

This can be seen especially with companies, who focus mainly on Japan in terms of operation and reporting:

> **“**What it hasn’t achieved very well is to replicate that thinking in their global operations. So they do a fantastic job in Japan, and then they go overseas and they can’t seem to actually really understand the people enough to be able to replicate that idea.**” IM10**

4.2.2.9 Japanese culture and society

The investment managers did not describe the links between Japanese culture and society in detail during the interviews. However, one example was mentioned where the company made a substantial investment for the greater good of the Japanese society:

> “The company that runs the bullet train between Tokyo and Osaka is called Central Japan Railway. And it’s a successful company, it’s super efficient. […] That company generates a huge amount of free cash each year, like, […] $3 billion in cash each year. […] And they’ve been using this cash, this 3 billion in cash each year to pay down debt that the government gave them. So when it got privatised the government gave them those debts. Anyway, it’s finished paying most of that off. And so they’re starting to generate a lot of cash now. […] [P]robably six or seven years ago […] they decided to build to a maglev train, which is like a magnetic levitation train. And they decided to build it. They announced on Christmas Day 2007 I think it was, Christmas Day, of all days, they said, OK, we’re going to build this maglev train between Tokyo and Osaka, we’re going to spend $50 billion building this maglev train. And as an investor

you’re interested in how a company allocates its cash to make sure […] it gets a return on that investment. […] You invested, you’re going to get a return on it. And when you invest $50 billion on a project like that, which is not really going to generate any economic return for 15 years until the maglev train line is finished, it’s always a concern. And so I contacted IR after that, and I said, look, why are you spending this money? It felt like they were just kind of doing it for the greater good of Japan really, in terms of advancing technology, rather than doing it for the company themselves, and certainly not for shareholders. And I think the shares went down 15% on Christmas Day 2007.” **IM11**

This is an example of the priority list of stakeholders being applied through the selection of a project. Creating an innovative product that customers will in enjoy in the future is considered more important than the shareholder interests.

4.2.3 Resistance to ESG in Japan

Factors contributing to the resistance against new concepts, like ESG, are the aging population and the poor stock market performance:

> “[…] Japanese ageing population and their pension fund's deficit and ehhmm well Japanese stock market sort of lost two decades kind of weak performance … Also contributing negatively to the adoption of the new concepts and the new ideas, so delayed the transitions in Japan.” **IM3**

Fiduciary duty is also cited as one reason for resistance:

> “especially in the public pension fund area people tend to think it's going to be a fiduciary breach if you pursue some like social cause.” **IM4**

This is in line with the international debate. However, in the US and the UK it has been clarified that ESG does not violate fiduciary duty (Biehl et al. 2012).

However, the concerns about breaching fiduciary duty are based on perceived poor performance in the past:

> “And then from retail side for individuals in the 90s, that especially for Nikko eco-fund, still here, still underperform, but this is a really smashing hit, people… It was very popular at the time. So people, individuals really like that environmental stuff, but not for institutional.” **IM4**

4.2.4 Secrecy

The issue of secrecy when it comes to the communication with Japanese companies came up during the interviews.

One interviewee provided an example highlighting the problem:

> "[…] Oh, it's absolutely unbelievable. And I mean, it definitely varies from company to company. I tell you, Fanuc, F, A, N, U, C, is a really sort of great Japanese company, but they are probably one end of the scale where they tell you nothing. You can never, ever meet management. Very, very secretive. But they're just fantastic at what they do. They're really good at making robots. So that's it really." **IM11**

4.2.5 Family owned companies

In this section, the findings on family owned companies and companies with a long company history will be presented. Whilst these two groups are not identical, there is a large overlap. Having said that the comments made by the interviewees will be clearly distinguished, depending on the two groups.

In the case of family-owned businesses, you have a controlling shareholder, the family:

> "[…] I think there is a big differentiation between free float companies and controlling shareholder companies. And if you are in Asia or emerging markets you invest in controlling shareholder companies. Either them or SOEs." **IM1**

Family-owned businesses are seen as low risk investment:

> "But family companies are okay, you know, founding families still take large responsibility or large stake, that's okay, strong balance sheet, […] that asset value and all that maybe makes up two thirds net asset of total asset more than 50%, yeah, so low risk, low borrowing small reliance on banks." **IM3**

4.2.5.1 Long company history

The theme of sustainability in terms of long-company history was mentioned frequently during the interviews:

> "So basically the big keiretsus like Sumitomo, Mitsubishi, and those kind of companies, they can trace their history back 400 or 500 years. They trace their histories back to various sort of samurai families back in the day. And so I think they see themselves as, kind of, guardians of a very long legacy […]." **IM11**

This is seen as sustainable business, as it allowed the companies to survive for such a long time:

> "Especially, you know these companies are all more than 100 years old, and we take the long […]." **IM3**

In the answers, the idea of long-term orientation and stable holdings becomes apparent, i.e. a reflection of the traditional network investment system.

4.2.6 Japanese corporate culture

In this section characteristics about the Japanese corporate culture, which were mentioned by the investment managers, will be presented. The sub-sections show reoccurring themes.

Commenting on the signing of the Principle for Responsible Institutional Investors, the interviewees emphasised that signing is not an empty gesture, as some consider it to effectively be in the UK (Solomon et al. 2013).

> "So I think big change will come after that […]. And Japan is, I don't mean the UK is not diligent but Japan is very diligent so […] once […] you sign that, Japanese asset manager try to [comply]." **IM12**

> **"**Because they never say to me, oh, we'll do it. […] [T]he Japanese culture, and I'm saying it because I'm from Japan, it's more of a dodging culture than a sort of face to face in, kind of, we'll fake it till we make it. It's not really that. It's like they resist and resist and resist, and they kind of do it, but they want to do it properly when they do it.**"** **IM10**

There seems to be an element of 1 or 0, either it is not done at all or properly.

Another question that arose during the interview was 'What is the purpose of business?':

> "[…] [B]roadly speaking you could say, American companies are run largely so their management team can get rich, many emerging markets companies are run partly to enrich a wealthy oligarch or someone who is a result of patronage as well as provide some development to the country. Japanese companies are largely run to provide employment. So employment is often as big an issue as shareholder returns." **IM1**

This again highlights the priorities amongst the list of stakeholders, as previously discussed.

4.2.6.1 (Management), employees, customers, community, investors

This theme has already appeared several times in the responses of the interviewees: The list of priorities for Japanese companies is not headed by a company's shareholders. The interviewees describe an order headed by management and followed by employees, customers, community and then the investors, where management is often considered just as a part of the employees:

> "So you know in the UK or in the US we are used to investors being one of the main stakeholders. In Japan I would probably go as far as to say that management entrenchment, having entrenchment of the management's power, employees, community, customers. I reckon it's almost I would say from my view it's management, employees, customers and then community and then investors right at the bottom." **IM5**

Within the shareholder base there is a further distinction between Japanese and international investors, where international investors rank bottom:

> "[…] [W]ithin the shareholder base traditionally international foreign shareholder[s] [were] right at the bottom." **IM5**

4.2.7 Companies with international business

The group of Japanese companies is not homogenous. According to interviewed investment managers it is possible to distinguish between the companies who have no international exposure and companies who have international exposure, e.g. through supply chain, sales, investors.

> "There is a huge discrepancy of global companies and domestic companies in Japan." **IM4**

> "I mean what we have done on the whole is looked for Japanese companies with international ambitions. We have found that the Japanese companies who have moved offshore, who have done more business offshore […] the ones who are a bit more in license and more transparent and more professionalised and understand that companies are run for more than employment." **IM1**

4.2.8 Profit not 1st priority for companies

In line with the aforementioned list of priorities in regard to the stakeholders of a company, profit is not the number one priority for the company.

The companies do not achieve high profit margins or profitability:

> "It is amazing if you look at Japanese companies how many of these are not profitable or make 1-2% net margins, no matter what industry they are in. They are not really run for profit." **IM1**

The focus does not seem to lie on profitability:

> "It's just that people are not…well… a lot of the companies are not so excited to make a profit but rather than more excited to make great products or great services. And I think that creates conflict with some of the shareholders." **IM6**

> "I think…I think Japanese companies…I think I need to choose my word carefully, but typically are not very much interested in making a profit. They are sort of like NPOs. They like to make great products, great services, but not so great profit." **IM6**

Some investment managers are now challenging this approach, asking Japanese companies to become competitive in a global market:

> "I mean, there are a lot of structural changes they need to do. They need to get rid of some deadwood and whatever in the business. … that, yeah. But it's like, yeah, there needs to be some serious, unfortunately redundancies or whatever as they go along. Whereas the company's always been, like, they will look after everyone. And unfortunately that's just cumbersome in a global market. So there's a social aspect that they're going to have to struggle about [it]. You're not there to just provide, you're not local authority." **IM10**

This reflects the position of the ITO review and its recommendation to increase the profitability of Japanese companies.

However, others see the approach as a sign of sustainability:

> "Interviewer: Yeah, yeah. But it fits again I think with what you said earlier that the sustainability of the business to last for the next 100 years is kind of there
>
> Respondent: Yeah. Yes, absolutely.
>
> Interviewer: That's more important than their returns to a shareholder.
>
> Respondent: Yeah, 100%." **IM11**

4.2.9 Size of companies influences ESG

The size of the company seems to influence ESG at the company, which is in line with international observations:

> "[I]f you still look at second-tier companies there is no disclosure in English and if you then send letters for invitation or annual meetings, the English version is delayed. International investors got the letters… It's only a few days remaining to answer, respond." **IM4**

4.3 Materiality

The 'materiality' theme analyses whether ESG factors are seen to have a material importance for investee companies and investors.

4.3.1 ESG / RI materiality

This theme includes any links between ESG / RI and materiality, mentioned by the interviewees.

ESG information is seen as material, e.g. it is used for (long-term) analyst forecasts:

> "For example, long term situation so I think ESG information affect our analyst forecast." **IM12**

> **"**And they are, you know, theoretically those issues should add value to the funds.**" IM3**

The concept of materiality of ESG information developed over time, inter alia through the realisation of the materiality of ESG disasters, as shown in section 2.1.

There is a perception that ESG / RI negatively affects performance, inter alia due to events in the past relating to early eco-funds:

> "I think the first eco-fund actually started in 1999 and it was very, it was too successful. I think the fund grew, I always forget the numbers sorry, but it grew very huge and the next year it just collapsed. So there is a wide perception that the SRI funds are not an attractive investment vehicle, for making profits." **IM6**

According to Sakuma and Louche (2008), however, those funds performed badly to a variety of reasons, e.g. high turnover caused by a the front-load fee model providing incentives for aggressive sales of new products.

The general performance of Japanese equity combined with the negative perception of ESG / RI affects decision making around ESG:

> "[…] Japan equities are so underperforming, in 15 years, so pension funds try to reduce Japan Equity most of the time. So this time is really difficult to say "why don't you invest in ESG?". You know?" **IM4**

4.3.1.1 ESG outperformance

Looking at the materiality of ESG one question is whether it affects performance positively or negatively:

> **“**So due to that we, we engaged the ESG activities but not for Stewardship Code but for ourselves because we think that is contributing our long term performance.**” IM12**

The risk aspect of materiality also arose during the interviews:

> **“**I think increasingly the newer types of more ESG conscious funds, and they are starting to grow […], [are] about assessing the risks and opportunities, which are material to the investment performance.**” IM5**

4.3.1.2 Performance difference between E and ESG

The question of how returns from ESG generalist funds and environmental specialist funds compare arose, as those developed at different stages in Japan see section 2.2.4:

> “Probably my feeling is that there shouldn't be too much difference, but maybe ESG offers the best return and the environment specialists are funds offers and then the general conventional funds, probably, that's my feeling.” **IM3**

There are differences in the nature of these funds:

> “So for pensions they are really develop more diversified SRI funds tracking TOPIX, you know, just maintain certain tracking errors… You know, that type.” **IM4**

> “We run some environmental specialist funds, we got like a climate change fund, but compared to the more, would you would say, generalist SRI funds they are so much smaller in interest and scope.” **IM5**

4.3.2 ESG time horizon

The time-horizon of ESG factors came up during the interviews, i.e. are ESG factors material in the long-term or in the short-term, either or neither.

Some of the investment managers felt that there is a short-term effect:

> “For E and S… You know some of these risks materialise immediately, regulatory changes, increased focus on a specific aspect of company activities.” **IM5**

Most of the interviewees, however, stated that they expect a long-term effect:

> **“**Personally I think an ESG fund should materially outperform, because longer term you are able to invest in higher quality companies and I think longer term high quality companies outperform.**” IM1**

The question whether ESG has an effect on materiality in the short-term or long-term depends on the ESG issue at hand, according to the interviewees:

> “I would actually say that there is a single timeline. Some risks are very immediate: I would say a lot of governance risks are almost short-term. I think you can't really say that there are long-term governance risks, because they are often based in a specific mix of circumstances related to the board.” **IM5**

As a consequence, the investment time horizon is very mixed:

> “You can have a long-term view of, like, seven years, but you’re not going to have investment horizon necessarily, seven years, whereas in some fixed income they might have, I don’t know, six months or, we have cash funds that are daily.” **IM10**

> **“**[…] [I]t depends on the portfolios but basically three or two years, yes.**” IM12**

4.3.3 E specific

Talking about the materiality of ESG factors the questions arises if there are any differences between the three categories. In the following the awareness in Japan and links to materiality will be explored for each of the sector. Often E and S were mentioned together, these cases will be presented in “4.3.4 S specific”. E developed as a response to past problems, i.e. pollution caused as an externality of economic growth in the post-WWII era:

> “So when we think that Japanese CSR is good when you look at the environmental performance, but that is quite driven, mostly driven by regulations, as far as I'm aware. Or maybe companies and people have been aware of these issues for much longer so that probably drove them to address these issues more. So that's the history and yeah because we have those issues in the past I guess the companies feel quite strongly about showing good environmental performance and then measure and compare internationally a degree what's good was that.” **IM2**

Perception of materiality based on the underperformance of early eco-funds, as discussed previously.

4.3.4 S specific

As aforementioned some interviews distinguish between ES on the one hand side and G on the other hand side:

> "I think by their nature and culture they actually do a lot of the ESG or E and S very well." **IM1**

> "But I think they have been quite open and good in terms of environmental and social performance." **IM2**

The performance on social measures are mixed, which is linked to the previously discussed difference of perception of ESG depending on different countries. There is poor performance, with gender diversity being at the heart of the conversation:

> "So lot of those metrics they are poor at, I would admit. So diversity they are very poor at, in terms of gender diversity. Because it isn't a meritocracy they are probably poor on all sorts of diversity levels, whether it is gender or skill sets or whatever else." **IM1**

> **"**Yeah and they [women] were expected to retire, quit after they got married, have kids, so obviously different pay structure and everything. So 86 onwards it has been technically possible I think obligatory for companies to promote this. But it is a long time before that happens.**" IM2**

However, there is also good performance:

> "Yes the culture around holidays and your commitment to the company is very strange in that country and it is probably quite poor. I guess for S in Japan I think a bit more about community and the role in community, in terms of how they invest in the local community. I think many of the companies do quite well in terms of, and again it is almost, I think they understand stewardship as companies in terms of looking after their local community, in terms of whether it is education in art and culture." **IM1**

4.3.5 G specific

Corporate Governance is seen as an important issue, also in the light of governance failures:

> "I think if you look at the companies that blow up and the companies that are disasters for minority shareholders, a lot of the times it is because of corporate governance, which is not in the 'tick the box'." **IM1**

> "I mean SRI generally, Olympus obviously, was a fantastic governance failure. It thought of was amusing that if you look at the shareholders of the time many of them were places around town who claim to be the governance champions and they completely missed it." **IM1**

The interests of shareholders, especially regarding returns, are one point that came up during the interviews:

> "That is more long-term governance and oversight of the company in terms how capital decision should be made and whether cash should be returned to shareholders and what is in the best interest of shareholders. And I think that part is lagging." **IM1**

Good governance is seen as a key for improvements in ES:

> "And the other reason that we are strong on governance that we think the governance or having good governance structure is key to everything essentially. Even in […] resolving social issues, environmental issues. You often need strong leadership and a message from the top commitment. So yeah that is what we discuss with companies mostly." **IM2**

4.3.5.1 Difference between E, S and G

There seems to be a focus on governance at the moment, which again links to the recommendations in the ITO report commissioned by the Abe government:

> "Yes governance is the first big chunk and then people are conscious so conscious about environmental issues, but not social too much." **IM4**

However, there still seems to be more awareness for environmental issues, than governance and social:

> "We have an environmental ministry now who used to be just an agency, governmental agency, but now the government formed a ministry, whilst we have nothing on the human rights and the governance level, that might show awareness and interest in environmental issues is probably much higher." **IM2**

Corporate Governance is seen as a 'private' issue of the company:

> "But governance they somehow they consider it a bit more private or something special about Japan." **IM2**

4.3.6 Investment strategy

The theme of investment strategy includes statements made by the investment managers regarding their approach to investment.

There is a general focus on equity, but other asset classes are being explored:

> "Right now people are really looking for other asset classes, like private equity or, you know, property, Green property, or something, for there really focusing on ESG credit scoring, but ESG should really start in the equity asset class." **IM4**

Long-term elements can be seen in the answers, e.g. reducing portfolio turnover:

> "[…] I think that that is probably two parts: one is kind of an increased focus on the concept of ownership and stewardship in Japan, but also I think that there is also a wider industry move to save transaction costs, so turnover of funds has been proven to be a major detriment to performance." **IM5**

4.3.6.1 Concentrated portfolio

The importance of high quality in-depth research in a small amount of companies was stretched. This is in line with the raise of the 'Kamakura'-type funds, which rely on a small number of holdings (Sakuma-Keck 2015):

> "So I think those types of things are leading to funds more positioning themselves as we do good analysis on a single company, we look at the prospects and the quality of the company and its management and then the invest for the longer term." **IM5**

As a result, we see concentrated portfolios as a specific type of active management:

> "One is investment and engagement. On the investment side we focus on, you know, relatively small number of companies, investee companies, typically 10 to 15 good companies and good management." **IM8**

> "Yes, we have the concentrated portfolio over there, 20 stocks." **IM12**

There seem to be two trends: one towards concentrated portfolios, as mentioned previously, and one towards passive investment:

> "I think there is two diverging trends: one which is about people wanting to move into low-cost passive funds, on the other hand also wanting to be seen as a good stewards of capital." **IM5**

However, the trend towards passive is more apparent:

> "It would be interesting to see if that's the case, because actually my view on Japan is that passive funds have grown very rapidly there. So big institutional asset owners, say like the GPIF, their allocation to the market rather than an Alpha manager, beta funds is, I think, very high […]. I wonder if there will be an move among major institutional investors to provide concentrated alpha funds, I really wonder. Maybe that's happening I'm not aware of that." **IM5**

4.3.6.2 Active

The situation of fees and tracking (error) with active funds was mentioned, but not in regard to Responsible Investment:

> "Especially actively managed funds, because you have to pay more fees, they keep tracking underperforming index, is not going to work." **IM4**

One interviewee emphasised the focus on engagement rather than divestment in the active area. This indicates a slowly increasing awareness of the shareholders' voice, in line with the developments discussed in section 2.2.5.1.2:

> "And firstly we do also have active holdings on top, so it's not like we're pure passive. But also even if it was just pure passive, what they're worried about is the votes, not divestment." **IM10**

4.3.6.3 Passive

When looking at passive investment, engagement can be challenging due to the large amount of companies in the portfolio:

> "You know what we would do with a passive, and a lot of our clients have passive, we would say to them "don't expect us to engage the entire index". All we will do is we will engage companies which we believe are large positions and material…" **IM5**

One approach in engagement seems to be to 'move the market', i.e. to improve the framework for all companies:

> "But also we will do policy level engagement, so that the entire risk of the market is being reduced or the potential for increase.
> When I engage Japan a lot of our client hold passive Japan Equity we do quite a lot of policy level stuff, so you know stuff about the stewardship code or the new corporate governance code we are constantly involved in the conversation around that." **IM5**

Although it is challenging, engagement based on passive holdings is considered important:

> "We are actually we are passive but in cases in a lot of cases we actually tend to be the largest shareholder for a particular company. And it would be very embarrassing to talk to a company and say since I am a passive owner I don't really understand your business or I don't really care about your business." **IM6**

4.3.6.4 Shift from equity to other asset classes

Fixed income plays an important role traditionally, and also due to poor stock market performance over the last decades:

> "But, I mean, traditionally speaking, if you have an ageing population, like in the case of Japan, you are going to go into de-risking. You just don't need risks. So you're just going to generally go into fixed income, with just generally the stable return." **IM10**

4.3.7 ESG as risk indicator

ESG performance is seen as an indicator for long-term risk exposure:

> "But it's not kind of a major source of alpha for our fund. It is just more like, you know, to protect our investment." **IM8**

> **"**We look at a lot of systemic risks in the market that could really impact companies' valuations in the long run.**" IM10**

4.3.8 Philanthropy

The link between philanthropy and ESG in Japan seems different from other countries. In line with the concept of Sanpo-Yoshi it is important to look after the community:

> "If you look at Shimano, Shimano hold all these national and local bike races and bike things to encourage employees to be healthy. They have got all these gardens they fund in the local area, they are very heavily involved in art in the local community. And it is not just… I am kind of anti 'looking at philanthropy in terms of meaningful ESG', but I do think there is something different in the Japanese context, because it is more meaningful about them saying well this is our community, this is where we made money, and over time we are going to grow and develop it. It is not like they just made a lot of profit, it is not like the Mc Donalds saying we will sponsor the local high school sport team. It is just more thoughtful." **IM1**

There seems to be an expectation for companies to behave in this way, rather than promoting it as something special:

> "So it should be more of an…I would call a volunteer, donation-type approach to these issues, rather than promoting those actively through so-called SRI fund or those investment type of decision, I think that is one aspect." **IM6**

4.3.9 Gearing of companies

Interviewees mention a preference for companies with low gearing:

> “So we don't like, very very geared companies, highly geared companies, risky companies, we want to invest in sort of companies that manage the lower risk and […] they are mainly their own money […] than borrowing from others.” **IM3**

Profits were not shared with shareholders, but used to reduce gearing in order to reduce the risk for the company:

> **“**So the combination of issues and changes, plus restoration of the balance sheets are good factors to Japanese equity markets. **IM9”**

> “Because almost 15 years ago we had a severe financial crisis, a credit crunch, so that the whole the last 15 years a typical Japanese company has been deleveraging its balance sheet.” **IM8**

4.4 Responsible Investment in Japan

The ‘Responsible Investment (RI) in Japan’ theme analyses the development of ESG investment and reporting in Japan, as well as related factors influencing the aforementioned.

4.4.1 Evolution of ESG in Japan

The general development of SRI in Japan, as described by the interviewees is in line with the previously discussed development, especially with engagement still being in its early stages:

> **“**It depends how you define responsible investment, because like SRI funds, eco funds, these do exist in Japan, but if you talk about more qualitative engagement type approach, then it is only starting in Japan.**” IM2**

The early products were retails products and interest amongst institutional investors has only started recently:

> “It’s more retail, so individual investors that are more interested in those areas. And the institutional investors as pension funds I think they are becoming more interested, especially after the stewardship code, because the stewardship code actually had the guidance to incorporate think about incorporating ESG issues into their investment process.” **IM6**

Best practice from abroad is being considered:

> “So we research overseas practices and then we just bring those information into Japan and do such stuff.” **IM4**

4.4.1.1 E awareness

There is environmental awareness amongst Japanese companies:

> “But if you look at Japanese companies corporate websites, if you can read Japanese statements of the president and the top managements, and their corporate strategy, their corporate philosophy most of the companies say that they are […] pay special attention to the environment, so […] environment is already very widespread concept, already.” **IM3**

There seems to be an environmental awareness, based on heavy pollution in the past, as previously discussed:

> “There many cases, I think in the 60s 70s think for several parts of Japan and industrial areas they had very bad […] pollution really. So there was one not far from my dad's hometown there was a pollution coming from oil plants or chemical plants who were emitting in the air. [It] was causing very very bad air pollution and that caused quite severe asthma.” **IM2**

It seems that the pollution was accepted at the time in exchange for growth, during the post-WWII era:

> "But that was the time when Japan was growing very very fast, you know after the war. And basically the people didn't think about the environment as much, because I think the speed was developing so fast that these things happened. But this woke up the government!" **IM2**

As a consequence of the heavy pollution there is general awareness in society and strict environmental regulation was introduced:

> "I think that became the base of relatively strict environmental regulations in Japan." **IM2**

> **"**Yes the 70s, mainly in the 70s. And Japan take out those problems had more or less solved them very well in the 80s and 90s.**"** **IM3**

4.4.1.2 G awareness

Corporate governance was frequently mentioned as an important factor:

> "And also you know corporate governance is an important factor for Japanese companies' management. And if you visit Japanese companies website that talks about corporate governance as well. They pay special attention to the corporate governance. " **IM3**

> **"**So people feel like corporate governance is more important, as well as financial factors.**"** **IM4**

Discussions arose as a new concept in the 2000s, as part of the governance reform and pressure from foreign investors:

> **"**So that I volunteered to lead the corporate governance efforts in [company name], because at that time in 2001 it was pretty new, I mean the concept was very new.**"** **IM8**

The process is moving forward slowly:

> "But slow! Much much slower than in Europe and the US. But this year I read in a Japanese article that if there is no non-executive director, they have to explain why." **IM3**

4.4.1.3 S awareness

Social issues seem to be perceived as present only outside of Japan:

> "It's really global social issues, for Japanese people it's corporate global social issues and not surfacing issues right now. So for example poverty or you know conflict […] terrorism conflict, that's there or […] oil spillage, depleting, contamination, but there is no such issues [in Japan] except the nuclear problem in Fukushima, so people feel it's outside." **IM4**

There are conflicting opinions on how Japanese companies conduct business outside of Japan, in regard to these issues:

> "Actually, Japanese corporations don't really have […] social issues, including the supply chain." **IM4**

> "Now regards to society, social issues, I'm afraid Japan thinks very much "us-and-them" approach. They care about things that are going on Japan. […] Whereas the Japanese practices in international markets are totally different. You know they have totally different standards in the operations abroad. So they are operating in Asia or Africa or Latin America I'm not confident that the factory standards or the labour standards are anywhere close to what they are in Japan. And so from that point of view I don't know to what extent social analysis is really being done, I'm not even sure if there is a culture of it." **IM5**

4.4.1.4 Life-long employment

Interviewees mentioned that life-long employment is still the very common in Japan:

> "And, you know, typically still Japanese management enters one company and, you know, spend his or her entire 40 years life in that company. Lifetime employment is still a default!" **IM8**

However, it seems to be changing slowly:

> "But I think it's becoming more common for people to change jobs now […] a lot of people would start working at 22 after university for Toyota and retire at Toyota, so 40 years later." **IM2**

As mentioned before, changes to the concept of life-long employment are being requested during the interviews:

> **"**I mean, there are a lot of structural changes they need to do. They need to get rid of some deadwood […]." **IM10**

Life-long employment seems to lead to long-term networks:

> "Some senior guy that we have that had long experience…more than twelve years' experience in the industry - he communicates with senior management in some companies very frequently. They certainly follow up and they are friends – all friends with the company management and the senior analyst of our company." **IM9**

Directors have often started working in the company:

> "Most if you look at company directors' biography you will see that they have been there since the 70s yeah way before… and yeah that was their kind of unique way of social welfare I guess." **IM2**

4.4.1.5 Economic development and ESG

There seems to be a perception that ESG can only be considered when the economy is doing well and returns are good:

> "I think it's changing in general […] and probably that depends on the economic growth, and investment returns, and […] the funds' performance and if those go very well, those do very well, managers and fund managers and investors have, you know, enough incentive and enough time and energy to spend on those issues." **IM3**

4.4.1.6 Women in the workforce

It is being pointed out during the interviews that the situation of women in the workforce needs improvement. This is one of the issues that appeared frequently and is high on the government's agenda:

> "Yeah, but, you know, we talk a lot about Japanese women, especially in the business,… *[Respondent presents a newspaper article]* this is today's financial paper, and they are… One academic Prof wrote a long piece about women's participation in the business. Let's prepare a very well established regulatory framework, in regard to women, written by Kobe university professor, a Japanese professor." **IM3**

> "Currently, he points out, that there, even if men and women work for the same years, the promotion is different. And that desk managers we find more men straight from high school than women from university, it says. Yeah, long hour working custom is negative for women, so let's correct this conflict!" **IM3**

One example is mentioned of a fund that includes a 'women score' in its analysis:

> "[…] [W]e are investment advisers so we advise into the fund is currently providing a kind of women score for mutual funds, so we are […] warning the Japanese corporations, regarding women's utilisation." **IM4**

4.4.1.7 IM and Asset owners

RI in Japan seems to be driven by investment managers rather than asset owners, which is contrary to the development in the UK:

> "Corporate pensions there is no eager owners social investors, as asset owners, and Japan. It's more the investment managers interested in that, but they really are struggling to find clients." **IM4**

It seems that given that RI and the PRII are new developments in Japan, asset owners have not yet had time to build up expertise:

> "I think […] the stewardship code has just been developed and it's the decision to up this has been finalising Abe's, so that wondering process or who takes up that role still has to be determined. But unfortunately the asset owners: Since these developments are very new to them they do not have…inside capability and […] people or staff resource internally to understand these issues. So they are actually coming back to us or other asset managers who have experience and history, I would call it, in these areas, and asking to help them in a sense to develop their own understanding of these issues and what might be the best practices.
> So then I think that following that step they might be able to provide more of a monitoring process. But that is yet to be seen. But as of now they don't really have the internal capabilities, so they are asking the asset managers to come up with best practices." **IM6**

However, there is movement based on this example:

> "Really committed to ESG and the managing director of the corporate pension fund has already hired some managers who provide them with ESG centric or ESG specific funds and they asked us to set up ESG fund as well." **IM9**

The investment managers who have no expertise in RI seem to be under pressure to build up expertise:

> "And I think that the awareness, if you like, comes more from the fact that the clients are starting to ask. So they're kind of saying, they've never heard of ESG … and they have a client say ESG and they come to me and say, what are they talking about?" **IM10**

Asset owners seem to become more active in regard to long-term issues:

> "It's also really a timeframe issue. So a lot of clients are worried about longer term issues, where previously they probably were happy to just let the asset manager take the responsibility, make a decision, they're kind of sitting back going, actually I'm really worried about long term issues, I want to know if my manager is managing that effectively." **IM10**

4.4.1.8 ESG as marketing

ESG seems to be used as a marketing tool for retail products:

> "Yet its retail funds. Because retail funds they just using ESG stuff for marketing." **IM4**

> "But retail individuals are not like that. They are really looking for a good companies or exclude that companies, evil ones, I don't want evil ones. Even though it outperforming, I don't care, you know, just avoid those stuff. Or you just focus on eco-funds and then it's always a retail theme, if you like smart grid, you know, shale gas, that type of catchy, fuzzy basis…" **IM4**

This is in line with the problems of the retails eco funds mentioned by Sakuma and Louche (2008) and discussed in section 2.2.4.5.

4.4.1.9 GPIF as driver

The role of the GPIF as the largest pension fund in the world seems to have an important role to play in the Japanese debate.

> "It's clearly GPIF, […] the public pension fund giant, if it moves to […] ESG consideration or integration. And then […] more stewardship and really huge impact, they don't sign up to the PRI, yet. If they do proactively behaved like that really the landscape would totally change." **IM4**

The developments that followed in the years after these interviews support these statements, e.g. the GPIF decided to sign the PRI.

4.4.1.10 ESG integration

There are investors where analysts are covering both financial and ESG factors:

> *"Interviewer:* And your analysts, do they cover the ESG part and the financial part?
>
> *Respondent:* Yeah, both.
>
> *Interviewer:* So they're integrated
>
> *Respondent:* […] [U]sing that information they are making that long term forecast." **IM12**

This indicates that the RI logic is becoming part of the finance logic, in line with the model presented by Solomon et al. (2013) for the UK.

4.4.2 ESG reporting in Japan

ESG disclosure used to be poor according to interviewees:

> "Yeah, but what's not mandatory is how you disclose. So the way that the people have disclosed apparently has been pretty poor." **IM10**

In line with the findings in the UK (Solomon et al. 2013) this seems to lead to private ESG reporting:

> **"**…because some companies are not open for all ESG issues so we need to talk and ask them how things are going because some companies are not aware of disclosing this information and investor needs this information.**" IM9**
>
> **"**Generally transparency is good. In Japan definitely! We need more transparency in Japan.**" IM1**

Companies are approaching investors about their (ESG) reporting:

> "[R]ecently it conversed a little bit in Japanese companies but still no disparity was there over their different ways […] sometimes […] companies came to me and ask me what should we […] do about their […]the annual report or an integrated annual report, integrated report or something. By that time at least there is the CSR person and there is a high up person but they don't talk to each other, they talk to me […]." **IM12**

Integrated reporting is on the rise in Japan:

> "Yeah, one positive thing that I'm hearing from Japan, and I don't have a perfect answer to this, is integrated reporting." **IM10**

There is the perception that integrated reporting can break down silos within the company:

> "I think that integrate report can break that kind of wall between them so I always persuade a company, Japanese companies to make their integrate report. I did say that you should comply with the IRC framework […]." **IM12**

Interviewees point out the importance of ESG disclosure to companies, which engage in dialogue:

> **"**And right now we really introduce ESG information disclosure to the corporate clients, to kind of investment relations department and then we tell them about ESG investors mainly overseas, like UK pension funds are really interested in ESG so you need to disclose such and such stuff.**" IM4**

Governance disclosure seems to be different as a compulsory form by the FSA seems to be required:

> "they do actually disclose in terms of governance […] there is this document that they submit to the FSA in Japan, and that is quite detailed information…" **IM2**

However, there is also scepticism about the existing reporting frameworks:

> "And sometimes the marketing machine takes over. And that is the risk with sustainability reporting. So the PR department or the investor relations department takes over. They start ticking every single box, that the GRI tells them to tick. Before you know you get CEOs coming up to you with a big grin saying 'we got an A+', they don't even know what A+ means. You ask them what does the + mean…" **IM1**

The interviewee feels that the disclosure should link to company-specific and not based on a framework:

> "I think the company needs to tell us whether they are well positioned for sustainable development and long term, they need to tell us why and how historically they have looked after minority shareholders. They need to tell us in the broadest sense, why they manage well their license to operate. And that is where the E,S comes into it. The G comes in the minority shareholder bit. And that is what they should be telling us. They shouldn't be saying for the sake of it we now consume 35t of carbon per …." **IM1**

4.4.2.1 ESG reporting in English

Average disclosure levels seem to be low in English:

> **"**I mean, it's amazing how many big Japanese companies don't produce quarterly information in English. […] I mean, the biggest company on the Nikkei Index, because it's a private commodities company in Japan, but the Nikkei is a price weight index so it's got the biggest share price, is Fanuc, which is a robot company. They've only started producing information in English I think six months ago on their quarterly results.**"** **IM11**

There are outliers however:

> "[S]ome of the leading companies [have] very good disclosure levels, but you know on average […] not. Especially language barriers: not issuing English ones." **IM4**

The governance disclosure for the FSA is not in English, which links to the previously discussed finding that foreign investor do not rank high in the list of priorities, even though they hold around 30% of the market:

> "[T]hey do actually disclose in terms of governance […] there is this document that they submit to the FSA in Japan, and that is quite detailed information…" **IM2**

> "Yeah it is public, but it is not translated into English. And much more helpful than annual reports" **IM2**

4.4.3 ESG to be integrated in main stream research

There seems to be a trend to include ESG analysis in mainstream research, which again suggests the emergence of a hybrid logic, in line with the development in the UK (Atkins et al. 2015):

> "I think what would be more interesting is the traditional fund managers are having to slightly change their approach to being good owners of companies, because of the stewardship code. I mean that may change the nature of the standard regular fund, rather than the SRI per se." **IM5**

There are, however, also investors with separation:

> "Yeah, so we don't have ESG analysts per se. Although the whole ESG team is there to support the financial analysts." **IM10**

4.4.4 G first (enables S and E)

Profitability as a governance issue:

> "[T]he industries in London and in the US, the first thing they would call is that companies need to make profit. That's the biggest problem with Japan. It is not the ESG issues, but they need to be returning a profit. And I think that's the greatest conflict between the businesses and the shareholders." **IM6**

It can be seen that a change of focus is starting to set in. The gradually appearing consideration of shareholder interests in Japan is in line with the general developments discussed in sections 2.2.5.1.2 and 2.2.5.2.

4.4.5 Cost of ESG

The question of the cost of ESG activities came up during the interviews, but was not discussed in detail or mentioned frequently by the interviewees:

> "So I think they…one of the challenges that we have is that how to fund the costs for these activities. So it seems strange for me to say, but how to fund that money to pay for my payroll?" **IM6**

4.5 Access to Data

This section contains passages from the interviews, where the investment managers describe their access to ESG data, i.e. they describe which data they use in the investment process and how they gain access to it.

4.5.1 ESG data provider

One investment manager lists an example from outside of Japan where he feels that ESG data providers would not provide an accurate rating:

> "Basically during the meeting he said 'Do you want to meet Goodluck, do you want to meet him and his cabinet? I can get you in front of him within an hour.' and he did!
> That company is completely uninvestable! You don't get that in Sustainalytics!" **IM1**

There is some scepticism about ESG information in general amongst the interviewees:

> **"**No they are completely… I would say it's amazing how little correlation there is between the rating of one data provider to the other. Which makes us very suspicious about the quality of these databases!**" IM5**

However, there is a variety of data providers that are being used for ESG information, depending on the different investment managers. This data is used inter alia to inform investor-investee meetings:

> **"**So we yeah we look at broker reports so financial institutions like HSBC and al those sell-side broker reports to just have an overview of company performance and companies' reports. And we have data provider on sustainability issues, so we look at those. But we normally have set objectives in advance of meetings so we don't necessarily look at everything before every single meeting.**" IM2**

4.5.2 In-house data

In-house research on ESG is used in the investment process:

> "[S]ome asset manager might see the ISS […] that reason but I think that most companies do by themselves." **IM12**

Some combine external data with internal data or further process external data:

> "So in one hand we look at financial exposure on the other we look at the rating that we attribute. So internally we have ESG rating system for about 4000 companies and so we develop that through an aggregate of lots of databases that buying, stuff like MSCI, Sustainalytics, GMI. And then, yeah, we prioritise about 100 companies the year." **IM5**

> "[W]e use RepRisk heavily, which is media based controversies. And how we use them is really with discussions in meetings." **IM1**

4.5.3 Information sources

In addition to the aforementioned data providers and internal research there are further sources of ESG information.

> "Company meetings is our main source of information, annual reports, ipo reports: so when the company first listed if it is some time in the last 30 years you get a wealth of information in that listing document. Meetings bring out the most." **IM1**

An additional source is private reporting meetings with companies. This source will be looked at in detail in 4.5.6.

4.5.4 Visit facilities

Visiting the (production) facilities is also seen as providing information:

> "Occasionally we do site visits or speak to third party people if they are relevant." **IM2**

> "Visit facilities […] Whenever possible I visit the factory and the warehouses and production facilities […]." **IM3**

4.5.5 Stakeholder dialogue

Stakeholder dialogue through meetings seems to be considered:

> "Occasionally we do site visits or speak to third party people if they are relevant." **IM2**

> "Yeah, well, yeah we don't really talk to unions or industry groups or… But we don't exclude them. If we have a chance, happy to talk to them […]. If there is a sort of labour issue, of course we are happy to talk to the union and things like that." **IM3**

Also bespoke pieces of (local) research:

> "We commission research so we commission research to improve our own knowledge base." **IM1**

> **"**We commission other people, locals, where it makes sense.**"** **IM1**

4.5.6 Dialogue with the company seen as private reporting

This section collects passages from the interviews regarding company meetings and their role as sources of information, i.e. private reporting:

> "But our view about […] direct contact with the companies we discuss confidential information and that is where we […] give a company may be an upgrade or a downgrade, in our view." **IM5**

> "I mean they are happy to discuss about it, we are happy that we get a better understanding of the whole picture or the background of those companies activities. So as you mentioned I think there is a great deal of information or knowledge to be gained from those meetings." **IM6**

Where this has theme appeared before it was already highlighted. It is in line with the development in the UK, where investors following the ESG institutional logic could not find the desired ESG information and used private reporting meetings to fill the gaps in public reporting, which is driven by the financial institutional logic (Atkins et al. 2015).

There seems to be an interest in sharing insights gained as best practice:

> "So the purpose is understanding and learning from the companies actually the best practices so that I can also share those best practices with the relevant other companies, so that they can possibly learn from each other or sort of, you know, share the information and promote those best practices." **IM6**

This indicates a development from one-directional reporting meetings, where the investor holds the company accountable, to two-directional dialogue, in line with the development in the UK (Atkins et al. 2015, Solomon and Darby 2005).

4.6 Japanese Stewardship Code

This section presents statements made by the interviewed investment managers regarding the Principles for Responsible Institutional Investors, i.e. the Japanese equivalent of the UK Stewardship Code.

4.6.1 Investors need to understand the reasoning

The Principles are new to Japan and the investment community:

> "First of all the concept of stewardship code started in the UK and I think first of all it takes time to translate that concept into Japanese and it takes time for the Japanese financial industry people to absorb the contents and why it makes sense and why it may add value, etc etc etc so it's still the transition period." **IM3**

4.6.2 Uptake of the Stewardship Code

Some interviewees commented on the current uptake of the Principles amongst investors:

> "In terms of all institutional investors, 127 should be already, I don't know, 80%, 90% maybe, maybe." **IM3**

They also mentioned the current challenges:

> "Okay they have signed up to the stewardship code, but most of them don't actually know how to put that into practice. Implementation is the big challenge now for Japanese investors regarding the stewardship code." **IM5**

4.6.2.1 Active ownership

The Principles seem to encourage an active role of the investors, as recommended by the ITO review:

> "Ultimately it comes down to not just foreign investors but Japanese investors to become much more active participant in the market, and to hold management to account." **IM5**

> "I understand that the UK stewardship code is changing in a sense that it is more focused, I think it's becoming more value-creation oriented. I think Japanese…the Japanese stewardship code is more focused on shareholders and companies working together to sort of promote growth of the company, for sustainable growth of the company." **IM6**

They seem to be also relevant for the mainstream and not limited to the (S)RI niche:

> "I think what would be more interesting if the traditional fund managers are having to slightly change their approach to being good owners of companies, because of the stewardship code. I mean that may change the nature of the standard regular fund, rather than the SRI per se." **IM5**

This indicates again a change of institutional logic in the Japanese finance industry.

There seems to be an understanding that active ownership and long-term orientation can improve portfolio performance:

> "I think that that is probably two parts: one is kind of an increased focus on the concept of ownership and stewardship in Japan, but also I think that there is also a wider industry move to save transaction costs, so turnover of funds has been proven to be a major detriment to performance." **IM5**

4.6.2.2 Asset owners as driver / Business case for IMs

It seems that some asset owners are asking their investment managers to sign:

> "So I think that question or the interest coming from […] the asset owners has had a great impact on asset managers' behaviours, because it would, you know, if you are not engaged or if you are not tactically fulfilling those responsibilities you could lose your mandate: It's a business issue now." **IM6**

This is an interesting dynamic, as it is the opposite development that can be seen in the evolution of responsible investment in general.

The public pension fund(s) were mentioned as key drivers:

> "It depends on those public pension funds. Typically they have, they do, they diversify their mandates quite a number, so I think for GPIF. […] But typically…a large pension asset owner would delegate more than 20 asset managers on different investment strategies. […] And also those mandates…since those public pension funds are very large each mandate is still large, it is a big business for those who actually have one of them!" **IM6**

4.6.3 More US style governance

> "So I'm not sure what's going on, but by now last year we get the stewardship code, so more focus on corporate governance and that the management should work for shareholders more, so that means more Japan, Japanese corporations behave like the US companies." **IM4**

There seems to be an understanding that the Principles can lead to a stronger focus on ROE and profitability:

> "So the only way that they can enhance the expected returns from the portfolio of the Japanese equities is to as or order Japanese companies to raise their ROEs and that's what their purpose is when they sign the stewardship code." **IM9**

> "The balance is still changing and it is still probably a bit more focused on the non-profit side. So I think that is one the institutional shareholders role or responsibility in this market, to sort of pressurise the companies to make profit." **IM6**

4.6.4 Awareness of Stewardship concept

There seems to be awareness of the stewardship concept in the whole financial industry, rather than in a niche:

> "If you were in the UK or other countries, even the US when you speak with the IMs they wouldn't know what it means or what it involves, but in Japan if you are in the industry, the investment industry, people will just know about the stewardship code, whether in terms of responsibilities or basically…so that certainly…the recognition or the acknowledgment has a great impact." **IM6**

4.6.5 Ownership / control of Stewardship code

The question of 'who owns the stewardship code' seems to be open.

> "I hope that they're going to do that with the governance, where they pick and choose a little bit. […] I think broadly the framework is good. Don't get me wrong, I can't really fault necessarily the stewardship code or anything. Well I can […] but, it's whether you have the right people to exercise that position of duty or not, that stewardship. And who's going to enforce it." **IM10**

4.7 Japan History

This section groups the statements made by the interviewees regarding historical developments broadly in the area of the financial industry in Japan, which effect or have affected the developments around the Principles for Responsible Institutional Investors and Responsible Investment, in general.

4.7.1 Growth period until 80s

The interviewers commented on the specific development of the Japanese economy after World War II, which is in line with what was discussed on section 2.2.4.

> "I think Japan has its own very special situations and that they are… You might know that after the World War II the growth was phenomenal […]. Until the 1980s, so very very high growth period, but you may know that there was some environmental problems, you know, poisonings and diseases and all those difficulties…" **IM3**

4.7.2 Slow down since the 80s

The slowdown in the last two decades, also known as lost decades, comes up frequently during the interviews:

> "Yes. Yeah… and Japan had to go through massive massive change, until the end of 89 was basically economic growth and surprise performance […]. But then it kept falling falling falling for the last 20 years, 22 years." **IM3**

The weak performance over the last two decades is also cited as contributing to the low ROE:

> "Yeah, really the last 20 years, we lost two decades, there is some [noise] difficulties for the management to satisfy the shareholders and investors." **IM3**

4.7.3 Future perspective / Abenomics

The government's role and the Abenomics programme are mentioned, which is based on the ITO review:

> "The catalyst is the revitalisation programme, prepared by the other government, they are implementing the stewardship code just two months ago and they are trying to stipulate corporate governance code in Spring next year and these changes are pushing Japanese companies to become more open to investors and analysts; that's what I think at the moment." **IM9**

There is the belief that some short-term investors were attracted by Abenomics, hoping for a quick increase in ROE, rather than the desired stable long-term investors:

> "Yeah, yeah, I mean, there are the hedge funders. Really hedge funders came in when Abenomics got announced, and they invested a lot. The minute they make money they're going to leave, yeah." **IM10**

4.7.4 Ownership Structure

As discussed in section 2.2.5.1.2 the ownership structure changes significantly, see Figure 2-3.

Many Japanese companies are still held by Japanese life insurance companies:

> "And also ownership structure still Japanese life insurance and and more life insurance companies own loads of Japanese companies and they tended to have been very quiet about the management's issues. But […] life insurance companies realise this and they want to change, they want to say something as a shareholder and they are… Clearly, you know, Japan is heading one step towards ESG investment." **IM3**

However, the financial crisis seems to have changed the ownership structure:

> "And one of the drivers that change that is actually the shareholder…actually the ownership structure in Japan: so you know the banks and the other financial institutions used to own this market. But you know this whole concept of stable shareholdings dominated the market, but it's now the foreign owner/shareholders that are sort of on the rise." **IM6**

4.7.4.1 Stable shareholdings

In the past, the concept of stable shareholdings existed in Japan, through the traditional network system:

> "[…] [B]anks and the other financial institutions used to own this market. But you know this whole concept of stable shareholdings dominated the market, but it's now the foreign owner/shareholders that are sort of on the rise." **IM6**

4.7.5 Regulation

Regulation to make it easier to attend AGMs:

> "And then after that I focused on stock exchange listing rules, corporate governance code that's going to come up, talking to FSA, talking to METI. METI is now talking about making sure that AGMs are not too close together, those are the kind of changes I'd like to do." **IM10**

Traditionally all AGMs were held within one or two weeks. This was said to be to avoid disturbance by the Yakuza.

4.7.5.1 Asset classes

Legislation regarding the asset allocation of public pension funds has changed:

> "And then corporate pensions are just started like a round 2000 they just start to freely divide and asset classes, making a portfolio and asset allocations and before that there were fixed ratios, via regulation you can't choose any asset allocation. It's no liberty to, you know, pursue portfolio management, so they just started around 2000." **IM4**

It is however a process:

> "I just think it's quite exciting now, and hopefully, hopefully thing will change a bit. But I think in order to change the asset allocation, there seems to be some, there has to be some structural changes in the country." **IM10**

4.7.5.2 Perceived as regulation

The Stewardship code seems to be perceived as regulation, by some:

> *Respondent:* "So I think in Japan also various discrepancies and like the difference actually but anyway in Japan, the Japan situation is quite different from the UK because in UK the FRC […] leading the Stewardship Code but in Japan FSA, FSA is a kind of very, a very, very strong work!
>
> *Interviewer:* So it's not mandatory but kind of mandatory?
>
> *Respondent:* Yeah, it's probably this so that's, I think that is Japanese situation..." **IM12**

4.7.6 Domestic bonds

Public pension funds, especially the GPIF, seem to focus on domestic bonds, partly due to the aforementioned legislation:

> *Interviewer:* "So sorry, just for clarification, before 2000 the asset allocation was fixed by legislation.
>
> Respondent: …was fixed…by legislation.
>
> *Interviewer:* So they… Could they include any equity only to certain percentage?
>
> *Respondent:* Yes, to a certain percentage.
>
> Interviewer: Ok.
>
> *Respondent:* It's more like mainly bonds, domestic bonds. Mostly domestic bonds and a little equity and a little international bonds and international equity, so they are all fixed." **IM4**
>
> "GPIF, is the biggest one… They have also, like very domestic bond oriented portfolio and then they are almost fixed, so they don't want to take a risk to invest in Japan Equity." **IM4**

4.7.7 Fiduciary duty

The debate of whether ESG violates fiduciary duty was mentioned before:

> "[E]specially in the public pension fund area people tend to think it's going to be a fiduciary breach if you pursue some like social cause." **IM4**

There is a specific dimension, which was mentioned before, when talking about group structures and obstacles to engagement:

> *Interviewer:* "All right; well, that's great. Do you have places where these businesses are…or these parts of the business are completely independent?
>
> *Respondent:* Yes, they are getting more and more independent these days because fiduciary duty has been introduced to the Japanese financial community…
>
> Interviewer: Mm-hmm.
>
> *Respondent:* …for several years; seven or eight years and many people now understand that the asset management companies have their fiduciary duty and should work only for the economic performances, economic profits of their clients. So the parent companies or sales divisions cannot say that they should follow the management decisions strongly." **IM9**

5 Interview Findings: Investment Analysts

Chapter 5 includes the findings of the expert interviews carried out with 'ESG Analysts'. The findings are presented in the same way as in chapter 4, i.e. by introducing first the theme. For example, the theme is 'Engagement and Dialogue. Then a set of sub-themes is introduced, for example 'Impact of Engagement'. Within these sub-themes frequently occurring topics are collected, for example 'Post Event Changes'. In the case of this example the structure would then look as follows:

Level 1 – 'Engagement and Dialogue'

Level 2 – 'Impact of Engagement'

Level 3 – 'Post Event Changes'.

The sub-themes will be introduced in the respective sections.

The themes are as follows:

5.1 – Engagement and Dialogue

5.2 – Japanese Culture

5.3 – Materiality

5.4 – Responsible Investment in Japan

5.5 – Access to Data

5.6 – Japanese Stewardship Code

5.7 – Japanese History

5.1 Engagement and Dialogue

Under the theme 'Engagement and Dialogue' (ED) all sub-themes are coded, which relate to aspects of the engagement and dialogue process between investors and the investee company.

5.1.1 Impact of engagement

One respondent cites the example of Toyota to show the impact of engagement:

> "[L]ast year they appointed external directors, but before that Toyota even don't have the external directors. […] [T]he foreign investors […] prefer to have their external directors, that's the main debate." **IA3**

The impact of the foreign investors can be seen here, which is in line with the developments analysed in sections 2.2.5.1.2 and 2.2.5.2.

Whilst change can be observed, the respondent is uncertain if it is due to engagement or general pressure:

> Respondent: "I don't know the reason why they changed because of our engagement? […] [B]ecause so many pressures to them, yeah." **IA11**

5.1.1.1 Post event changes

There does not seem to be the feeling that meetings lead to changes, which is why they decided to vote against the proposal at the AGM:

> *Interviewer:* "And how do they get resolved?
>
> Respondent: It cannot be resolved. […]
>
> *Interviewer:* So the company won't move. […] [E]ven [though] you express [that you are] unhappy?
>
> Respondent: Yes. Investors have to vote against the companies, mainly. Because the client of the institutional, the client of the pension fund have to vote […] against, at the shareholder meeting. They recommend to their client, their client is institutional investors so we have to vote […] against." **IA9**

It can be seen that steps of escalation are taken by the investors as part of the engagement process.

5.1.2 Views on usefulness of engagement and dialogue

In this section many respondents have commented on their engagement and dialogue strategies, what experiences they have made and what they are currently doing in this area. These findings can be found in the sub-themes 5.1.2.1 till 5.1.2.7. However, only few commented directly on the usefulness of their activities.

There seems to be a general perception that engagement and dialogue are useful in order to achieve change:

> "Yeah […] sometimes they just get […] pressure from NGO or social group. The company, the people from the company, they just ignore [it], like it's not related to their shareholder issue. But if investors or shareholders go to the company to discuss those kind of issue, they are more serious about taking care [of] the issue." **IA11**

Some investment managers find it useful to have engagements and dialogue with companies. They ask the analysts to have private reporting meetings to retrieve additional information:

> "But sometimes our client […] asset management company, asks us to have a direct contact to other companies because they want to know more information about these company. Sometimes. […] [S]o I think we have 30, around 30...20 or 30 meetings […] with companies a year I think. But at this moment […] I think it's not a big number […]." **IA8**

5.1.2.1 Meetings called by companies

Companies seem to ask for meetings to present their side of the story:

> "So I think it depends on who initialised the meetings and what the main purpose is. So, for example, if we haven't initiated the dialogue […]. […] But they may request a meeting regardless. In those cases definitely it is a promotional kind of meeting […]." **IA7**

This is in line with the findings by Solomon et al. (2013) for the UK: companies are trying to employ impression management. However, in the described cases there does not seem to be a dual myth creation, as the investors do you buy into the 'performance'.

5.1.2.2 Meetings called by investors

Meetings are also called by analysts regarding ESG issues:

> "Yes, and so we had, we make appointment to meet them, company, then we visit, and then we just discussed about ESG things, yeah." **IA11**

The fact that meetings are called on both sides indicates a development towards dialogue. However, in the case of the investment analysts this does not seem to be a string development in Japan.

5.1.2.3 Wall street rule

Asset owners seem to be interested in the voting done by their investment managers:

> "I think it was a GPIF. They started to say they wanted to exercise their voting right, so they acquired asset managers to exercise the proxy voting right. Then they required to report their result about their process or how it would be conducted there." **IA5**

Asset owners start to pressure investment managers to exercise active ownership. This is in line with the international development of stewardship.

5.1.2.4 Concept of hostile investor / activist / Houka-ya (Sokaiya)

There is still a negative perception of engagement as activism. The Yakuza influence is not seen as present anymore, by it is still very recent:

> "I don't think so. I don't think so. Maybe… I have never asked, but… it's quite a long time ago…already […] maybe 10 years ago already…more than that maybe…so I believe that wouldn't affect, but because we have foreign investors for activist on changing companies management, for example Mr. Lobe trying to change Sony's […] entertainment division. Media picked up a lot on that, so when they think about engagement, people immediately think about the activist. So…yeah I think that's sort of the struggle we have." **IA4**

The term 'engagement' seems to be understood as becoming activists, which has a negative connotation:

> "Respondent: I think […] first of all we don't have a word for engagement, in Japanese, so we say engagement-do in Japanese. That means we don't know how to translate it, we don't know the way to do it. So […] if you want to translate it directly into Japanese then it has a very strong meaning, it's like activist kind of thing. So when […] it first came into Japan, I mean the word came into Japan, people think, oh, Stewardship Code is something…we are becoming activists." **IA4**

5.1.2.5 Engagement strategy

An interviewee commented on the approach to engagement, which seems to be the same for every company in the portfolio, i.e. not targeted engagement triggered through ESG events:

> "[T]hey have regular engagement meetings, I think once a year at least for all the companies they invest in. And they…because they are a leader, I call them leader, of the ESG market in Japan, they always had that practice, maybe at least three years already." **IA4**

5.1.2.6 Understanding the investor

In general, companies seem to be interested in understanding (institutional) investors:

> "Mainly […] company contact us […] they want know […] how the investor thinking so they are gathering the information on institutional investors […]." **IA9**

This is discussed by Solomon et al. (2013) as a step in the process of building a front and therefore part of impression management. The company prepares to present something to the investors that they expect the investors want to see.

However, at this point there does seem to be a lack of understanding when it comes to (institutional) investors' interest in ESG:

> "Yeah, just the start […] many institutional investors in Japan accepted stewardship. So they have to meet the company and the engagement activities they have to but [it] just starts […] and now the companies do not understand why institutional investors really want to know ESG factors." **IA10**

There seems to be an increasing interest of small and medium companies to understand investors, especially non-Japanese investors.

> "But today I can see that several medium and small cap companies, even if they are family owned, the CEO from the family or founder might be very sensitive over their stock price because they are the largest shareholder of the company. So you know that to maximise the value of the company, of his own company, I think that I'd say one factor he or she is interested in is how to communicate with the non-Japanese institutional shareholders, not only at your meetings but also such governance and employment and social issues as well." **IA6**

As many of these companies are family owned, a change in share price therefore directly impacts the personal wealth of the owning family.

5.1.2.7 Collaboration vs. confrontation

There seems to be the tendency to collaborate or look for a dialogue, especially if there is uncertainty about specific issues raised by either side:

> "But then if we have initiated a dialogue specifically around a specific issue and based on that they've suggested to have a meeting, it has always been a very specific dialogue. Often times the meetings take place when they see there's a challenge in implementing and they feel uneasy about writing it down on paper in the first instance and they want to first help us understand the background and challenges that they're having. But often time I've found it's again the perfectionist approach, it is a learning and understanding for them as well to find out that they don't have to do verbatim what is required sometimes and they can take it to a higher level to implement. But in those cases I've not really found it to be a show." **IA7**

This indicates that there is meaningful cooperation to solve an issue at hand, rather than impression management.

Companies seem to look for a long-term collaboration, where they can explain their situation:

> "Yes, company maybe friendly accept it, when talking with them they understand what we are thinking, especially on the how to improve the higher yield performance or stock valuation […], but they explain to us that it's very difficult to introduce that institutional investors thinking and unfortunately they need the long term, the long time to improve the corporate performance so they explain to us that they need a long time and a lot of opportunity to talk the institutional investor to […] communicate the idea or something like that to each other." **IA9**

The desired situation is a situation in line with the logic of the traditional Japanese system stakeholder networks and stable holdings.

5.1.3 Collaborative engagement

Collaborative engagement requires sharing information, which there seems to be some hesitation. Sharing information seems to be seen as giving up an advantage:

> "[W]e don't work as a group. People are afraid of sharing your knowledge, or information, things you know…with others. You want to win the game, because you know the information. […] So some people are suggesting that we should have a collective engagement, like the UK version…but so far we haven't seen yet." **IA4**

This seems to depend on the nature of the issue to be engaged on:

> "I think that makes sense. […] [I]n general the company should appoint at least one outside director, that kind of issue is very...we have that kind of consensus. In that situation the collaborator would engage to the company to ask for them to hire at least one outside director. In this case I think it happens but because the problem is very general and they have a consensus." **IA8**

The uptake of the PRI and its engagement platform seems to be limited, which shows the hesitation towards collaborative engagement:

> Respondent: "Yeah, PRI, whole PRI you say there is so many signatory, like 500 or 600, I'm not sure how many.
>
> Interviewer: 1,200.
>
> Respondent: Oh yeah, OK,
>
> *Interviewer:* Yeah, it's a lot.
>
> Respondent: Yeah. But still, in Japan there is only less than 20." **IA11**

5.1.3.1 Communication amongst investors

There seems to be willingness to communicate more with the different actors in the financial industry:

> "So we that…as a financial professional we need to engage more with the asset managers on how to invest or how to make the investment decision, based on ESG data, how to use ESG data to invest or divest." **IA1**

Whilst there does not seem to be a standing forum or regular meetings, there are ad-hoc events:

> "We don't really have a…forum or working group or anything like that, but when we need it, for example last year we organised a stewardship code event in the office in the auditorium, so we invited only investment managers […]. So when necessary we were having this kind of forum or whatever you call it." **IA4**

5.1.4 Impression management

The meeting seems friendly as long as the topics do not cover issues, which are unpleasant for the companies:

> "Oh yeah. Mainly the first approach is to introduce our product and our stance, how to think of the company, the invested companies. So generally the meeting is held, friendly, but unfortunately when the important matter happened for example the poison pill was introduced in the company […] meeting was not friendly held." **IA9**

In contrast, group meetings with companies seem to be rehearsed:

> "[…] [Y]ou visit them as a group […] try to do a stage performance." **IA4**

Also, some of the analysts seem to send the questions in advance and then received prepared answers:

> "It, before I visit the company I already sent a questionnaire, so the company prepared how to answer. So it means if I just meet the people from the investor relations actually beforehand, they collect the information from CSR team or environmental team, or human rights, or human resource or something, yeah." **IA11**

However, there seem to be discussions in addition to the prepared questions:

> Respondent: "Maybe it's more like discussion type of interview, so
>
> *Interviewer:* So they don't give a presentation with you, you go through the questions?
>
> Respondent: Yes, yeah.
>
> *Interviewer:* Then do you feel that they are very co-operative, very open about the questions, or do they hesitate sometimes?
>
> Respondent: Basically if the company accept the interview they are really open, yeah." **IA11**

If the company agrees to have a meeting, they are open. However, several occasions are mentioned where the company tries to apply impression management.

5.1.4.1 Activities are not reported / presented to stakeholders

There seems to be a tendency for companies not to report on progress, but only once the target has been achieved:

> "[…] [W]hat you often find is especially with the UK leading that trend there's a tendency to have broad targets that may commit to a 200 per cent improvement by a certain date, whereas Japanese companies tend not to say anything until they've got 100 per cent done, where in fact they may have already done 60 per cent and the UK companies may have only 20 per cent done in actual reality. […] So I think companies started to understand and appreciate the fact that they've got to communicate […]." **IA7**

> "So a lot of the times from the external point of view you may think that the company hadn't done anything, for example, on human rights training, but it may be because they are not willing to say they have done the training until they literally have trained every single person in the company globally for a large listed company, including subsidiaries. So there is that sort of element." **IA7**

5.1.4.2 Japanese companies are honest

It seems that in general the companies try to convey a positive image, however when asked directly they answer honestly:

> "No, I think they are talking truth I think. I've never met the company outside Japan, I haven't met the CSR director of a Chinese company or I don't know, the other...in other country but I only meet the Japanese companies, but I think they are telling the truth I think for me. They're not hiding something or they're not, I don't know, making it up no I don't think so." **IA8**

Whilst IA11 reports on impression management and the need to dig deeper to receive the required information and therefore accountability, IA8 seems to be at the risk of creating a joint myth of accountability (Solomon and Darby 2005, Solomon et al. 2013).

5.1.5 Management vs. Investor relations

There seems to be an increasing interest in meeting with (senior) management instead of investor relations:

> *Interviewer:* "So who did they meet before, did they meet only with investors relations…?
>
> Respondent: Exactly!
>
> *Interviewer:* And now they are meeting more with senior management?
>
> Respondent: Exactly." **IA4**

The difference does not seem to depend on who one meets with:

> *Interviewer:* "And when you talk, did you talk to investor relations?
>
> Respondent: Yes.
>
> *Interviewer:* In comparison to talking to like senior management?
>
> Respondent: Yes.
>
> *Interviewer:* Do you feel that the meetings are different?
>
> Respondent: It's the same manner." **IA9**

It seems to depend on whether there is buy-in from the senior management:

> "I think it's more to do with whether top management is engaged with the issue or not. Whether or not you talk to the top management or not in our case wasn't necessarily that important, but whether the top management appreciated and enforced and supported those practitioners would make a difference. Because, for example, if it's just an individual responsible but they don't have the back-up then obviously the words won't be translated into implementation." **IA7**

Linking to the quotes on impression management, this interviewee finds that the investor relations teams are more honest in meetings than the senior management:

> "[T]hey're the top management, so they don't say any negative things […]. […]
>
> So yeah, so I prefer to have the interview with all the other people from the general ... investor relations people. They're more honest, yeah, and then they also know not only their company but also they know the other company in same sectors, yeah." **IA11**

5.1.5.1 IR information limited

Regarding investor relations team seems to have only limited information regarding non-standard issue, i.e. ESG questions instead of quarterly numbers:

> "So when they wanted to ask about, you know, 'Why did you chose this non-executive director?' […] So then IR doesn't have the answers, so…they have to think about 'this is what we want to ask in the next meeting, can you ask around your company to get appropriate people in the meeting'. So that is a big change I think." **IA4**

Traditionally the information provided on ESG seems to be limited. However, it can be seen that interest in this information increases. The underlying logic of the investor-investee meetings seems to change.

5.1.5.2 Silos within the company (CSR, IR, Legal, Mgmt)

In Japanese companies there seem to be different departments to deal with different aspects of ESG and investor dialogue:

> "But one thing I have been looking at inside Japanese corporations so probably there are three silos, one is CSR department and the second is the legal department, and the CSR department normally takes care of environment and social issues and the legal department takes care of government issues, governance issues. And the IR is...meet IR people who are focussing on IR meeting or financial data, some of the disclosure like that. So the point is that from the corporate side they are still doing CSR activities very much separately inside themselves, and it seems to me that in my view just a few companies they've got CSR as an identical to ESG, which is a view from the non-Japanese institutional side." **IA6**

It seems difficult to have meetings with people from the different silos, which would be required if there was an integrated institutional logic at play:

Interviewer: "[…] [I]n terms of governance do you also talk to the legal compliance people in the company, or

Respondent: Sometimes […] those people attend the meeting, but not really, yeah. But still governance issue in Japan is not like, I don't know […] still we try to figure out what is a corporate governance, yeah.**" IA11**

There seems to be, however, a tendency to combine the silos:

"Yes, that's right. But, on the other hand, I can see now just a few companies now considering that issue, that three lines, or at least two lines, I think ES and G should be related in one line as an ESG discussion with the non-Japanese institutional shareholders." **IA6**

5.1.6 Obstacles to engagement

As discussed in 5.1.2.4 there is no direct Japanese translation for the concept of 'engagement', and the general connotation is negative, which is perceived as an obstacle.

5.1.6.1 Cross shareholdings

Managers seem to move between companies, within the same group, i.e. the head of the investment management division could have been in charge of corporate pension funds, loan business or insurances before:

"Yes. Because the manager or the management of this pension...the manager or board member […] always come from this company not outside […] that's why those situations are very close and sometimes unclear. I think it's a governance problem but, yeah, they are not independent that's why they care [about] that relationship. I think those kind of things are always happening in Japanese corporate pension fund and sometimes insurance company maybe." **IA8**

5.1.6.2 Conflict of interest – strategic holdings

There seems to be a conflict of interest between different companies within the same group, due to cross-shareholdings:

"Respondent: But they have […] a loose viewpoint on insider trading. So that because that is maybe the policy, but they haven't stopped.

Interviewer: So they haven't stopped insider trading?

Respondent: They haven't stopped! Daiwa, Nikko, or… I don't know why.

Interviewer: So has it also to do why their Keiretsu structure? Or do you think that there is still a role of the Keiretsu structure?

Respondent: I think so yes. Sometimes." **IA1**

> "*Interviewer:* I was just wondering when you were talking about insider trading, I was wondering because you have this information flow within the Keiretsu…
>
> Respondent: Yeah so sometimes there is a weak Chinese wall in the investment banking sector." **IA1**

What the interviewee calls "weak Chinese wall" is described in more details by these analysts:

> "Yes, so insurance company have a lot of problem. Of course they obtain the shareholder, they obtain the stocks from the client companies. They have, they have shares very very long time, and […] of course the investing management department have a lot of pressure from the client sales department […] to keep the shares but unfortunately there are little opportunities to sell these shares […]." **IA9**

5.1.7 Japanese vs. Non-Japanese investors

There is the perception that Japanese investors would be more suitable to approach the companies:

> "But before that I think those kinds of discussion should be given by domestic institutional shareholders including ourselves, yeah, because for the companies Japanese domestic institutions are much, much closer than non-Japanese institutions and much probably long term orientated in a sense, and much familiar with the company itself in many remits, in strategy and the products and the people in a sense. So I think that the first discussion, first priority should be put on a discussion between Japanese insurers and the Japanese domestic institutions." **IA6**

This perspective resonates with the aforementioned stable network logic previously dominant in Japan.

There seems to be the perception that non-Japanese investors struggle communicating with companies and do not appreciate the local structures and processes:

> "It was only when I saw that unconditional trust in a way that you appreciate that they would not have that level of trust with…it was kind of an unconditional distrust in a way. So there is that double barrier, I think, in the dialogues. But I do think it's also about the communications style from the foreign analysts […] in terms of, again, assuming that those standards are the only standards or those structures are the only structures. I think often times the principles are correct, and in many cases perhaps better than some of the local standards, but at the same time there can be local structures that are in principle the same as what is required, there's just a bit of translation needed in the sort of alignment. I think sometimes the communication is a bit too forceful and there's no sort of opportunity for that mutual understanding to occur." **IA7**

The overseas investors seem to follow a forceful approach, based on experience gathered in the US and UK.

However, it also seems that Japanese companies distrust non-Japanese investors:

> "[I]f there is a material reason for that change to be made then I would say they have the right to be forceful if they wish to be, but sometimes it can be almost a tick boxing difference, and in those cases I think they are wasting their own time in not appreciating those differences. But I think it is a two way process, as I said. If the companies are unwilling to explain because of that unconditional distrust to begin with then of course they're not going to understand. So it is a bit of a two way process." **IA7**

There also seem to be conservative elements amongst the Japanese investors, slowing down progress, whilst companies have already learned from being approached by foreign investors:

> "[I]n my view the company side is more open to those changes I think but investor side as I say they are very conservative I think, […] especially the Japanese asset management companies are very conservative. So the pace of change is very slow I think for investor site not companies because in company side they have a […] foreign shareholders and share owners so their IR department communicated with the international investors, so they have more experience. But the Japanese asset management companies only invest in Japanese companies sometimes […] so they are more reluctant to the changes and the company is more open to the change I think." **IA8**

5.1.8 Trust and Reputation

This sub-theme builds on the sub-theme '5.1.4.2 Japanese companies are honest':

> "You want to invest in companies for long term, you want to maintain the relationship with shareholders for the long term and it's always sort of a trust issue in Japan. So you have […] trust… between friends for example you have […] trust you maintain that trust you have a good relationship or friendship between friends so if you apply that to an investment world […] if you want to invest into companies for longer term or from corporation perspective if you want to have long term investors or shareholders you want to be honest, you want to be, sort of, open to the conversation and to get the trust between the relationships." **IA2**

> "I guess it's a trust issue. If you have trust between you and the company manager then they will open the door for you and they will talk about the truth opinion. Especially managers are very passionate about the business so they can talk about that for long […]" **IA4**

Open dialogue seems to depend on whether the company trusts the investor. If this is the case, then it is possible and even welcome. However, if this is not the case than it does not seem possible to engage in open dialogue.

5.1.8.1 Company wants investor to understand the company

It seems that companies would like for investors to understand the company in detail:

> Respondent: "One of the SRI fund from ... asset management, we, whenever we research the company, first of all we try to find out what is sustainable issue is for those companies, then we making some kind of […] questions for this issues, then we just go to company and ask them about. […] But sometimes we are misreading it, so they try to teach me directly." **IA11**

5.1.8.2 Language barrier: English vs. Japanese

There seems to be an interest in raising issues and questions with a Japanese speaker:

> "What I did find very interesting in the beginning was just the fact that I was Japanese seemed to make them feel I would understand all their problems without any communication. So in some of the first conversations when we had physical meetings they would say, you know, as a Japanese person I'm sure you understand, and that was it. Well, actually, I don't understand, could you elaborate a bit more? But I think the positive aspect of that was that there was this kind of unconditional trust in some extent. But it was, I think, an interesting process for both sides that you actually beyond that did need to communicate a bit more explicitly about what was being done." **IA7**

In addition, it also seems to make a difference whether the investment company is Japanese or not:

> "I believe it was shortly after that that the whole RI/CSR research industry in Japan knew about me, and it was not because I was famous or anything, but it was more the fact that because we were communicating with all these Japanese companies […] they could speak to me but they kind of saw me as quasi-Japanese, quasi-European, and so although they saw me as a help in understanding the issues they were still slightly resistant in communicating back in asking a lot of the questions. So they asked more domestic research houses for help […]" **IA7**

5.1.8.3 Importance of physical meetings

It seems that it is important to have physical meetings in addition to written or phone communication:

> "[A] lot of the times the Japanese companies, we did visit them when we were in Japan occasionally, but often times they were quite keen to come to our office in London to explain what they are doing, and, as I said at the beginning, there is an element of physical communication importance." **IA7**

5.2 Japanese Culture

The theme 'Japanese Culture' analysis influences of the Japanese culture, in general, and specifically the Japanese Business Culture on responsible investment, corporate governance and engagement.

5.2.1 Japanese corporate attitudes to ESG

The attitude towards ESG seems to depend on non-Japan exposure, with Japan-focused companies being less receptive:

> "[…] Japan-based companies yeah don't want to change. So especially bank, company developers, insurance and finance companies, so they are […] Japan-focused. So they do not want to …change [their] practice.
> Of course so as you mentioned Sony, or… so if company had industry exposure to the non-Japanese areas they are receptive to changing the company structure, appointing independent directors, separation of CEO and chair, so that is totally different." **IA1**

It seems that there is the perception that there are fewer relevant ESG issues in Japan, especially in comparison with other Asian countries:

> "But I think, if I say one difference, let's say for instance in some developing countries in Asia there are a lot of ESG issues, I mean the pollution, human rights abuses, etc. But in Japan companies are operating much more properly. […] But if you only […] invest in Japanese companies, I think there are less necessity to care for the ESG issues, compared to investing in Chinese company or I know some controversial company." **IA3**

The development from 'near-issues' to 'far issues' does not seem to take place, contrary to the international development since the post-WWII era (Biehl, et al. 2012).

There seems to be the perception that the link between ESG and materiality has not been shown yet:

> "[O]ne of the clients was saying we know that there are so many academic papers that are saying […] it's correlated or it's related, but none of the investor side have […] proven that linkage. So it is something that either you believe it or not. So that is why he selected me, in order to overcome this kind of concept, someone maybe [from within the finance industry] needs to prove it. So that most of the investors start using, you know, E and S metrics." **IA4**

5.2.2 Japanese culture and ESG

Taking ESG issues into consideration as part of sustainability seems to be an important part of Japanese culture:

> “[T]his is social structure or societal issues, but not only investors also society in general in Japan […]: So how to tackle with sustainability is-sues like aging society, climate change of course, water scarcity or something like that. So basically they are very interested in sustainability issues. But […] they don’t know so how to adopt their concerns to investment decisions." **IA1**

There seems to be the perception that ESG as a concept does not incorporate Japanese cultural differences:

> *Interviewer:* “So like if I understand you correctly it was a…well to put it a bit provocative…but like you had some US framework put over Japanese companies ignoring the cultural differences?
>
> Respondent: Yes, yes!
>
> *Interviewer:* …and that then didn’t work.
>
> Respondent: Yeah.” **IA4**

5.2.2.1 Japanese-style governance

There is a difference in the Japanese corporate governance system and the US or UK style system. The Western system is still very uncommon, despite the pressure from overseas investors to change:

> “However, we have a totally different corporate governance structure from other parts of the world, nothing similar to the US, nothing similar to the UK. So it is quite hard for foreign investors to understand why we don’t have any independent directors, […] why this company still has founders in place, on the board. And one of the big change, I mean one of the big difference we have is a corporate auditor system. That is the sort of chosen by the majority of Japanese companies as a corporate governance system and it is very rare to see committee system, like you have in Europe or in the US.” **IA2**

There did not seem to be an interest in changing corporate governance amongst Japan-focused funds, however there seems to be change, indicating a change in the existing institutional logic:

> “R: [...] And so I try to explain Japanese company focused funds… they have no big interest in improvement or progress on ESG issues. So like ‘corporate governance, that is Japanese style, that is ok’! But more and more ESG funds and mainstream investors interested in especially in governance issues […]. So I think yeah things have changed, are changing […].” **IA1**

Also regarding independent directors, the questions seems to be whether they are truly independent or if they have some association with the company, e.g. by being part of the same network through cross-shareholding:

> "[W]e still have lots of affiliations, so for example you have outside directors or non-executive directors, but maybe some of them […], are coming from the main bank or maybe some of them come from assurance auditors or maybe they come from main […] law firm that company has a transaction with." **IA2**

This is a clear sign of impression management: On the surface the independent directors are in fact independent, however in reality they are part of the company's network and therefore not independent.

The perception of good corporate governance seems to differ between Japanese companies and non-Japanese investors:

> "[T]here is a big difference between the Japanese and non-Japanese. Japanese are not so interested in the governance issues. And especially so the corporates don't believe that [the] Japanese corporate governance system is a problem.
>
> But foreign investors […] have a total different view. There is also no separation between the CEO and chair. Audit, not audit committees, board of auditors and board directors. So there is no separation. That is because the board of directors appoint the board of corporate auditors. That is not good, that is what foreign investors believe." **IA1**

5.2.2.2 Consensus as a driver / market moves as 'one'

In terms of disclosure companies seem to take the disclosure practices of the competition in to account:

> "Yeah, it's a cultural difference from UK. In Japan if it's eager to disclose these kind of items they really disclose everything but and if the competitor of the same sector disclose something they […] disclose same items." **IA10**

5.2.2.3 NGOs

There does not seem to be organised pressure from beneficiaries, inter alia due to an absence of NGOs:

> "I mean in Japan you only have very few NGOs or civil society or ethical consumers to raise their voice to the companies, to pension funds, etc so they do not […], feel the pressure from the beneficiaries to take into account sustainability issues." **IA3**

This is a very different situation in comparison to the development in the West, where NGOs were main drivers for change in regard to responsible investment.

5.2.2.4 Ethical investors (e.g. churches)

The development of (S)RI based on negative screen of religious investors does not seem to have happened in Japan:

> "Unfortunately there is no cultural background of negative screening in Japan. So….I think that is derived from the Christian world or western world." **IA1**

In addition to the NGOs, the ethical investors which were drivers in the West are also absent in the Japanese context.

5.2.2.5 Japanese culture and environment

Environmental metric and disclosure are engrained, through laws, addressing the pollution problems as a consequence of the post-WWII era growth:

> "Corporations are very keen on disclosing data, especially in the environmental area. There is this background in Japan companies did have to report environmental issues such as energy consumption or greenhouse gas emission in relation to an environmental law. […] [T]hose companies who had to comply with those laws, they are familiar with the reporting they are familiar with environmental assessment within the company. So I find it very easy to sort of look for environmental reports or data from the companies." **IA2**

Companies seem to be keen to develop environmentally friendly products, in line with the general focus on environmental issues:

> "[A]ctually in the company site for instance they are very proactively developing a new product, which is more environmentally friendly, for instance environmentally friendly cars, I mean automobiles, and also many products, for instance refrigerators, air conditioners, everything, is really eco-friendly I think. So I mean the company side [is] very keen to develop environmentally friendly products.…" **IA3**

This might have to do with incentives provided by the government, addressing past problems:

> "In case of eco, actually Japanese government put some kind of tax refund, yeah." **IA11**

5.2.2.6 Japanese culture and long-term

There seems to be a focus on long-term in general in the Japanese culture, which links to the aforementioned desire for stability and trust in relation to shareholdings:

> "So it's… openness and disclosure and disclosing things and transparency is sort of a key word for Japanese corporations. But once they accept you to become a longer term sort of friendship or shareholder or investor or whatever the role is, they want to maintain that relationship. So I think responsible investment itself will fit in Japanese culture." **IA2**

This then also translates into the long-term dimension of sustainability:

> "I personally think that Responsible Investment is in line with Japanese culture […]. […] You want to retain things, you want to maintain things for a long-term. And responsible investment, part of it, is I think has got that kind of idea." **IA2**

The concept of 'long-term' also seems to lead companies to embrace RI as a tool for long-term investment:

> "So the companies themselves have been pushing for it because of the fact that with the financial crisis and the ongoing deflation, until now, in Japan the Japanese companies really see the need for investors that can appreciate their long term approach, and so they have been advocating for those investors and they have seen ESG as one way to promote that […]. And then the sort of industry association bodies, including SIF Japan and PRI, have both been sort of communicating the link between stewardship and that being the investors' responsibility, verses integrated reporting being the companies' […] responsibility, and if you get that right you will get the investors to implement stewardship and look at your ESG factors. So from this new trend I would say that there is this almost synonym which you don't see as much I think in the UK of stewardship and ESG integration/long term investment." **IA7**

The rational is that performing well on ESG will give the company access to stable investors interested in the long-term success of the company, similar to the traditional Japanese system of networks and stable holdings.

5.2.2.7 Japanese culture and the community

Japanese companies seem to be very engaged with their communities in terms of philanthropy:

> "Well I think they are doing a lot, yes donations to local school, community involvement, but I […] think for investors it's not so important actually." **IA5**

In terms of community there is another interesting trend at the flip-side: Community investment, where communities pool their money to hand-pick companies to invest in:

> "I think that the stewardship code will definitely stimulate the markets to having more direct relationships between the beneficiaries and the fund managers […]. That's going to happen for sure. […] I think something perhaps worth watching is the trend between the real community type on the ground investments where I think there is a growing trend of individuals investing in very small levels in projects and companies that they believe in, and whether that sort of bottom up approach of investing and the sort of top down approach of ownership at some point is going to meet." **IA7**

This approach is part of the increasing trend of the 'Kamakura funds' as discussed in section 2.2.4.6. It describes the 'two tales' of responsible investment in Japan (Sakuma-Keck 2015): Kamakura funds driven by beneficiaries desire for long-term stability and ESG retail-funds driven by the sales departments of financial intuitions.

5.2.2.8 Inside Japan vs. Outside Japan

There is a perception that ESG issues inside Japan and outside Japan differ:

> "Abuse of human rights is not going to happen with in… In Japan. In developing countries, for instance Bangladesh, I do know, China, there are a lot of issues. But if you live in Japan we don't feel that kind of abuse within Japan. That's why people do not pay very much attention to such issues." **IA3**

However, the ESG issues outside of Japan, which are linked to Japanese companies, do not seem to be taken into account, either:

> "It depends on industry, it depends on issues, so now I'm recently covering house durable industry which includes consumer electric industry like Sony, Panasonic, Sharp, electronics.
>
> Such companies, such industry pointers need to consider controversial sourcing, but in Japan it's not an issue actually, people don't care [about] controversial sourcing for conflict minerals but if they want to operate in Europe and US they have to report." **IA5**

There seems to be some doubt about the performance of Japanese companies outside of Japan:

> Respondent: "Oh I think for a Japanese company I heard most in the top companies we assess like our constituents of Japan in. They should, well basically they have a same standard adapted in both Japan and China.
>
> *Interviewer:* Okay, so they have the same standards across their supply chain in a way – oh not supply chain but subsidiaries.
>
> Respondent: I'm not sure actually – I suppose so but, oh I don't think so, no. You know so we are looking at our controversy, like Nike and Adidas.
> Also we have Japanese big operate company Nicaro, you know, they report, those are having manufacturing facility in a developing country emerging market, but the company is targeted by NGOs on the big brand." **IA5**

Whilst the interviewee's first reaction is 'there is no problem' it is interesting to see that the interviewee reconsiders and changes the response, whilst answering.

It seems that companies extrapolated Japanese ESG issue to their subsidiaries or suppliers outside of Japan, but do not address the issues at hand locally:

> "[A] lot of the large listed companies the headquarters are in Japan where the social context is very different from their operations in developing in emerging markets, and the CSR team that used to take care of those ESG issues mainly again were mostly headquartered in Japan and not on the ground […]. So, for example, if you take equal opportunities from a Japanese headquarters point of view would be sexual harassment and power harassment as the main issues, and they wouldn't really consider child labour or forced labour as issues that they would need to address. Not saying that they necessarily abuse those positions, but they did need to improve their policies and systems in order to align with those standards." **IA7**

The distinction between near-issues (inside Japan) and far-issue (outside Japan) appears frequently during the interviews. Whilst this is in line with the international development as discussed in Biehl et al. (2012), internationally the focus moved from near to far, once the urgent near-issues were addressed. One explanation of why this might not be the case in Japan is the lack of NGOs which play a key role in this process in the West.

5.2.2.9 Japanese culture and society

Japanese companies seem to value being a responsible part of society, with employees being high up on the list of priorities, as previously discussed. It is interesting to see that the interviewee has a split opinion on this particular issue:

> "[T]he retention rate of employees in difficult economic terms is probably much higher in Japan than it is in other countries. From a social context there's a positive, but then if you look from a pure economic sense then there's less efficiency involved. And, yes, I agree that there are certain perhaps values that the founders of these large Japanese companies do have a lot of social meanings to them, and in fact that was often the excuse used when we were engaging with the Japanese companies, that they had this broad principle to respect human beings, for example. And I can see the positive aspect of that, but at the same time I think when you have approximately 30 per cent of your company being owned by foreign shareholders then there is an obligation to be able to explain what you are doing in an international context and putting certain mechanisms in place as well.
>
> So I think there's definitely positive aspects of the Japanese culture and business structure, but it has to be at minimum communicated well to the international community so they can see the comparison between what's actually happening in a Japanese context to the international framework." **IA7**

5.2.3 Resistance to ESG in Japan

Adopting the UK Stewardship Code or the PRI, etc. is a big change, which seems to usually take a long time, however now there seems to be rapid movement:

> "Yeah, so this is a very big, big change, so this is a country everything changes slow, very slowly every time in the past, but this is a big, big and a speedy change in a sense which we've never seen in the past." **IA6**

Also, investors seem to be more conservative when it comes to ESG:

> "So the pace of change is very slow I think for investor site not companies because in company side they […] foreign shareholders and share owners so their IR department communicated with the international investors, so they have more experience. But the Japanese asset management companies only invest in Japanese companies sometimes but...so they are more reluctant to the changes and the company is more open to the change I think." **IA8**

This shows that the main drivers are the overseas investors, who have grown more powerful with the change of the ownership structure in Japan, as discussed in sections 2.2.5.1.2 and 2.2.5.2.

5.2.4 Family owned companies

The share-price awareness of families on the board of family-owned companies seems to be increasing. As mentioned before, families realise the change in ownership and the impact on the share value and their wealth:

> "But today I can see that several medium and small cap companies, even if they are family owned, the CEO from the family or founder might be very sensitive over their stock price because they are the largest shareholder of the company. So you know that to maximise the value of the company, of his own company, I think that I'd say one factor he or she is interested in is how to communicate with the non-Japanese institutional shareholders, not only at your meetings but also such governance and employment and social issues as well." **IA6**

5.2.5 Japanese corporate culture

There seems to be a focus on a holistic view of the company and the world, beyond financial metrics, which promotes the ESG approach:

> "[Y]ou need to have the mindset of having holistic views of the business, and in this age of hi-tech and in the information technology driven society as we can see today. All the competition in the business world your value added may be obsolete in a very short time and period. So you need to have […] [a] stronger mind...you have to have a very clear mindset of your vision to be thinking […] holistic, not chasing only about financials but also looking at the more broader aspects of the world." **IA6**

5.2.5.1 (Management), employees, customers, community, investors

The shareholders do not seem to be the stakeholders that the companies focus on:

> "Because, unfortunately, it is very unnatural stage for the Japanese companies to understand the value to shareholders. They already felt […] value to stakeholders including supplier, employee, main banks, main security companies or something like that, but […] institution investors particularly outside Japan are very much excluded from the stakeholder circle from the company. So the company often regard formally institution shareholders out of the scope of stakeholders. They are not the opponent, they are not the enemy but they are different […] far away from the scope of stakeholders or circle." **IA6**

This is in line with the traditional Japanese concept of business as discussed previously. There is a network which some shareholders are part of and others are not. The latter are not part of the 'inner circle'.

5.2.6 Profit not 1st priority for companies

Providing employment seems to be more important than increase in profitability:

> *Interviewer:* "Why do you think it is so different […] why is the ROE so low in Japan by comparison?
>
> Respondent: […] I don't have that answer but the people say written in ITO review, because the Japanese companies do not decide to restructure […] their business which is not profitable.
>
> One reason was for a Japanese company it is difficult to conduct a lay off so because of their relationship with the labour union. It's difficult to make a quick decision to cut off a certain business. It's a worry isn't it I think for low ROE for profit." **IA5**

This is again in line with the traditional idea of the purpose of business in Japan.

5.2.7 Size of companies influences ESG

Large companies seem to be able to apply changes in corporate governance, but it is a structural reform rather than a 'quick fix':

> "I think, I would say large cap to start with. And it is still, I think it is a struggle […] even for large companies, because if you want to change this it is going to be a whole structure change." **IA2**

In terms of disclosure it also seems to be the large companies that disclose more:

> "[I]n general large companies are more likely to disclose many information […]. But the middle to small sized or medium-sized companies… [O]ften disclosure […] is really limited. I think that's a really big problem in terms of the ESG analysis, because it's kind of the biased […]." **IA3**

Whilst it seems that all companies will be affected, large companies are following policy changes more closely:

> "I think it will affect all companies, I think. But of course the large market cap companies […] they are more paying attention to the policy changes, of course. But yeah the Japanese government… That policy will affect all sized companies, I think." **IA3**

Also in terms of shareholder dialogue, large companies seem to be more receptive:

> "I would say that some companies which might be open for the dialogues, particularly for non-Japanese institutions, the orders are limited at the moment, very limited, just like 200 or 300 companies in the Japanese total.
>
> *Interviewer:* And from the characteristics of these companies would they be large cap?
>
> Respondent: Large cap, mainly large cap, yeah." **IA6**

Large companies seem to be able to create specific departments, unlike smaller companies, however they are then more resistant to change:

> "I think there are two types of companies. Big companies that already have an organisation about ESG or integrated reporting division but the smaller company there's no person to focus on ESG or PRI […] the big company do not accept our recommendation. They have, they already have their […] thought." **IA10**

5.3 Materiality

The 'materiality' theme analyses whether ESG factors are seen to have a material importance for investee companies and investors.

5.3.1 ESG / RI materiality

There seems to be a perception that ESG issues are material *(for details on the time horizon please see 5.3.2)*:

> **"**I think so. […] I am just saying this personally, but I wish many people in the finance industry had the same sort of opinion. I believe that ESG or non financial metrics will have an impact on investment or returns of portfolios.**"** **IA2**

The materiality, however, seems to depend on additional characteristics:

> "Yes in general yeah, ESG issues are material, but of course it depends on the company, it depends on the sector, it depends on the country." **IA3**

However, some fear that there is a negative impact on performance as RI is perceived as limited to negative screening strategies:

> "[…] [T]he individual investors and the institutional investors fear that SRI is unprofitable investment strategy. And that's because the Japanese investors recognise SRI as negative screen strategy. So that's…. so that's avoiding investing in tobacco company or something like that." **IA1**

Therefore, there seem to be doubt about the materiality of ESG in general, as there is a perceived lack of evidence of outperformance:

> "Respondent: They feel G is a material, you know.
>
> *Interviewer:* Oh okay and E is included.
>
> Respondent: Yes, E and S, when we explained our methodology to them, they understand, oh this is the way to understand E and S materiality.
> Obviously they are impressed and they are convinced, but still they because E and S and G risk is not connected to the financial performance yet, so that's because of that they are still thinking should they incorporate ESG risking to their portfolio management or engagement.
> I think that the lack of evidence makes them appear so questioning." **IA5**

However, integrated reporting seems to help highlighting materiality:

> "They can see what issues is material and how it is connected to - it can be connected to a financial performance - that will be very helpful or then to understand material issues." **IA5**

Finally, there seems to be the perception that better education around ESG could help:

> “Yeah, I think the problem […] is not so many people understand that ESG or materiality. So that’s the point we spread [to] really understand stewardship or ESG. There is a shortage of recognition […]. So it is important to educate a person that may be a fund manager or analyst. I think they have to learn about ESG and why investors need to invest ESG […] they have to learn.” **IA10**

5.3.1.1 ESG outperformance

It seems that after the initial boom and bust of eco-funds there was scepticism regarding the performance of RI.

> “It is just simply that investors did not believe SRI can earn money, or can get any excess returns. So I think that why it wasn’t popular after that boom.” **IA2**

The problems of eco-funds are discussed on detail in section 2.2.4.5. The performance of the underlying assets does not seem to have been the main problem.

There seems to be, however, an understanding that ESG issues can have a negative impact on performance. Therefore, managing them well would lead to outperformance:

> “But I think social aspects it's more related to the reputation, I think. For instance if one company has a problem of human rights issues in the supply chain, for example, yeah it will not affect corporate revenue so much, but this will affect the reputation. In terms of social issues also affect their corporate reputation and at the end of the day it will affect the corporate revenue, of course.” **IA3**

5.3.1.2 Performance difference between E and ESG

The portfolio characteristics of eco-funds and ESG generalist funds seem to differ:

> “In terms of risk-return-profile environmental funds is a kind of small cap fund, and ESG fund is a large cap fund that is kind of… so like Nikkei fund or something like that.” **IA1**

This seems to be seen as an explanation for a potential performance differences:

> **“**But yeah in the downturn this is a huge loss on the environmental funds. So the environmental funds is like a small cap fund. And that means in the up turn it is great return. But in the downturn that is a great loss compared to the large cap funds, the ESG funds.**” IA1**

However, others do not think that there is much of a difference:

> “I don't see the big difference, […] but […] you know, of course it really depends on the fund managers' skills and also the fund itself, because they have some features, which are different in each fund. But on average I don't see the difference.” **IA3**

Also it seems to be clear that the new ESG strategy is one of Stewardship, which is different from the old funds which mainly applied screening strategies:

> "They felt they were disappointed with that, you know, ECO fund, SRI fund was. Now we've been moving to the next step which is driven by a Stewardship Code and a Corporate Governance Code. Also government and pension funds are interested in this area.
> They have now started to think about how to develop a new ESG fund, they are seeking opportunity to do so, but everything is still unclear.
> Now it's still they're collecting information, thinking about how to tackle the market, that's the point – I think that's the situation of all RI market in Japan." **IA5**

5.3.2 ESG time horizon

The perception of the time horizon when ESG becomes material seems to differ, depending on the ESG issue in question:

> "My answer is yes. [ESG is material] but the impact depends on the issue. For example climate change, water scarcity is very long-term for investors. But for example food security, product safety, or something like that is short-term. So like total recalls or […] food poisoning is very short term and very direct […]." **IA1**

Especially when it comes to valuation:

> "[C]orporate governance and valuation is not really enough. When enter into the Tokyo Money Assets Management […] I made a lot of valuation for calculating the stock price, but when making valuation we have to thinking for very short time because we have to looking for the quarterly number for calculating the future stock price, the future earnings. But unfortunately, you know that the corporate governance is the problem for the very long term, long term. It's difficult to mix these factors. So frankly speaking, of course corporate governance matters is very, very important, unfortunately but making the valuation we cannot introduce the corporate governance factors to the calculating of valuation. Yes." **IA9**

This resonates with the general perception that it is more relevant in the long-term:

> "I do believe that responsible investment should look into the longer term re-turns or companies' valuation, rather than looking at short-term companies' earnings, for example. So when you are looking into longer term valuation, you should look into non-financial metrics. Maybe you may want to look at environ-mental legislation coming in the market in the future, or maybe you want to look at human rights or supply chain risks and of course Governance." **IA2**

In terms of number of years there seems to be an understanding that it is at least 3-5, but more likely 10+:

> "I think it's a bit hard to say the exact years, but I think at least three years, or more than five years, or even 10 years." **IA3**

> "Yeah definitely long term, but… when I was talking to the investment managers they were saying 3 to 5 years, that's what they targeted as a normal investment process. But then when it comes to engagement funds I guess it is not something like that, I guess it is more than 10 years." **IA4**

Especially when looking at specific issues, e.g. climate change:

> "[F]or instance if you look at the E, climate change obviously it will affect the corporate behaviour. Maybe not right now, but in the long run, I think, it will dramatically affect the corporate behaviour and also resource scarcity, everything." **IA3**

The key role seems to fall to the asset owners:

> "[A]sset managers are very busy to fulfil any target, short term target by asset owners as a business, as a typical business. So I can't deny that the discussion with the asset managers might be […] short term orientated on a quarterly basis about ROI or dividend or something like that. So I think that asset owners might be more appropriate for the insurers to discuss on a very long term basis because they are the long term asset owners, they need a short term return but at the same time as a public pension fund like the GPIF […], they should have a long term holistic view." **IA6**

5.3.3 E specific

The first SRI funds that entered the market in the 1990s were eco-funds:

> "So if you are talking about environmental focused funds in Japan they were in the market for a long time. And I think the first eco fund came in to place in the 1990s. So what they do is, they try to come up with the companies that are good for the environment. Period." **IA2**

(Regarding performance differences between eco-funds and ESG generalist funds, please see 5.3.1.2).

5.3.4 S specific

Social aspects seem to be seen to have more of an indirect effect on materiality:

> "R: But I think social aspects it's more related to the reputation, I think. For instance if one company has a problem of human rights issues in the supply chain, for example, yeah it will not affect corporate revenue so much, but this will affect the reputation. In terms of social issues also affect their corporate reputation and at the end of the day it will affect the corporate revenue, of course." **IA3**

5.3.5 G specific

The G specific issue fall mainly into the two categories ‘Difference between E, S and G’ and ‘ROE’, which are explained in details in 5.3.5.1 and 5.3.5.2, respectively.

5.3.5.1 Difference between E, S and G

There seems to be the perception that there is a difference between including E, S and G issues in the analysis:

> “Because governance factors are very, very important on the performance. A lot of fund manager recognise that but environment and social is the second portion so when talking with the CEO or the executive I discuss firstly on the corporate governance matter, secondly environment and social.” **IA9**

5.3.5.2 ROE

Japanese companies seem to have low ROE figures when compared internationally, which is in line with the generally low priority assigned to shareholders.

> “Unfortunately yes. And the return of the global company funds is far better than Japanese funds. That is because as you may know the ROE of Japanese companies are very low in comparison with global companies.” **IA1**

One reason seems to be the large cash position of Japanese companies:

> “Foreign investors usually criticise Japanese companies about the huge cash pile on the balance sheets. So that is kind of no use. But no paid dividend, not used for investment or R&D, so…” **IA1**

One aim of advocating stronger stewardship seems to be raising the ROE, in line with the recommendations of the ITO review:

> “[…] I think it’s both the asset owners as well as investment management industry as well, overseas as well as domestic, people should raise any opinions […] [for] companies to raise the ROE or the expectation of higher performances. So I think it’s quite meaningful to discuss that issue.” **IA6**

Trying to raise the companies’ ROE seems to affect the discussion around ESG, in Japan:

> Respondent: “[I]t mentions eight percent of ROE, so that’s the one sign the topic they are wanting to talk with…
>
> *Interviewer:* Okay, so to raise the ROE?
>
> Respondent: Yes, so it's not only about the ESG, it's a little bit different from UK Stewardship Code or other, you know, other Stewardship Codes in other countries.” **IA5**

The ESG debate in Japan, unlike in the UK, has a strong element of raising the ROE. This is an element that is not included in the UK responsible investment logic as analysed by Atkins et al. (2015).

5.3.6 Investment strategy

There seems to be the perception that SRI funds are limited to active management and the use of negative screening, which was the case for the early funds in the 1990s:

> "[I]n his view SRI fund in clearly screening one, so it is anti-fiduciary. So that does not contribute to the return maximisation, profit maximisation." **IA1**

However, there seems to be a variety of approaches, as can be seen in 5.3.6.1, 5.3.6.2 and 5.3.6.3.

5.3.6.1 Concentrated portfolio

There seems to be some evidence of concentrated SRI funds:

> "It depends. Some SRI fund really focus on 20 or 30 companies but the SRI fund which I'm involved in actually they invest, they're investing 60 to 70 companies." **IA11**

This is in line with the 'two tales' of ESG and Kamakura-type funds with concentrated portfolios as discussed by Sakuma-Keck (2015).

5.3.6.2 Active

There seems to be one SRI fund where the ESG selection comes before the financial selection, whilst the interviewee seems to suggest that normally financial selection comes first:

> Respondent: "[I]f you take a look at the methodology for example for SRI funds, one of the SRI funds I know are using ESG rating, […] but what they do is to send questionnaires to the company and the questionnaire focuses on E and S area, and then based on the questionnaire they came up with the ESG score. So based on that score they create a portfolio […]. So they are not really taking into account any financial metrics as well as governance metrics.
>
> *Interviewer:* Oh really no financial metrics at all?
>
> Respondent: Yes, ah sorry. That is the fundamental methodology. And then when they pass it on to the portfolio manager they […] finally look at the financial metrics of course. Because they need to have a return as well. That is for sure. That is kind of the difference between SRI and ESG in Japan." **IA2**

There seem to be difficulties adapting the existing style of active investment to incorporate ESG issues:

> "Yeah, I think there is a matter of investment style. Traditionally […] active asset manager […] using an arbitrage because they buy low price and sell high price and they evaluate the fair price using some model and if the company's price is lower than the fair price they buy that stock, company's stock, and sell […] over [that] price. But that is, I think that's a short-term investment but it is worse investment to ESG investment, [ESG] means long term horizon and they have to value up the company. So this is a really different investment style. One is an arbitrage style and now we have to […] step in the value up style of investment." **IA10**

5.3.6.3 Passive

There seems to be the perception that companies are not entirely honest when filling in the questionnaires that form the basis of RI indices:

> "When they talk to us they...I think they talked honest and truth but if they answer those questionnaire the Dow Jones or FTSE for good, I think they are pretend to […] try to get the higher score because […] they get the award from [it]... because they increase up the index." **IA8**

This could be because asset owners are adopting passive investment strategies:

> "I think some part is the passive investment pension fund, large pension fund, style is a passive investment. It means they buy all companies tier C1 companies." **IA10**

The information that you get and whether it is truthful or an attempt to manage impressions seems to depend on your relationship with the company.

5.3.7 ESG as risk indicator

There seems to be agreements that ESG issues are being used as risk indicators:

> **"**But yes it's one hand […] looking [at the] opportunity side, but then again I think this SRI is also looking at the risk side as well. One of the questions in the questionnaire to the company, is so what do you say about climate change risks and how did you tackle […] it. That kind of information and then if […] you know if the company is doing something about it, then they could be rated better than the others.**"** **IA4**

5.4 Responsible Investment in Japan

The 'Responsible Investment (RI) in Japan' theme analyses the development of ESG investment and reporting in Japan, as well as related factors influencing the aforementioned.

5.4.1 Evolution of ESG in Japan

SRI seems to have started with the introduction of eco-funds in the 1990s, which is in line with the previously discussed evolution of responsible investment in Japan:

> "So if you are talking about environmental focused funds in Japan they were in the market for a long time. And I think the first eco fund came in to place in the 1990s. So what they do is, they try to come up with the companies that are good for the environment. Period." **IA2**

The perception that (S)RI means a breach of fiduciary duty, seems to have impacted development of (S)RI:

> "Yes. So one big issue […] 2003 […] one executive officer at GPIF […] the Government Pension Investment Fund commented that SRI is anti-fiduciary." **IA1**

This perception seems to have led to an inflow problem for the funds:

> "I think they just literally didn't get money in. So as I said most of the pension funds sort of have the majority of money flow so they grasp the money from the upstream. They said they didn't get buy in from those pension funds." **IA2**

Abenomics, based on the ITO review, seems to be a driver for change in regard to ESG:

> "Yes, it started 20 years ago or something but the changes look very, very, very slow in the past. And it seems to me that things, many, many things have just started to change because of our prime ministers' economics." **IA6**

Also the evolution towards the inclusion of ESG factors seems to have started:

> "[P]eople don't believe that only socially responsible companies get returns. So they want to have a broader sort of investment universe and try to integrate ESG factors in the analysis. Rather than just using ESG as a stock picking factor." **IA2**

This is in line with what Solomon et al. (2013) observe in the UK about 10 years ago: the merger of what can be seen to be competing institutional logics.

There seems to be a transition phase now, where the goal is clear, but the path is not:

> "So then I think it's now in a transition phase were some of them have done it, but they are trying to change the behaviour and then the rest, what is it? Well they know […] what it is, but…they don't know how to change it." **IA4**

Corporate governance seems to be the part of ESG to be increasingly included, in line with the recommendations from the ITO review and the pressure from foreign investors:

> "[T]he engagement fund is now focused because, you know the stewardship code, and activist funds have a lot of good performance in Japan so the institutional investors now major asset management company in Japan tried to make the new stewardship engagement fund. So […] in future, there will be a lot of corporate governance funds or something like that." **IA9**

Also, companies are starting to respond to the change:

> **"**[R]ecently they start to respond. That process started last year, so at the first half or two quarters […] or three quarters we didn't have a lot of response from Japan, Japanese company […].
> We are now getting many responses and they are showing their interest to see our reports.**" IA5**

5.4.1.1 E awareness

As mentioned in 5.4.1 the first financial products that incorporated ESG issues were eco-funds. However, this terminology covers very different approaches:

> "Both. They do have separates products and one focuses on environmentally good companies and the other focuses on clean tech funds. So it can be both but they use the same name of the funds, eco funds or environmentally friendly funds or environmental focused funds. So it is quite confusing." **IA2**

There seems to be an awareness for environmental issues due to events in the past, independent from RI:

> "[E]specially environmental due to the oil shock I mentioned in the 1970s and environmental pollution by Tepco company […]. But I personally think that […] they use energy to campaigning, not investment or divestment on these issues. So just campaigning ok so that is a dirty company, no environmental pollution or something like that." **IA1**

This also leads to better data-availability in terms of environmental issues, partly due to legislation, as discussed on section 5.3.3.

However, there still seem to be issues when it comes to the disclosure of environmental factors:

> "[W]e want to meet the investor's requirement and the company's disclosures to meet and that's important to […] the company because in Japan there's many companies really using a cost to environment or some other intangible assets. They really […], make money, make use [of the environment] and but they do not disclose properly." **IA10**

5.4.1.2 G awareness

The discussion around corporate governance in Japanese companies seems to have started 10 to 15 years ago, but only really moved recently with the ITO review and the change in ownership structure:

> "Yes, that's a key word. Now, you know, government and investors and companies are talking about, […] Corporate Governance.
> Well Japanese investors are not keen on E and S. They are quite keen on Corporate Governance because they can understand Corporate Governance terms. It's like 10/15 years discussion, how to improve the Japanese companies Corporate Governance." **IA5**

However, there still seems to be discussions around the question 'what is corporate governance':

> "I don't know, […] still we try to figure out what is a corporate governances […]." **IA11**

There seems to have been a lack of interest in regard to corporate governance at the side of the companies:

> "[T]he Japanese companies are […] mainly […] not interested in the corporate governance. So they didn't know how to contact institutional investors to talk, to talk on the corporate governance matters so they mainly tend to […] talk IR or presenting performance matters but unfortunately institutional investor needs the corporate governance matters so there [is] a lot of mismatch […] in the meetings […]." **IA9**

Changes can be seen that indicate that shareholders start to be considered as part of the inner network of stakeholders:

> "But recently, for the invested company there is a lot of, they are developing the system of the corporate governance matters so they are, for example they are making the SR [shareholder relations] team in the companies to develop the SR skills." **IA9**

It seems that specific G issue are being focused on:

> "The point now, the focal point now is that as the issue of non-executive directors, I mean independent, outside directors yeah, the governance issue and the governance aspects.**"** **IA6**

> **"**Lowest vote and the […] takeover defence and then director independence was the third, sort of got the lowest vote on voting results.**"** **IA4**

This trend is expected to continue with the corporate governance code being introduced:

> "Yes, yes. Corporate governance code will help the institutional investors to talk with the invested companies. Of course they will increase the number of the shareholder meeting with the invested companies and lot of opportunity to detail, to talk on the detailed matters in corporate governance so, that will help. That will help institutional investors in the end." **IA9**

5.4.1.3 S awareness

There seems to be a lack of awareness when it comes to social issues, inter alia as those are not perceived to play a role in Japan, but more internationally *(please see 5.2.2.8 for details on this)*:

> "I guess there was a focus, and I think it relates to one of your other questions, on the social issues, because the Japanese companies are fairly well on the disclosure and actions on the environmental management side, but because of the fact that social issues domestically are quite different from international social issues and so the challenge was when they were starting to go overseas to meet those international standards of social norms." **IA7**

It seems that companies are hesitant when it comes to S issues:

> "In particular Japanese company E is strong and the S is weak, a little bit weak in particular areas and G is well, weak." **IA5**

> "But then when it comes to social issues it is a big concern here." **IA2**

5.4.1.4 Life-long employment

Seniority seems to play a big role when it comes to progression with the company. As a consequence, senior management has spent all their working life with the company:

> "I think the way the companies are operating is quite different from overseas. One of the example I heard is that we don't have any experts in managing companies and if you look at the board members for example, all the executive come from company itself. The CEO for example all come from the company and it's like a bonus. If you work for the company longer term you get sort of the title of an executive, you get the title of director." **IA2**

5.4.1.5 Women in the workforce

There is progress in some S-related areas, e.g. women in the workforce, following political impulses:

> "Respondent: We work together with the Tokyo Stock Exchange and they provide that award to certain specified 74 companies, they pick up the company which has a high percentage of female director for example et cetera, there are a lot of criteria. " **IA8**

> "You mean in Japan? Oh yes… S issues, I mean, the current prime minister of Japan is really, I can say, is really he is one of the big one of his major policies is to promote gender equality and Japanese companies. He is really primary, that is his first priority!" **IA3**

Recently themed funds seemed to have been created regarding 'womenomics':

> “That sense the Japanese, in our country the gender diversity is one of the major topics in Japan and also […] within the last one month or two month new mutual funds, […] kind of the woman economics […] kind of […] woman empowerment fund, or something like that.” **IA3**

5.4.1.6 IM and Asset owners

The investment managers seem to have started integrating ESG issues throughout their business, due to the pressure of (international) asset owners:

> “[…] I think because of the external pressure of global asset owners having mandates that require some ESG consideration, probably driven by PRI, that the asset managers have been […] feeling the need to look at ESG issues from a more integrated approach, and so although the funds didn’t exist in Japan, a lot of the asset managers […] have been quietly taking a much more integrated approach than their European peers in the sense that they may not have that much expertise, but they have required every single analyst to try and think about what ESG issues may be material to their sector or their country, which I was quite pleasantly surprised about when having dialogue with the companies.” **IA7**

This indicates the application of new ways of doing things, i.e. changes to the existing institutional logic.

However, the Japanese asset owners do not seem to be interested in ESG issues, unlike the investment managers:

> **“**Mm. I think until now the challenge has been that the domestic asset owners have not shown interest or provided any mandates in this area, so part of the reason is a cost management approach integration is much more cost manageable. But I think once the mandates increase […] they seriously need to look into these issues they probably will need to buy in some expertise either by data or by individuals as well to beef up their kind of business as normal integration.**”** **IA7**

There is however the case of the Kamakura-style funds:

> **“**Oh no, I think it’s, because even Japanese government, they pushed the asset manager to have a long term investment, so Kamakura fund is a really good case of the long term investment style. […] I know many asset managers are really interested in the structure of the Kamakura fund […] if asset owner asked them, asked the asset manager to make those kind of fund, they are really happy to do that. But actually asset owner is still not really long term investors unfortunately.**”** **IA11**

The investment managers seem to be driving the changes, as they have built expertise, dealing with overseas asset owners:

> "*Interviewer:* So the Asset Owners consult the Asset Managers, alright ok.
>
> Respondent: Ehmm… that is the current stage. It should be the other way around, right?" **IA4**

This could be an indication of meaningful dialogue: The investment managers seem to be the 'knowledge centre' for asset owners as well as companies.

In terms of motivation it seems that it should be the asset owners who drive the debate:

> "I think ideally asset owners should have the say, asset owners should tell their news on the way of thinking, so I think that has to be addressed very clearly. […] I think the individual companies they don't have to have one on one meetings with their IM but rather as a rule they should communicate more effectively to management who give out the mandate, or if they run a large passive fund for that purpose they should communicate effectively to the industry and to the market as to what are the most important, what are their views of the approach that they should do." **IA6**

5.4.1.7 ESG as marketing

There seems to be large overlap between the portfolios of ESG generalist funds and conventional funds, suggesting a marketing focus targeted at retail investors. This is in line with the previously discussed aggressive sale strategies used:

> "Unfortunately, the concept is totally different between the conventional funds and the ESG funds but the outcome so which companies are included in the funds is totally the same. So like ESG funds of course […] some big companies are excluded, but most of the are very large cap, Toyota, Nissan, Sony, etc. So there is little difference between the conventional large cap funds and ESG funds." **IA1**

5.4.1.8 GPIF as driver

The GPIF has signed the 'Principles for Responsible Institutional Investors' and it is perceived as a requirement to get mandates from the GPIF in the future:

> "I think legislation is a big key factor in Japanese market. Again the stewardship code is one example and a good example. It's a comply or explain basis but people say it's a sort of mandatory code. I think part of the reason is that you see GPIF in the signatory list, so they think that if you want to have business with GPIF you have to become a signatory. Those aspects or elements [of] legislation is quite key." **IA2**

GPIF has also required IM to report on proxy voting:

> "I think it was [the] GPIF. They started to say they wanted to exercise their voting right, so they acquired asset managers to exercise the proxy voting right. Then they required to report their result about their process or how it would be conducted there." **IA5**

5.4.1.9 ESG integration

ESG integration seems to exist, but in a limited way:

> "I think now they do not care, […] insurance company do not act to the companies for ESG, for responsible investment. But some sophisticated already introduce the ESG integrated process, some asset management company have already integrated ESG factors in their investment process and the mainstream they really focus on or observe or engagement to the company. So but that kind of asset management is limited." **IA10**

Analysts seem to include ESG factors, however, not recognising them as such:

> *Interviewer:* "And […] them it's normal so they wouldn't say we are ESG but they, for them it's just normal research
>
> Respondent: Yeah, they normally use ESG factors but they do not recognise their analysis is really ESG, they do not understand really that that is ESG." **IA10**

The findings indicate that there is a parallel existence of the traditional logic of doing things and the ESG logic of doing things, similar to what Solomon at al . (2013) find to be the case in the UK in the early 2000s.

5.4.2 ESG reporting in Japan

Companies seem to be used to report on environmental and governance metrics, due to existing legislation:

> "Respondent: Well, they are pretty much open for governance because already they reported the governance, corporate governance report to the Tokyo Stock Exchange, but also environment. In Japan many companies had a long, I really don't know, but
>
> *Interviewer:* Tradition, or
>
> Respondent: Yeah, and they published the environmental report for a long time." **IA11**

There are, however, issues with the quality of the reported data:

> "[…] a few years back all the environmental reports had the parent data, which is not useful for us […], because global companies outside of Japan re-port consolidated data to cover the whole business operation globally. But in Japan if you have only parent data you can't really compare company A to company B. So that was an issue." **IA2**

This seems to be changing for environmental data, but not for social data:

> "[S]o environmental area it is changing the companies started to provide consolidated data, but social area this issue is still in place and I […] look for lost time, incident rate or fatalities data and those health and safety performance data they are still on parent basis and that is something you can find on the report […]." **IA2**

5.4.2.1 ESG reporting in English

There seems to be a lack of information in English, making it difficult for overseas investors to analyse the companies:

> "So it is a challenge that investors […], try to analyse companies, for example nomination structure or CEO succession plan, or how they come up with compensation and so on. Because we just don't have committee system and they all lack disclosure in English as well." **IA2**

The degree of reporting in English seems to depend on the company size:

> "I think the huge company, the very big company they normally publish the same report, one is in English, one is in Japanese. But […] the smaller sized company I'm not sure, sometimes they only publish the report […] Japanese companies, sometimes […] an English versions, but the top tier companies […] they try to provide the same information to international investors and also domestic I think so." **IA8**

This shows also that overseas shareholders are not considered to be a priority for the company.

5.4.2.2 Integrated reporting / international initiatives

Disclosure of information is used as a proxy for transparency:

> "[W]hat kind of information they disclose and what kind of information they do not disclose is also, I think, very important information for ESG rating agencies. We can use kind of proxy variables of transparency or accountability of that company." **IA3**

From the different approaches available Japanese companies seem to start to follow integrated reporting:

> **"**Yeah if you are talking about the disclosure, I think there is quite a lot of information already, in Japanese though. […] [W]e try to follow integrative reporting, companies are trying to change their reporting methodology. For examples they were showing numbers only, they started talking about the story, to investors. That's what integrated reporting is supposed to be […]." **IA4**

Companies are changing the way they are reporting, starting to integrate ESG data. This is a shift of institutional logic comparable to what Solomon et al (2013) find to be the case in the UK.

There currently seems to be a lack of expertise, where some companies are already creating integrated reports and others are still looking for advice on how to:

> "[T]hey haven't done it before…a lot of them were struggling. A lot of them are asking for advice […] from auditing companies like Big Fours.**"** **IA4**

"*Interviewer:* Do they, do you see that they increasingly produce an integrated report?

Respondent: I think more, many Japanese company are really, really interested in that report.

Interviewer: Integrated report?

Respondent: Yeah, integrated report. But still they are struggling how to make it, yeah." **IA11**

This is especially relevant as due to foreign ties, either through overseas investors or overseas business, there seems to be pressure on Japanese companies:

"[...] what would non-Japanese institutional shareholders in London and the US and the European Continent like to see on the integrated reports? So that is my recent typical question and the thing is that many, many Japanese companies are now issuing sustainable reports and / or CSR report, whatever the contents is because as a supplier to Apple, as a supplier to other US companies that indirectly the Japanese manufacturers are bound by issues such as a conflict of mineral issues." **IA6**

In the perception integrated reporting seems to be tied to the stewardship concept:

"So there are those kind of twin track trends, and then in terms of currently how stewardship and ESG is perceived […] I think the practitioners in Japan had an intentionally and good strategy of bringing stewardship and integrated reporting up in parallel conversations, both in the corporate world and the investors world." **IA7**

As mentioned before, companies see integrated reporting as a chance to attract long-term stable investors:

"So it has been by all players in the market. So the companies themselves have been pushing for it because of the fact that with the financial crisis and the ongoing deflation, until now, in Japan the Japanese companies really see the need for investors that can appreciate their long term approach, and so they have been advocating for those investors and they have seen ESG as one way to promote that, and so they have bought into the integrated reporting approach and have been perhaps campaigning from their perspective. And then the sort of industry association bodies, including SIF Japan and PRI, have both been sort of communicating the link between stewardship and that being the investors' responsibility, verses integrated reporting being the companies' almost responsibility, and if you get that right you will get the investors to implement stewardship and look at your ESG factors. So from this new trend I would say that there is this almost synonym which you don't see as much I think in the UK of stewardship and ESG integration/long term investment." **IA7**

5.4.3 ESG to be integrated in main stream research

There seems to be a trend for mainstream analysts to include ESG factors in high-impact sectors, e.g. oil and gas sector:

> "Yeah, yeah. But it's, but some sector like car company, yeah, or oil company, and those are really related to the environmental impact these days, so ten years ago only SRI fund manager focus on those kind of issues, environmental issues for those car company or oil sector, but nowadays fundamental analysts and the fund managers, they need to do those kind of information otherwise it's risk." **IA11**

A change in the approach of analysing high impact sectors can be seen, suggesting a change in the existing institutional logic.

Implementing ESG does not seem to be the norm, although it seems to be a trend:

> **"**So what they are trying to do now is to change their research methodology radically to have those ESG metrics in their research process.**" IA4**

The development seems to be in line with the development in the UK in the early 2000s: two competing logics start merge (Atkins et al. 2015).

5.4.4 G first (enables S and E)

Governance seems to be necessary to enable the adoption of S and E issues in a company:

> "And the governance is very important and governance, people has sometimes has a different understanding of the governance, but in my understanding governance is not just the issue of the board mechanics. I also think the governance is important to make sure that sustainability, […] activities […] actively took place in the entire organisation […]. And that's […] really important. So I mean the governance, […] make sure that […] the company will work on the E and S issues properly." **IA3**

> "*Interviewer:* So without, without the G of governance E and S […] don't take place?
>
> Respondent: Yes exactly, that's it." **IA3**

Governance also seems to be the easiest to understand and to link to performance:

> "Because governance factors are very, very important on the performance. A lot of fund manager recognise that but environment and social is the second portion so when talking with the CEO or the executive I discuss firstly on the corporate governance matter, secondly environment and social." **IA9**

5.4.5 Cost of ESG

Integrating ESG factors into the investment process is connected to additional costs. Some funds are sceptical regarding whether this will pay off:

> "[B]ut they still are very sceptical about the positive effect on the performance. And also they care the additional costs, I mean, if you do the ESG investment you need to pay additional fees, additional costs, to additional research, I mean ESG research. […] So they compare the additional costs and additional benefit, they will obtain. And they are a little bit sceptical about that the benefit will be bigger than the additional cost, they still do not trust that equation." **IA3**

5.5 Access to Data

This section contains passages from the interviews, where the investment managers describe their access to ESG data, i.e. they describe which data they use in the investment process and how they gain access to it.

5.5.1 ESG data provider

There seems to be scepticism, regarding the quality of ESG ratings:

> "Often cited and beneficial in user terms, but […] I feel sorry for the fact that sometimes the higher ranking or the high score company, have severe accidents or something like that. Like BP or Tepco or so yeah Toyota of course. So sometimes I am very sceptical of these scoring or ranking methodologies. […] Especially in aggregate terms!" **IA1**

Some seem to have started their own ratings, as they are not happy with the existing ones:

> "Respondent: Japanese investment managers. Foreign investment managers…I have met them…quite a lot […] they do seem to have their own system. They do have a rating, they do get ratings from other main offices on Japanese companies, but some of them started to realise this is not going to work.
>
> *Interviewer:* The rating approach?
>
> Respondent: Yeah rating approach. And a few of them started to do their own thing in Japan. […] I think it's a good way." **IA4**

One of the problems seems to be that the overseas ratings do not include Japan-specific characteristics:

> "[F]or example we have a corporate auditing system in Japan on the corporate governance vote and I believe that was not included in the rating methodology. So that's one of the examples. […] [F]oreign investors in Japan […] some of them have gotten business from pension funds, like public pension funds. So of course public pension funds in Japan are investing in Japanese and they should know Japanese companies, so […] asset managers have to know that too, rather than inputting ratings from overseas." **IA4**

5.5.1.1 More sophistication in the use of ESG data

Currently there seems to be a focus on ESG ratings, when incorporating ESG information:

> "So they just get information or rating, like A, B, C, or something, and they just using those rating or information […] or something like that." **IA11**

5.5.2 In-house data

There seems to be some disagreement when it comes to the role of in-house research vs. bought in research:

> "In SRI fund most of the asset managers gets ESG information from the research company. They don't have in house staff." **IA11**

> "Of course many have in-house analysts doing a proxy research and reporting duties, so some aren't using ISS type of service yet." **IA5**

5.5.3 Information sources

There seem to be very different approaches when it comes to the sources of ESG information used. Some seem to have a holistic and detailed approach, relying on primary data:

> "Yeah so we are using 100% original sources. The one big source is our questionnaire survey which we send to 2000 companies, listed companies in Japan, and the second source is public available information, disclosed by companies, such as sustainability report, integrated report, annual report, website, etc. Also we collect information from media or NGOs, so the information is kind of criticism [...] If one company is criticised by the NGOs, by the medias, we are also taking into account that kind of information to generate ESG ratings of that company." **IA3**

Others seem to use primary data at times, but seem to mainly rely on external ESG research:

> "Yes when we conduct controversy research we use major globally published newspapers." **IA5**

> "I'm not sure if you know our methodology but for the report we use third party data, like for instance analysts [...] company's corruption risk, we use transparency international index to assess their exposure to such kind of countries where corruption very frequently happens, so we use a lot of third party data." **IA5**

5.5.4 Stakeholder dialogue

Regarding stakeholder dialogue, data from NGOs seem to be included at times. However, they do not seem to play a very important role [for details please see 5.2.2.3]:

> "Also we collect information from media or NGOs, so the information is kind of criticism..." **IA3**

5.5.5 Dialogue with the company seen as private reporting

There seems to be a perception that meetings with the company can provide more information in regard to ESG issues. This is in line with the development in the UK in the early 2000s (Biehl and Atkins 2016):

> "The topic they were like speaking was on limited to fundamentals. […] They were only talking about what is the next target so sales revenue or EPS growth and that sort of thing. But then when stewardship code came in they thought we should change those interview topics and the people we need to meet with […]." **IA4**

> "Yes…one of the examples that I know is a dialogue. They wanted to know more about the company itself rather than, you know, rely on rating. So…" **IA4**

5.6 Japanese Stewardship Code

This section presents statements made by the interviewed investment managers regarding the Principles for Responsible Institutional Investors, i.e. the Japanese equivalent of the UK Stewardship Code.

5.6.1 Investors need to understand the reasoning *(of the Stewardship Code)*

There seems to be interest in the Japanese Stewardship Code from both domestic and overseas investors. However, it seems to be key to explain the reasoning behind the stewardship code, regarding why it is considered useful to investors:

> "I thought there is a big difference domestic and foreign investors, but for example I can creating corporate governance analytical tools for domestic investors to sort of try to make them realise these are the material corporate governance measures that you need to take a look. And domestic investors find it useful and they say no all we have to do this stewardship code we will start using this as a sort of educational method for an analyst and then when I showed it to global investors outside of Japan they also find it useful too. So maybe they came from different sort of ideas or perspectives […] but […] because of the stewardship code both domestic and foreign investors try to look at things that need to be in Japanese market." **IA2**

There seems to be a need to translate the concepts, given the different history and perception of 'engagement' in Japan:

> Respondent: "[F]irst of all we don't have a word for engagement, in Japanese, so we say engagement-do in Japanese. That means we don't know how to translate it, we don't know the way to do it. So […] you want to translate it directly into Japanese then it has a very strong meaning, it's like activist kind of thing. So when the…when it first came into Japan, I mean the word came into Japan, people think, oh, Stewardship Code […] we are becoming activists." **IA4**

The understanding and dialogue between investors and companies seems to be at the heart of the Japanese interpretation of stewardship:

> "So the companies need lectures or advice from non-Japanese institutional shareholders the way they regard other companies' visions in the longer term. And also investors might need to be taught, to be lectured, by the company's management people why they have a long term view or why they don't like short term or something like that." **IA6**

This is in line with the desire of companies for long-term stable holdings, as it used to be the case in the traditional Japanese system.

5.6.2 Uptake of the Stewardship Code

There seems to be a high uptake of the Japanese Stewardship Code, but not much has been done as a consequence:

> "So […] over 160 asset management company already signed, and since then company really […] worried how those people from asset management company approach them, but actually not many Japanese asset managers are really active right now […]." **IA11**

The next steps after signing seems to be the contemplation regarding how to implement the code:

> "Actually there are lots of asset managers and asset owners signed the Stewardship code but at this moment I think they are still thinking what they have to do because they signed the Stewardship code but I don't see the new actions. But I think they are still thinking I think." **IA8**

The uptake seems to depend on the size of the asset owners:

> "I think they are mostly larger asset owners who have enough budget and have already done so […] but smaller asset owners obviously have no budget to this extent." **IA6**

5.6.2.1 Active ownership

There seems to be a push towards active ownership, e.g. exercising voting rights:

> "I think so, yes, so I think it was a GPIF. They started to say they wanted to exercise their voting right, so they required asset managers to exercise the proxy voting right. Then they required to report their result about their process or how it would be conducted there." **IA5**

However, there seems to be some doubt of whether it will move beyond voting:

> "[T]here is still the dialogue of whether engagement is a synonym for voting, whereas I think, especially for the UK/Europe, it's been, yes, voting is one way of engaging with the companies, but the wider meaning of engagement has been going beyond the voting seasons and beyond the voting tool. So whether they'll stick to voting as the key tool of engagement or whether they will go beyond that I think is still yet to be seen." **IA7**

5.6.2.2 Asset owners as driver / Business case for IMs

[The sub-theme '5.4.1.6 IM and Asset Owners' covers the dynamics regarding ESG issues in general. In this sub-theme the focus lies on the relationship between asset owners and investment managers in regard to the Japanese Stewardship Code.]

There seems to be the expectation that the pressure from asset owners will build over time, based on the UK experience:

> "Yes, when I [asked] a question to a London based institution in 2010, when UK Stewardship Code was for the first time introduced there, […] how UK stewardship code would affect your investment management way or something like that. […] [E]verybody told me that this is ridiculous and that there is no pressure from the asset owners at all. But […] three years later I found that collective engagement everywhere in the UK as a daily landscape. So I think that the Stewardship Code and the pressure from asset owners might work, it takes time even in the UK […] but once the asset owner stands up that will be a big driving force to asset, because asset owners is only one and the biggest client for the asset managers." **IA6**

Japanese asset owners seem to follow a conservative mind-set, which does not include building pressure on investment managers regarding the stewardship code:

> "So I think the deficiency at the moment in Japanese market may be that mind-set development of an asset owner which had been lack of over 50, 60, 70 years and haven't really had any process of that development amongst asset owners, particularly large asset owners who deem to have the responsibility of their own turf, so to speak." **IA6**

However, the stewardship code could also be a chance to change this:

> **"**I think we're yet to find out, because it will definitely help the asset owners for the first time make some movements because they've already committed to the stewardship code, and they will therefore need to understand what they can do.**"** **IA7**

5.6.3 More US style governance

There seems to be the perception that the governance style will change in the future towards US / UK style, due to the stewardship code and the governance code being based on the UK equivalents:

> "I think so yes. There is the stewardship code of course one of the issues is the corporate governance code in Japan. I personally think the panel, the specialist panel, follows the UK governance code, corporate governance code, or other countries governance codes, so I think yes. The future changes." **IA1**

However, there seems to be the perception that the new system will be balanced somewhere between the old Japanese system and the US / UK type system:

> "I don't think […] [it goes] to that extreme, I think there is a point where equilibrium will sit within that society. So it doesn't go to that extreme, there will be a counterbalancing mindset will appear if any excessive ROI, or the pursuit of ROI happens because when you have vicious labour practices go on that company doesn't have...you can't find any employees in the company, so it won't happen in that way in Japan." **IA6**

5.6.4 Awareness of Stewardship concept

There seems to be a large awareness of the concept of stewardship, inter alia due to the Tokyo Stock Exchange:

> "I was trying to talk about Governance data too. It is again changing in a good way because as you can see the Stewardship code, corporate governance code and Tokyo Stock Exchange decided to change the listing requirements so companies started to think about the independence, for example, of the board com-position." **IA2**

This awareness can be seen looking at the changes happening:

> "Yeah it's not like a official ESG department or ESG division, but they have like ad-hoc working group, tried to get to know more about stewardship code or corporate governance code, which is coming into place next year so… I think it is a drastic change." **IA4**

5.6.5 Stewardship Code as Driver for Change

The stewardship code seems to be seen as a driver of change in the Japanese market in regard to ESG and RI:

> "OK, yeah, as you know […] in Japan […] responsible investment is not really now everywhere. So I think just to start […] responsible investment in Japan, and a stewardship code, […] accelerate that trend." **IA10**

5.7 Japan History

This section groups the statements made by the interviewees regarding historical developments broadly in the area of the financial industry in Japan, which effect or have affected the developments around the Principles for Responsible Institutional Investors and Responsible Investment, in general.

5.7.1 Growth period until 80s

Some business practices seem to date back to the period of growth in the 60s and 70s:

> "[T]his is a cultural issue that's because the 1960s or 1970s so Japanese companies electronic companies or auto manufacturers adopt US or EU performance about the technology or corporate business practices. I think that is the cultural issues. So that has been continued since 1960s 1970s anyway. And investors they love similarities among competitors." **IA1**

5.7.2 Future perspective / Abenomics

Addressing specific E and S issues, as well as the stewardship code, are part of Prime Minister Abe's policy (Abenomics), based on the ITO review:

> "You mean in Japan? Oh yes… S issues, I mean, the current prime minister of Japan is really, I can say, is really he is one of the big one of his major policies is to promote gender equality and Japanese companies. He is really primary, that is his first priority!" **IA3**

> "[T]he government got involved so much on the stewardship code and everything about corporate governance and GPIF restructuring and…because…Prime Minister Abe is pushing on this front in order to get the Japanese companies competitiveness…" **IA4**

5.7.3 Ownership Structure

5.7.3.1 Stable shareholdings

Companies seem to appreciate long-term investors:

> "You want to invest in companies for long term, you want to maintain the relationship with shareholders for the long term and it's always sort of a trust issue in Japan." **IA2**

This theme has appeared regularly in the interviews. It indicates that important role of long-term focus in Japan.

5.7.4 Regulation

In the past regulation and legislation seem to have had an impact on the development of the market:

> "And as I said from corporation perspective like we had energy saving law or greenhouse gas law […] maybe thanks to that corporations now are familiar with reporting those emissions, but once we will have the corporate governance code next year we maybe able to sort of become a leader in corporate governance area. And I do believe that legislation will change the Japanese responsible investment market." **IA2**

However, the interpretation of regulation is not always clear:

> "Tja…. In Abenomics it's said any part of the organisation you must have 30% of female executives. Executives means anything, executives can be directors, executives can be management or executives can be senior management. So companies take it whatever they want it to mean." **IA2**

5.7.4.1 Asset classes

Restrictions on asset class allocation of pension funds have only been relaxed recently:

> "[Y]ou know that in Japan the fiduciary investment is just start maybe I think 1997 that start fiduciary investment. Before then the investment of pension fund is, has a constraint, only invest under 30% equity also under 30% foreign assets." **IA10**

5.7.4.2 Principles for Responsible Institutional Investors Perceived as regulation

The Principles for Responsible Institutional Investors seem to be perceived as quasi-mandatory regulation:

> "I think legislation is a big key factor in Japanese market. Again the stewardship code is one example and a good example. It's a comply or explain basis but people say it's a sort of mandatory code. I think part of the reason is that you see GPIF in the signatory list, so they think that if you want to have business with GPIF you have to become a signatory. Those aspects or elements legislation is quite key." **IA2**

5.7.5 Fiduciary duty

There seems to have been an interpretation of the GPIF in the past that SRI is anti-fiduciary:

> "Yes. So one big issue…2003 I think so, sorry, 2003 so one executive officer at GPIF so the Government Pension Investment Fund commented that SRI is anti-fiduciary." **IA1**

“Yeah. So he mentioned…so in his view SRI fund in clearly screening one, so it is anti-fiduciary. So that does not contribute to the return maximisation, profit maximisation.” **IA1**

6 Interview Findings: Academics, Consultants, and Researchers

Chapter 6 includes the findings of the expert interviews carried out with ‘Consultants and Academics’. The findings are presented in the same was as in chapters 4 and 5, i.e. by introducing first the theme. For example, the theme is ‘Engagement and Dialogue. Then a set of sub-themes is introduced, for example ‘Impact of Engagement’. Within these sub-themes frequently occurring topics are collected, for example ‘Post Event Changes’. In the case of this example the structure would then look as follows:

Level 1 – ‘Engagement and Dialogue’

Level 2 – ‘Impact of Engagement’

Level 3 – ‘Post Event Changes’.

The sub-themes will be introduced in the respective sections.

The themes are as follows:

6.1 – Engagement and Dialogue

6.2 – Japanese Culture

6.3 – Materiality

6.4 – Responsible Investment in Japan

6.5 – Access to Data

6.6 – Japanese Stewardship Code

6.7 – Japanese History

6.1 Engagement and Dialogue

Under the theme 'Engagement and Dialogue' (ED) all sub-themes are coded, which relate to aspects of the engagement and dialogue process between investors and the investee company.

6.1.1 Impact of engagement

Interviewee ARC2-1 commented in general about the increase in engagement through 'engagement focus funds or also by hedge funds' **ARC2**. This is in line with the general increase of engagement in Japan, as discussed in section 2.2.4.7.

6.1.2 Views on usefulness of engagement and dialogue

The value of active ownership to guarantee the effective running of the business seems to be perceived to be part of the 'financials':

> "If you are the private equity investor you are more obliged to commit yourself and public companies are less likely so. [T]he investor has to communicate, well to advise or execute stewardship as necessary to guide whether the project of the business strategies are made or executed so that the company will achieve its performance, it's finacials." **ARC3**

There seems to have been a recent development, where companies have opened up to dialogue with stakeholders:

> "ACGA, and also the […] Asian Corporate Governance Association, ACGA, frequently they visited Japanese companies, and according to them there is a big progress, yeah, because before Japanese companies' management didn't want to talk with them, like investors' representative, but now recently they're very positive to have this kind of dialogue and discussion." **ARC5**

Also companies and investors seem to start exploring options beyond voting:

> "Actually, most of the companies and investors have their governance committee, and they check all the engagement or the voting issues. I think what they're going to do is expand this, it's not just voting but other type of engagement must be done like this." **ARC6**

This indicates a change in institutional logics towards an inclusion of RI concepts, similar to what Atkins et al. (2015) find for the UK in the 2000s.

A new type of fund seems to be emerging where beneficiaries can talk to companies' management directly. One of the first was the Kamakura fund:

> "Yeah, yeah, Kamakura do visit companies a lot with the investors. So that's one of their characteristics, you get that chance to talk with the company president. But usually they cover smaller companies, social business type of companies. They also invest in some large companies, but mostly small, medium-size companies." **ARC6**

This is in line with the development of the Kamakura-type funds, as previously discussed and introduced by Sakuma-Keck (2015).

6.1.2.1 Meetings called by companies

It seems to be that meetings are called by investors as well as companies:

> "It is both ways. Where as a shareholder we do talk to them as a shareholder, but companies also want to talk to investors through their investor relations services, so it works both ways." **ARC3**

This indicates a development towards dialogue, which is in line with the findings by Solomon and Darby (2005) in the UK.

6.1.2.2 Meetings called by investors

Investors seem to call meetings, to make sure that the company is following a strategy that they approve of, in terms of financials, but also non-financials:

> "You need to have very good engagement on day-to-day basis not necessarily about non-financial, but also financially and non-financially. And that is a very continuing process, because we are the shareholder…I mean if you are the shareholder you have to talk to the management that their strategy is right on track and to achieve the goal of your investment. Because equities are the vehicle for that in the first place." **ARC3**

6.1.2.3 Concept of hostile investor / activist / Houka-ya (Sokaiya)

The first case of engagement seems to have been started by environmental activists, pressuring the company to improve its practices.

> "To go back to history, the social responsible investment, or SRI, in Japan in 1970s, this picture is a, do you know the public disease? It's a direct translation from, in Japanese to English. A company polluted the water and because there was polluted water many people got disease […] the movement is characterised as one shareholders' movement. The victims […] bought one share of the company, and they allocate other shareholder as a victim. The next one, in 1989, after Chernobyl." **ARC4**

Similar cases can be found internationally, i.e. this is in line with the international development at the time (Biehl, et al. 2012). However, the development after this starts to diverge, as shareholder engagement does not develop after this initial introduction in Japan.

6.1.2.4 Understanding the investor

The respondent 1 (**ARC2**) commented that the ITO report department is launching a forum for dialogue between management and investors. In this context respondent 2 (**ARC2**) commented that the key is for investors to understand companies and for companies to understand investors. This indicates the importance of meaningful dialogue, in line with the traditional Japanese system.

The companies seem to be keen to meet and understand investors:

> "I hear from the president of [name] Investment Trust […] he says very, very strong reaction from the companies, positive reactions, they are very encouraged how much their beneficiary holders are supporters to those companies." **ARC7**

Especially those who have the ability to influence the market's decision:

> "It varies according to your capability. I mean if you are good analyst or good fund manager obviously companies want to meet you. If you are not they, you know…. It really depends on […] how much market impact you have." **ARC3**

Here the potential of impression management comes to light. In the UK Solomon and Darby (2015) and Solomon et al. (2013) find that companies try to understand what investors want to see in order to then present towards those preferences, rather than provide a full account of ESG issues.

6.1.3 Collaborative engagement

There seems to be a mix of opinions when it comes to the advantages and disadvantages of collaborative engagement, as well as the current state to collaborative engagement in Japan:

> Respondent 2 **(ARC2)** states that it would be problematic to implement a collaborate engagement principle, which is why it is not included in the Principles for Responsible Institutional Investors. Furthermore, respondent 2 states that for collaborative engagement to work, the individual IMs need to build up expertise first, which is why this was included in the PRII.
>
> "[B]ig insurance, Japanese insurance company, they have a big share and they're worried about this point, but FSA didn't think it is a problem. However, they didn't include this collaborative engagement. The reason was because the insurance company didn't want to have it, and FSA wanted Stewardship Code, anyway, and what is the best way is […] exclude this principle." **ARC5**

However, there is also the view that in the absence of expertise and internal structures it is cheaper and easier to join a collaborative engagement, which is the position of the PRI engagement group:

> "[I]t is easy to join […] this collaborative engagement and to join it because it's free, compared to […] if they are asked […] it'll cost them." **ARC5**

Collaborative engagement seems to be seen also as outsourcing of individual engagement:

> "But in that case that those asset managers can just outsource to PRI, actually it's going to be a problem." **ARC6**

In the traditional Japanese system the banks played a role in overseeing the company's management. Engagement seems to be seen as a similar function, however, following that logic, this cannot be 'outsourced' or done collaboratively.

6.1.3.1 Communication amongst investors

It does not seem to be common for Japanese investors to work together or exchange views:

> "[I]t is not so common for [Japanese investors] to work together, but I know non-Japanese investor are in association […]." **ARC5**

6.1.3.2 Legal requirements (filing of block holdings)

There seems to be concern that collaborative engagement could lead to increased reporting requirements, due to existing legislation:

> "But, yeah, on the other hand, one of my concerns that are the regulation is somewhat different between the UK and Japan, in Japan, do you have any idea about ratio shareholding disclosure regulation?" **ARC8**

There seem to be very specific criteria for the holdings of two collaborating investors to be considered block holdings, inter alia if the matter of the engagement is considered material:

> "Respondent: [I]f the proposal […] based upon the shareholder rights, collectively, then it should be perceived as a sort of total holdings.
>
> *Interviewer:* And then you have to report more frequently, don't you?
>
> Respondent: Yes that is correct. And if it's not a specifically tied to […] your shareholder activities just to give your opinions, then that is ok.
>
> *Interviewer:* So who would decide…?
>
> Respondent: So the difference would be that whether your proposals have any commitment of exercising your votes or commitments to say specific dates or targets." **ARC3**

However, there still seems to be different understandings of whether the FSA block-holding regulations apply to collaborative engagement. This ranges from 'no problem at all' to 'there is a concern':

> "But Mr Infu of the FSA told the PRI Japanese network people it is OK to do that collaborative engagement […]." **ARC5**
>
> **"**Respondent: [W]e just point out that there is a concern. And it is very difficult to draw a line between OK, and prohibited, but we try to draw a line, this is OK, grey, prohibited.**" ARC8**

6.1.4 Impression management

Companies seem to present optimistic versions of events, but investors seem to challenge those based on background information:

> "They tend to talk, to be optimistic, obviously. So […] the better way is to have other information sources that can justify their announcements, or their sort of communication. Or sometimes the NGOs would become a very important information resource. Any newswires, magazines, media, that also does now plays a major role. So… in this age of information technology I mean you will be able to get the…the basic information. So […] you also watch any anomalies." **ARC3**

This indicates that impression management takes place, according to Atkins et al.'s (2015) finding in the UK. However, dual myth creation does not seem to take place, as investment managers do not participate in the creation (Solomon and Darby 2005, Atkins et al. 2015).

6.1.5 Management vs. Investor relations

Comments were made in regards to 6.1.5.1 and 6.1.5.2, which are a subset of 6.1.5.

6.1.5.1 IR information limited

The investor relations departments seemed to not have covered ESG issues:

> Respondent: "Although they have company information on a CSR side, IR people said, well, oh, no, not going to talk." **ARC6**

This indicates that they follow a traditional finance logic in private reporting, similar to the UK in the early 2000s (Atkins et al. 2015).

6.1.5.2 Silos within the company (CSR, IR, Legal, Mgmt)

A reason for the above might be that the IR departments seem to be separate from the departments holding the information on ESG issues:

> "Respondent: Because some of the companies are so bureaucratic. They have little […] communication between CSR and the IR, and in many cases […] IR people are so conservative they don't want to talk about something new, and […] don't want to be attacked by investors. The move is so slow, it takes about like one year for them to hold an ESG-IR meeting." **ARC6**

However, there seems to be an increasing trend for IR departments to cover ESG issue during the investor meetings, which is in line with the UK findings by Atkins et al. 2015:

> Respondent: "It's gradually beginning to change a bit. A year ago, I think that 99 per cent of the IR people are not interested in ESG discussion. They said, our investors will never like to talk about ESG issues. And currently I think it's mostly the case it's true. But because of not just Stewardship Code but the integrated reporting, that's changing some of the companies, not 100 per cent but 10-20 major companies, […] they're going to have an internal talk between CSR type of people and IR and corporate planning and corporate management." **ARC6**

6.1.6 Obstacles to engagement

Engagement with family owned businesses seems to face the challenge that the company's decision making is dominated by the family:

> "[I]f it's family owned it's very difficult to talk against the family's will and even though you have a senior management under the families, they may not be able to communicate effectively, as they should be, […] and then there are some family-owned businesses in Japan still; […] quite a lot of them…hundreds…more than 500 of them. A handful, a lot of them own businesses… so those companies are obviously different. I mean attitudes against investors." **ARC3**

Another obstacle to (collaborative) engagement that was mentioned was the potential implication for reporting to the FSA (please see 6.1.3.2 for details).

6.1.6.1 Cross shareholdings

The Japanese investment managers seem to belong to larger financial groups, on which they seem to depend for survival:

> "Respondent: In terms of investment trusts, most of the investment trust companies are owned by either banks or brokers, securities firms, and they sell the products, and investment trust companies are really under those big financial organisations and without those big ones selling their products they cannot survive." **ARC7**

Based on the reaction of one interviewee this seems to be considered a problematic issue:

> "*Interviewer:* [D]o you think there will be changes? Especially the cross shareholding?
>
> Respondent: I think, we had better not to mention.
>
> *Interviewer:* OK, fair enough.
>
> Respondent: That is very controversial." **ARC8**

6.1.7 Japanese vs. Non-Japanese investors

The distinction between the groups of investors does not seem to follow the line of Japanese vs. Non-Japanese investors. In fact, it seems to be more ‘well-informed long-term investors’ vs. ‘short-term investors’:

> “I think the people who are quite successful in engaging with companies like Japanese companies, tend to have a longer experience of the same company, for a long time. Even investment managers, who are managing Japanese companies outside of Japan, have the same quality of understanding of the company. […] And there are a number of investment firms or foreign manager team who are capable of communicating.” **ARC3**

This links to the traditional Japanese system of long-term stable investment through investors who have a long-term interest in the company’s success.

ESG seems to have gained momentum, because of the previously discussed situation of overseas asset owners started to pressure domestic investment managers:

> “But recently there is a big change. Some Japanese asset management side have a lot of influence from the overseas asset owner. Then they started to do integration recently. It’s come from asset owner overseas.” **ARC5**

There seems to be the perception that overseas investors are not invested in Japan in the long-run:

> “But don’t depend too much on them to be loyal to the Japanese market, because they are foreign, they could just go back to their own country. But what we should be doing is that because of foreign investors’ pressure we have now, to use that to change Japanese attitude.” **ARC6**

6.1.8 Trust and Reputation

There seems to be the understanding that trust plays an important role. However, it does not seem to be seen as a particular Japanese phenomenon:

> “Yes it is a trust relationship and that it’s not about or limited to Japanese companies or industry, but more global behavioural science type of stuff, rather than financials.” **ARC3**

Japanese-specific seems to be the long time that people spend at the same companies (life-long employment). This seems to be one factor in building trust:

> “They build mutual reliance. In other words, knowing each other better is a key factor and I think that sort of a closer relationship will matter, not only in the financial investment terms but those investors are likely to be good customers too.” **ARC7**

6.1.8.1 Company wants investor to understand the company

The company management seems to spend a long time with the company, often being promoted up the ranks (life-long employment). In meetings this seems to play a role, as the management expects for the other attending parties to be well-informed about the company:

> "Investors can't just ask stupid questions. They are asking the top management to come along, and they ask very, very primitive questions, I don't think that will happen, or those investors will not have another chance of talking to the top management. So in that case it's a big hurdle for the asset managers. They have to learn about the company for a long-term basis and fundamental things and everything in order to have a good meeting." **ARC6**

Consistence seems to be important to build the knowledge base about the company and through this trust:

> "And I think…and also if they can communicate in the longer-term, you know 3-5 years at least, to be covered by the same analyst they will talk about it." **ARC3**

6.1.8.2 Language barrier: English vs. Japanese

There seems to be a language barrier between IR departments and overseas investors. However, there seems to be a change:

> "Companies who have exposure to international investors have […] smoother communication skills, so to speak. But due to some […] limitation of foreign language skills it is very difficult to find investor relations who are able to communicate effectively with overseas investors. But that is also changing these days. So […] they have started to learn from the most recent things." **ARC3**

6.2 Japanese Culture

The theme 'Japanese Culture' analysis influences of the Japanese culture, in general, and specifically the Japanese Business Culture on responsible investment, corporate governance and engagement.

6.2.1 Japanese corporate attitudes to ESG

There seems to be an increasing awareness for ESG within companies:

> "Some companies are beginning to be aware of the importance of CSR information or ESG information as a source of the decision-making process for the manager inside. And they're trying to let their top management be aware that CSR activity is not just a good CSR activity, it's connected to the main business strategy, and some companies are doing that." **ARC6**

6.2.2 Japanese culture and ESG

There seems to be some hesitation towards following a new trend like ESG in general:

> "If it's very clear that SRI is profitable and people will become interested, oh, it's excellent idea, but people are not sure. And in Europe or in the US, people will become interested in social good and they will join, willingly join the movement or they will buy something like Fairtrade, but in Japan normal people could be interested but they are not willing to take an action easily." **ARC4**

This is relevant as the RI market seems to be focused on retail investors:

> "And in Japan probably you know that the SRI market is 99 per cent for just individual investors." **ARC6**

The general hesitation of the civil society is reflected in the marginal importance of NGOs in Japan. For more details see section 6.2.2.3.

6.2.2.1 Japanese-style governance

The corporate governance spectrum seems to be seen as Japan being the extreme on the stakeholder focused side and the US being the extreme on the shareholder focused side. However, there does not seem to the fear that the new reforms could push Japan to the other extreme:

> "[I]t will probably depend on the company but in general I don't think our culture will accommodate such extreme dominance by the shareholders. They consider money is one important element to be happy. It's important but it's not the only important thing. There are many other things like bonding with others, you know, friends, and sometimes philanthropy, family, health is very important,

you know, among many other things we consider happiness, and our purpose of our life is not to be rich in money but to be rich in happiness, and that's everybody's purpose, right? Even Americans, I think. I don't know." **ARC7**

6.2.2.2 Consensus as a driver / market moves as 'one'

It seems that in Japan the market 'moves as one', i.e. once a decision about the usefulness of a concept is made the whole market adopts it (respondent 1 – **ARC2**):

> "[M]any Japanese do what neighbours are doing, it's Japanese behaviour […]. So it doesn't have to be compulsory in many cases. I don't think all the companies will obey, but 100, 200, 300 major companies will do that." **ARC6**

6.2.2.3 NGOs

The initial motivation behind SRI seems to have been commercially driven in Japan, rather than driven by NGOs:

> "Sustainability tend to be represented by ecology in Japan. Much less by social aspects I would say, because of the historical reasons […]. It really started as a commercial project from the beginning. It is too harsh to say that, Japanese […] contacts of mine in the SRI industry doesn't like my expression because it is too harsh, you know, but as an academic you have to be clear […]. So yeah on a down to earth expression this was more a commercial project than any social movement." **ARC1**

There seems to be one famous example of an NGO being created to engage in shareholder activism:

> "The non-government organisation was founded in 1989 […]. They bought shares of Tokyo Power, Electric Power to say no at annual meeting." **ARC4**

Especially when it comes to non-profit banks there seems to have been several new institutions since the 90s:

> "And in 1994, there are three category, some categories of responsible investment. One is screening, social screening and second one is shareholder movement and the third one is community investment. And this is a community investment. In 1994 Mirai Bank, the first non profit bank in Japan […], was founded to invest in the non profit organisations for community projects, including the solar power or wind power, and after Mirai Bank foundation many other non profit bank, or NPO banks, were founded. Now 40 in all[…]." **ARC4**

This is similar to the more recent approach to investment through the Kamakura-type funds (Sakuma-Keck 2015).

6.2.2.4 Ethical investors (e.g. churches)

The small RI market in Japan seems to be driven by high net worth individuals:

> "[SRI in] Japan has been a very […] small segment: It is driven […] by the retail side, rather than the institutional side. […] I think, the driving segment of a market […] [in] Japan is […] the wealthy high net worth socially conscious retail investors […]." **ARC3**

6.2.2.5 Japanese culture and environment

The focus in terms of ESG and sustainability in general seems to be environmental:

> "Sustainability tend to be represented by ecology in Japan." **ARC1**

This seems to be due to pollution in the 1970s, which were a side effect of the rapid growth in the post-WWII era:

> "[E]co-funds is closer to their belief. So because I mean Japan experienced that pollution back in the 1970s and environment is something very close to the heart of people so this is here stay I would say." **ARC1**

6.2.2.6 Japanese culture and long-term

There seems to be a focus on long-term business in Japan, which is reflected in the traditional system of stakeholder networks:

> "I don't exactly remember the number, but the number of companies which have been lasting for more than 100 years in Japan is the largest among all other countries. The longest one I think is…the company is a construction company who built one of the temples in Osaka, which was founded something like 700AD so pretty long ago." **ARC7**

> "So the choice really in the world is you make a lot of money in a very short period and disappear or you like to earn moderate returns, spending a long, long time but more stable, and the Japanese companies in general I think are heading to the latter case." **ARC7**

The concept of the Omi-Merchants, discussed in section 2.2.4.1, is still present in the current discussion:

> "Yes, for Japanese companies, what is very important is sustainability, not in terms of sustainability…well, how can they last for a long period? At the beginning of Edo era, a lot of companies tied up with political leaders, there were a lot of struggles and some became very successful and spent a lot of money and then as a result of that they lost all the money. Some companies tied closely with one of the leaders who lost in the war and disappeared. So from those experiences, Japanese companies started to think what would be most appropriate things to do to keep the company lasting long. That's almost like a primary objective for many companies, at least in the Edo era, and I think still that remains." **ARC7**

This links to the role of different stakeholders, including shareholders. For a detailed discussion of this please see chapter 7.2.

6.2.2.7 Inside Japan vs. Outside Japan

It seems that Japan is in general very much focused on Japan:

> "It depends on the company, but in many cases…well, it's difficult to say but as a generalisation, Japanese people are very domestic focused people. When they […] think it's always within the context of Japan and not very globalised because, you know, Japan is a sort of separated country. It's insular […] and the history of globalisation is relatively short because until the end of the Edo era we have been closed from other worlds." **ARC7**

6.2.3 Resistance to ESG in Japan

There seems to be the perception that the initially bad performance of eco-funds has led to resistance against the concept of ESG:

> "In the beginning the eco-fund was a great hit and then they were penalised, because of the bad performance and they have this 'wait and see' situation. […] So it is very high commission charged on the eco-funds and ESG funds. Because why is this? The asset management companies will not bare the cost of purchasing the ESG ratings and ESG data. So they will offset this kind of cost on to the retail investors and obviously the commission is higher for ESG funds than for the rest of the funds. And that is why I become so sceptic. So what you are adding in the end, you see? You extract so much from the retail investors so what are you adding? If you are not performing much better than the normal fund you are not adding anything, you are just extracting." **ARC1**

As discussed previously this does not seem to have to do with the underlying assets.

Institutional investors do not seem to support responsible investment:

> "And asset owner is pension fund and also life insurance, they're a big asset owner, but still […] they don't understand the benefit of the responsible investment yet." **ARC5**

6.2.4 Family owned companies

The focus of family-owned companies seems to be foremost on the long-term existence of the company:

> "Of course that is the inheritance of the business, successions of that family-owned business are very important for them. So it's more like talking to high net worth or […] ultra net worth type of people, to help to transition your status to your younger generations. […] Business is a part of their inheritance! I don't know if you can actually talk through the eyes of investors. [Y]ou may have to talk through the eyes of private wealth, high net worth type of advisory type of attitudes towards your engagement approach. […] Because they always need the succession of business rather than […] publicly quoted business, and obviously there is the difference of that." **ARC3**

For family-owners passing on a stable company to your grandchildren is more important than short-term profit.

6.2.4.1 Long company history

Many companies in Japan have a very long history:

> "I don't exactly remember the number, but the number of companies which have been lasting for more than 100 years in Japan is the largest among all other countries. The longest one I think is […] is a construction company who built one of the temples in Osaka, which was founded something like 700AD so pretty long ago." **ARC7**

There seems to be the perception that profit and long-term success of a business are trade-offs:

> "Again there are good things and bad things. On the positive side there are more human relationships and good friends and teamwork and that's one thing but at the same time, can you really compete against western companies that way, and that's a big challenge. Now of course can you compete? When I say can you compete, it depends on the time horizon you are looking at […]. Maybe it's three to five years. Some companies in the western world may do very well but if you look at 100 years, Japanese companies may still stay there and are doing something similar as 100 years ago. It's a difference." **ARC7**

6.2.5 Japanese corporate culture

Employees seem to identify themselves with the company first:

> "Well, for example, you are an analyst, before you were an ABC company employee. But in Japan you are first of all ABC company employee and you happen to be in charge of financial analysis." **ARC7**

This seems to lead to a very high loyalty towards the company, even in extreme situations:

> "Well, they are safe as long as they are belonging to a company, and some illegal things, maybe if it's good for a company, they may be accommodated. To them, what's important is not to lose their job. They want to stay in the company so they do what the company says. But in the western world, which I think is very good, individuals are more important. They are professionals." **ARC7**

6.2.5.1 (Management), employees, customers, community, investors

> The focus amongst Japanese companies does not seem to lie on shareholders, i.e. achieving high profitability and increasing shareholder wealth. There seem to be a pyramid of priorities, in the following order: customers satisfaction, providing employment, benefit for society / community (Respondent 1 - **ARC 2**).

There seems to be the perception that there is a link between the long-term success of a company and the aforementioned pyramid of priorities:

> "Near Kyoto, there is a city called Omi, and Omi merchants say three factors which are good for buyers and good for sellers and good for society, and that's really the key for many companies. In the sense if they stay in the market for a long period, their present value of the company will become big because it's a very long lasting cash programme regenerating, and if they are not friendly to the society and the other people they can't last so long." **ARC7**

This is in line with what was discussed previously in section 2.2.4.1.

However, it seems that each member of society plays different roles in this process and that changes of attitude go along with the changes in roles:

> "They change their attitude from which aspect they are talking. For example, as a shareholder they say, well, we need more returns but as a consumer you should give us lower price and better quality, and as an employee, I want more wages." **ARC7**

6.2.6 Companies with international business

Companies who have exposure to international investors seem to be ahead in terms of ESG:

> "Of course some global companies such as Toyota, or Sony, have already published the sustainability report, or environmental report, other, they are global companies, and they are under the pressure of institutional investors all over the world. While the, some listed companies in Japan are not under the pressure, under such pressure, because they are, in Japan, there are more than

> 3000 listed companies, where in the US it is less than 1000, or around 500 or so, I'm not sure.” **ARC8**

6.2.7 Profit not 1st priority for companies

Linking back to the ‘pyramid of priorities’ mentioned in 6.2.5.1, profit does not seem to be the first priority for companies in Japan. It seems more important to provide a high quality product, employment and support for the community (Respondent 1 and 2 – **ARC2**).

> “Because maybe investor didn’t have so much interest in return on equity, Japanese investor, and maybe Japanese companies’ management didn’t show it, didn’t make a target to have this kind of, this high return on equity.” **ARC5**

6.2.8 Size of companies influences ESG

There seems to be a slow response from SMEs in Japan:

> “So, I think some small or medium sized listed companies have not respond to such concerns at all. I think we had better encourage them to do something, from here on.” **ARC8**

6.3 Materiality

The 'materiality' theme analyses whether ESG factors are seen to have a material importance for investee companies and investors.

6.3.1 ESG / RI materiality

There seems to be a perception within the small Japanese ESG community that ESG factors are material:

> "I would say so all along. Among the only which segregated number of people you know the SRI inner circle is very very limited and very small in Japan. So I have to say I know […] every single [one] of them. Except for a view newcomers. They all along discuss the performance etc." **ARC1**

The ESG factors seem to be increasingly priced in by the conventional investors:

> "Yeah, unclear correlation between investment and economic performance, social advantage of SRI for better performance, the conventional stock market has now fully recognised the CSR […] so all of companies like to disclose the CSR activities, and so the stock, conventional stock market can recognise the performance of […] the social performance, and to make the SRI fund work appropriately […]." **ARC4**

However, there does not seem to be consensus regarding this. There is also the perception that the majority seems to ignore ESG information:

> "I think that because the ESG factors are not a signal for the investors at the current market, usually 99 per cent of investors don't care about the environmental data that their companies are releasing, so that means nothing. If they release any profit data, that's what changes the market. They see this company is emitting this much CO2 doesn't mean anything for them. So for the market participants, environmental information is not meaningful for financial decision-making. If you take those elements and compare to the market performance, it doesn't explain anything." **ARC6**

This indicates a situation where two logics exist and compete: One is a responsible investment logic and one is a finance logic.

6.3.1.1 ESG outperformance

There seems to be the perception that ESG products underperformed, especially after the global financial crisis in 2007 (Respondents 1 and 2 – **ARC2**).

> "Until 2010 as a rule SRI has been underperforming. It was not a good reputation." ARC1

> "Yeah […] the price went down, so each individual investor did not get any profit from the fund […] so they had to sell." **ARC4**

However, now there seems to be the perception that the materiality ESG issues is unclear, with people waiting for evidence:

> "[S]ome evidence, like a paper or some paper, will be effective, people realise this ESG, this kind of data is important, or investment is important to keep the good performance for a long time. Seriously, they say, it is chicken and egg, because they say, people don't do this kind of responsible investment then there isn't this kind of evidence, then it is chicken and egg." **ARC5**

Also the recently introduced governance-focused JPX400 seems to have outperformed since its introduction:

> "Yes, so it does outperform 100 basis points on average. […] [A]t least in the relatively bullish environment this index has been outperforming. So it's a source of targeted companies, I mean they are following the good JPX400 do better to capture the level of info to the market." **ARC3**

6.3.2 ESG time horizon

There seems to be agreement that long-term investments need to include ESG factors…

> "I think yes ESG does have a relationship with the long term view, mid- to long-term view of 3-5 years, right? So that is why ESG does make a difference, because if you want to make an investment in a company, you need a longer term view; you have to know about the quality of their business strategy. It is not short term quarter of a quarter financial reports, but something more longer term way of thinking or looking at the company. Whether there is any disruption in the supply chain, or labour management or, you know those issues; and you have to take that into account for when you want to make investment 3-5 years." **ARC3**

…, but not necessarily that ESG investment needs to be long-term:

> "[T]he long-term investors they really came out of this antitheses they want to change the industry practice. So they have this very strong mission whereas SRI people they capture this opportunity as a new fashion again my non-diplomatic expression." **ARC1**

This is one difference between the Kamakura-type funds and the ESG generalist funds: The Kamakura-type funds have a long-term focus, whilst the ESG generalist funds do not seem to have this (Sakuma-Keck 2015).

6.3.3 E specific

It seems very difficult to categorise funds in terms of performance, as some of the eco-themed funds have very specific strategies:

> "You know it is very dangerous to generalise because […] I am not aware of the depth of the research on which they are based, because some funds are really grounded on really in-depth research. You know for example the direction of the regulatory thinking or etc for example some funds really research […] on the replacement of underground water pipes for example. You see so when there is a demand approaching then they could factor in that in ten years this demand will be peaked and that is why they see over the ten year horizon […] some funds go into that level of specificity but some just use [provider name] type of research you know the rating and measure 'ok yes good' and etc so it is very dangerous to generalise and that is why I am of the opinion that you really have to look at the individual funds and what kinds of level of research they fit into in order to construct this kind of funds. And then maybe from that level you can say 'these steps of research, this type of performance'." **ARC1**

6.3.4 S specific

Social factors seem to be perceived as potential sources of profitability, however without any deeper reasoning being provided by the interviewees:

> "Between a company which care, harmony and work life balance, and other companies which don't care, because work life balance or caring the family could be the source of profitability, right?" **ARC4**

6.3.5 G specific

The GPIF as the largest pension fund in Japan and in the world started to use the JPX400 as a benchmark. This […] shows the importance of governance aspects:

> "I think that the…and also the question the GPIF reform on the upper side of this…GPIF is the government pension fund and it's basically the biggest largest pension fund in Japan as well as in the world and they announced the implementation of this index [JPX400] for one of the benchmark to control equity investment. So effectively the largest pension fund is using this index." **ARC3**

6.3.5.1 Return on Equity (ROE)

There seems to be the perception that Prime minister Abe tried to attract foreign investment through an increase in ROE. To achieve this he focused increasingly on corporate governance. This happened through the introduction of the JPX400 as a consequence of the ITO review (**ARC2**).

> "Yes, I think in terms of corporate governance the most unique feature of this current market reform is […] the government has adopted JPX400 the index, the sustainable index developed by the Tokyo stock exchange. […] And companies with high ROE as well as higher standards of their management […] will be included as the top 400 companies." **ARC3**

ROE seems to be perceived as one aspect of ESG:

> "But GPIF has another […] target. They will select or they will invest more, they will do more in educating their managers [on the] stock markets' equity side and selecting ROE basis." **ARC5**

However, there seems to be a view that the ROE discussion is not connected to the ESG discussion:

> "Actually, lots of Japanese companies are investing in environmental management and those areas. I think that low ROE discussion, that's nothing to do with ESG, it's a Japanese business structure, fundamental structure." **ARC6**

To address low ROE a strategy seems to be to use the pressure from foreign investors to change business practices in Japan:

> "We can't expect foreign investors to be that responsible. But I think what we should be doing is use foreign investors' demand for ROE as a driver to change our Japanese industry structure.**" ARC6**

However, there seems to be the perception that there should not be a 'US-style' ROE dominance. Instead there seems to be the idea that there should be a balance between the ROE and benefits for the company, the consumers, and society (**ARC2**).

6.3.6 Investment strategy

There seems to be the perception that there is no real difference between the companies held in ESG funds and conventional funds.

The perception seems to be that CSR is already considered by conventional funds and that the notion of SRI is not necessary:

> "So the investees or the portfolio companies mostly overlap there with conventional investment trust, so you cannot find any meaningful difference. […] What an SRI analyst said[name] […]: Sometimes SRI portfolio is not so different from conventional one. As SRI portfolio, it's biased to big companies. […] The SRI analyst said that it is not necessary to disseminate idea of SRI because the conventional stock market recognises the important significance of CSR, corporate social responsibility, and the value of CSR should be included in the price of the stock." **ARC4**

6.3.6.1 Concentrated portfolio

There seems to be the tendency towards concentrated portfolios, i.e. portfolios consisting of a small number of companies. The dialogue with the investee companies seems to be at the centre of this approach:

> "Yeah, funds like Governance Fund, I think they all do the same thing, they all choose selected companies and they need to dialogue, so they take more time with each company, and if you are investing 100 you won't be able to actually know what's the companies' environmental strategies…" **ARC6**

This is in line with the developments described in section 2.2.4.6.

6.3.6.2 Active

In the end of the 1990s / beginning of the 2000s there was a period of screening and a boom of environmentally themed funds, in line with what was discussed in section 2.2.4:

> "After 1999 the era of screening started. Nikko eco fund was established in 1999. Nikko Asset company started to sell the eco fund for individual investors. It, first in a case of SRI investment trust, publicly offered SRI trust, focusing on environment conscious companies. And after that, from 1999 to 2000, we witnessed the first eco fund boom, but after 2000 there was an IT recession and most of the trust was sold by the investors." **ARC4**

There seems to be the belief that in the future active management will only take place at the extremes, i.e. (high frequency trading) hedge funds on the one hand side and long-term on the other hand side. Active management based on fundamentals and a time horizon of less than three years is predicted to disappear:

> "[…] [T]he Stewardship Code, I think, […] will divert the type of investors in Japan to the very hedge fund type, they don't care about fundamentals, they care about…they use just numbers and with the IT, so it's like automatic, mechanical stuff. And then really long-term investors who focus more fundamentals." **ARC6**

This indicates a change in the underlying logic and the inclusion of long-term elements.

6.3.6.3 Shift from equity to other asset classes

There seems to have been a shift from responsible equity to responsible fixed income. After the crisis impact investment bonds seem to have been created and increased in popularity, in line with Sakuma-Keck (2015):

Respondent: “Microfinance fund or impacting fund, it’s a, not the investment but a bond, but in the larger meaning it could be included in an SRI. So the impact investment or impact bond gathered boom since 2008. [T]he investment trust mostly for individual investors, […] after 2008, as you can see, […] went down, rapidly went down.

Interviewer: So the bond focus started after the crisis?

Respondent: Yeah. [A]fter 2008 [they] grew rapidly.” **ARC4**

“So we experience a big shift from investment to bond, yeah.” **ARC4**

This shift seems to be influenced by the poor stock market performance in the past:

“[B]efore [there was] such miserable stock market situation, no-one can do it, they don’t want to invest in equity market.” **ARC5**

6.3.7 ESG as risk indicator

There seems to be the perception that ESG funds are less risky. However, this does not seem to be a firm belief:

“Maybe […], that SRI funds is less risky because social factors can find the risk factor, yeah. But it’s not […], totally clear that SRI funds is less risky, yeah. [...]” **ARC4**

There seems to be a demographic factor that promotes risk-averse investment in Japan:

“Yeah. Maybe we need to show those older people, yeah, ESG is good to think about risk management. We have a lot of older people. And yeah, politicians listen to the older people, the voice.” **ARC5**

6.3.8 Philanthropy

There seems to be the belief that investment return does not have to be monetary:

“It’s important to have money and with a lot of money like Bill Gates or Warren Buffet you can do a lot of good things, and in a sense they are getting a return which is happiness, so the feeling that we are helping other people, you know? That’s an investment return.” **ARC7**

6.4 Responsible Investment in Japan

The 'Responsible Investment (RI) in Japan' theme analyses the development of ESG investment and reporting in Japan, as well as related factors influencing the aforementioned.

6.4.1 Evolution of ESG in Japan

The interviewees describe a development in line with what was discussed in detail in section 2.2.4.

The SRI movement in Japan seems to have started in the late 1990s / early 2000s with environmentally-themed funds, using a screening approach:

> "Yeah. After 1999 the era of screening started. Nikko eco fund was established in 1999. Nikko Asset company started to sell the eco fund for individual investors. It, first in a case of SRI investment trust, publicly offered SRI trust, focusing on environment conscious companies. And after that, from 1999 to 2000, we witnessed the first eco fund boom, but after 2000 there was an IT recession and most of the trust was sold by the investors." **ARC4**

Holistic SRI funds seemed to have started around 2004 and increased after the global financial crisis:

> "Yeah. I would say it's not the first year of holistic SRI because from 2004 or 2005, I'm not sure about the exact year, the starting year, but only a few holistic SRI fund were, there were in Japan before 2008, but from 2008 many SRI funds started, and, but after 2008 eco boom ended, yeah." **ARC4**

However, the share or SRI funds in the market seems to be very small:

> " [T]his shows the SRI investment trust have not been disseminated, well disseminated in Japan, while the outstanding balance have rose, risen from 1999, but the share is very small, only 0.8% on average, 0.8%." **ARC4**

The people interested in responsible investment seems to be limited:

> "People who are interested in social responsible investment are limited, only researchers and very limited number of investors, usually individual investors and students." **ARC4**

At this point in time it seems that an increasing number of investors is starting to look into the role of ESG issues:

> "[T] people who will say we will look for long-term investment and will look at these figures, I think more and more asset managing firms will start doing this. And some […] asset management firms do have some people who are ESG specialist, and ESG specialists are now starting to learn what ESG data they

> have and what this ESG data means to the corporate value. But in the next two, three years […] I think the level of the ESG research will go up." **ARC6**

6.4.1.1 E awareness

In Japan the concept of sustainability seems to be focused on environmental issues, as previously discussed, due to the experiences of environmental degradation during the rapid growth period after WWII.

There seem to be beliefs in the Japanese society that relate to environmental awareness, due to severe environmental problems in the past:

> "[…] Japan experienced that pollution back in the 1970s and environment is something very close to the heart of people so this is here stay I would say." **ARC1**

However, there are also events in the more recent past, leading to awareness around ecological issues:

> "All right. In 2008 we had Toya-ko Summit. There is a small lake in Hokkaido named Toya-ko, lake, and along the lake the prime ministers of major countries gathered to hold a summit. It's called Toya-ko Summit, and the summit focused on ecology." **ARC4**

6.4.1.2 G awareness

Governance awareness seems to be focused on as it seems to directly affect the shareholders, whilst social and environmental issue seem to directly affect other stakeholder groups:

> "[I]n case of governance the major stakeholder of the governance strategy is the shareholders. In case of environment, it's the neighbourhood and the community and the whole earth. And social, it's maybe for the […] workers and the community. So it's a bit different from the shareholders. But if it comes to the governance, the direct beneficiary of the governance is the shareholder, so that the shareholders are more interested in this governance issue. So I think it comes from the governance in the first place." **ARC6**

The pressure from overseas investors seems to be focused on G only, rather than ESG:

> "Social issue, they don't have so much pressure from the overseas. The environmental issue, no. Especially climate change, now they have a pressure from the overseas investor. And corporate governance is, also they have […] big pressure. After the Olympus many foreign investors, and also Japanese […] investors, concern about companies' corporate governance, yeah." **ARC5**

In addition, the free trade agreement between Japan and the EU seems to have contributed to awareness around governance issues:

> "[O]bviously the EU-Japan […] fta [free trade agreement] has launched last year […] and corporate governance is one of the very important topics within the fta." **ARC1**

There seems to be the perception that investors will follow GPIF's approach of using the governance-focused JPX400 as a benchmark. An outperformance of the JPX400 would then further raise awareness regarding corporate governance issues:

> "[GPIF] announced the implementation of this index [JPX400] for one of the benchmark to control equity investment. So effectively the largest pension fund is using this index." **ARC3**

There seems to be the hope that the experience with independent directors can positively influence the further development of corporate governance in Japan:

> "[…] [H]opefully by the experience build within the outside board of directors, which is gradually happening, and that also help to communicate with companies and to other stakeholders, including shareholders. […] I think the next step is to have experiences amongst the outside board of directors, that is definitely the next step." **ARC3**

Companies seem to open up for conversations regarding corporate governance:

> "[…] Asian Corporate Governance Association, ACGA, frequently they visited Japanese companies, and according to them there is a big progress […] because before Japanese companies' management didn't want to talk with them, like investors' representative, but now recently they're very positive to have this kind of dialogue and discussion." **ARC5**

6.4.1.3 S awareness

None of the interviewed consultants and academics commented on this sub-theme directly. However, awareness in regards to social issues was mentioned by means of comparison in sections '6.4.1.1 E awareness' and '6.4.1.2 G awareness'.

6.4.1.4 Life-long employment

The concept of life-long employment seems to lead to a situation where employees, including CEOs, often spend their whole working life at one company. A CEO can therefore have decades of experience within the company, which she brings to the meeting with investors and analysts:

> "[I]t's about the senior management has their career in the same company. So the analyst who talk to companies who have experience over 40 years at that company. So they will ask the analyst to be knowledgeable of that same experience.
> So in a way you have […] a challenge for professionals I would say, I mean […] to communicate effectively about what are the issues of both financial and non-financial […] with [them] carrying their full years of experience. And that […] might be different from other European and American companies, because they change and senior management changes quite often, lots of different places.

The concept of life-long employment seems to also mean that employees at investor companies are in touch with their counterpart at the investee companies for a long time, building a relationship:

> "If you have […] those senior management well over 10-15 years they obviously know […] what they went through and what the investors went through." **ARC3**

However, life-long employment seems to also mean that you move within the company and do different jobs, depending on the company's requirements, which seems to make it harder to specialise:

> "[…] [I]mportant thing is professionalism, and that sense is very rare in Japan, even analysts and portfolio managers, they are just hired salaried persons, and they will be transferred to some other area after two or three years. So there's no real professionalism except for a very few people." **ARC7**

6.4.1.5 Economic development and ESG

The challenges in the economy seem to drive considerations around all areas of ESG:

> "But in case of Japan, because our industry has been weak for the last 20 years, and probably this is a last chance to boost the industry on an upward trend. And the women's empowerment also about this Stewardship Code, these measures, which are sort of like – it's not mainstream policy to boost the industry, but it's like sidelined policy, […]. But they have to count on those policies in order to change the Japanese industry's profitable structure. Lots of people are aware that whether they like the idea of the Stewardship Code or like the idea of women's empowerment, we are at the stage that we have to do something. So I think that will change a bit about the situation, and in case of women's empowerment, lots of people didn't believe – myself didn't believe – that the prime minister was that serious about this." **ARC6**

6.4.1.6 Women in the workforce

Including women in the workforce seems to be addressed as part of the efforts to address weak economic growth.

There seem to have been changes in terms of reporting requirements in regard to women on the board:

> "I don't know if this is really included in the ESG, but one of the hot issues in Japan is how we're going to [have] […] more [women] in the Japanese listed companies, and actually there was the amendment of cabinet office ordinance last month or something, to make the listed companies to disclose the ratio, and the numbers of, females on their board […], through the annual reports." **ARC8**

6.4.1.7 IM and Asset owners

There seems to be an increasing interest in ESG amongst Japanese investment managers, driven by overseas asset owners:

> "Yeah, my understanding is the investor side didn't have an interest in this ESG data and they didn't do in this kind, responsible investment. […] But recently there is a big change. Some Japanese asset management side have a lot of influence from the overseas asset owner. Then they started to do integration recently. It's come from asset owner overseas. Then they started to do it, and so, also some of asset owner, small, even small corporate pension fund, they're interested in this kind of ESG data." **ARC5**

There is an expectation that Japanese asset owners will follow:

> "It give us a lot of influence in the Japanese asset management company, and we expect asset owner, a Japanese asset owner, do this kind of activity." **ARC5**

However, Japanese asset owners seem to be hesitant:

> "Yeah, this kind of activity from the asset owner side is necessary to make a decision, expand or discard a fund I think. And asset owner is pension fund and also life insurance, they're a big asset owner, but still they are not, they don't understand the benefit of the responsible investment yet." **ARC5**

6.4.1.8 ESG as marketing

There seems to be the perception that there is a distinction between SRI and long-term investors. SRI approaches seem to be considered mainly marketing:

> "[T]he long-term investors they really came out of this antitheses they want to change the industry practice. So they have this very strong mission whereas SRI people they capture this opportunity as a new fashion […]." **ARC1**

This is in line with the findings reported by Sakuma-Keck (2015).

This seems to be slightly different when looking at environmentally themed funds, however:

> "So I would say the rest is more fashion, but eco-funds is closer to their belief. So because I mean Japan experienced that pollution back in the 1970s and environment is something very close to the heart of people so this is here stay I would say." **ARC1**

6.4.1.9 GPIF as driver

The fact that the GPIF has started to change its strategy towards ESG equity and signed the Principles for Responsible Institutional Investors, seems to be a strong signal (ARC2 – 2):

> "Because GPIF actually themselves have signed the Stewardship Code, which means that what they can do is to choose asset managers who are signing Stewardship Code, or I think it's going to be very tough for them to explain to the public they're signing asset managers who don't sign Stewardship Code, although they are signing themselves. Why are you choosing these asset managers who don't sign the Stewardship Code? It's going to be very tough for them to explain that. In that case most of the asset managers must sign, you want them to operate the money by GPIF." **ARC6**

6.4.1.10 ESG integration

There seems to be a small group of people who see investment as a holistic approach, integrating ESG factors in the process of analysis:

> "[T]heir investment is more like integrating all things together, but financially as well as non-financially aspects. And […] people who taken themselves holistic there is a small group. And any discrepancies that could cause opportunities or risks are the areas that responsible investment is focused on." **ARC3**

6.4.2 ESG reporting in Japan

The amount of ESG disclosure seems to increase. This seems to happen in companies with overseas investors, due to pressure from those investors:

> "[O]n Japanese company side, already started to disclose because they have a lot of pressure from the overseas investors, because […], their investor, their shareholder is not only Japanese." **ARC5**

There seems to be a focus on disclosing the gender ratio of boards, which seems to be pushed by the prime minister as part of 'Abenomics':

> "It is also under the leadership of the Prime Minister. He is very interested in encouraging females to get involved in our society much more." **ARC8**

Furthermore, there seems to be mandatory reporting for the Tokyo Stock Exchange on corporate governance issues:

> "[…] [S]ome of, some big listed companies in Japan have already published sustainability report, or environmental report, and […] under the TSE rule all the listed companies should publish a corporate governors report. And in that report […], if one listed company publishes sustainability report […] they should […] mention about such activities in the mandatory corporate governance report. Under the current regulation, all we do is monitor, this is our Japanese version." **ARC8**

6.4.2.1 Integrated reporting / international initiatives

The disclosure of integrated ESG information seems to be seen as a key requirement for companies to attract long-term investor, rather than short-term investors and as a step back to stable holdings:

> "What I try to persuade the companies is that, most of the companies want their investors to be long-term investors, and in order to attract long-term investors […] ESG is more important, other than just short-term profit. The short-term profit figures will have a short-term…not loyal investors, but if you want to have loyal investors, you have to use more on this information long-term basis." **ARC6**

There seems to be an increasing uptake of integrated reporting amongst Japanese companies:

> "Many Japanese company are, already started to do IR, integrating reporting, and many company are planning how to do it […]." **ARC5**

Japanese companies also seem to be taking up CDP disclosure:

> "[L]ast month [there was] the … CDP Japan launch. That times, many Japanese company had a very good score, like 100 for Honda, 100 Nissan, and even […] CEO of Honda, I think they have announced […] it's so nice, it's very important to disclose [following the CDP] in order to show this kind of […] attitude [to] investors […]. I think their attitude […] changed this two years, yes." **ARC5**

6.4.3 ESG to be integrated in main stream research

There seems to be the understanding that in-depth fundamental research is not different from (integrated) ESG research:

> "[…] I don't see any sense anymore why you have to categorise yourself as SRI, whilst the expectation is more on integration. Why do you need to articulate yourself as a special category within the investment industry? And I didn't understand that anymore. And because this kind of thinking came from other clients in fact this asset management company for whom we worked, […] the

> CIO would keep on challenging us to integrate the whole thinking on conceptual level of integrated sustainable investment. So there is not so much difference between real in-depth fundamental research and sustainable investment research." **ARC1**

This shows that there is movement towards a hybrid logic, in line with the developments in the UK (Atkins et al. 2015).

However, there seems to be also the perception that at this point in time analysts do not know how to use ESG data:

> "But I don't think they bother to look at their ESG figures yet. But if those analysts with the long knowledge and experience try to look at the ESG data, I think that will change a lot of things. But in order to do that, those people must learn what ESG are, what is climate change, what are the supply chain issues about child labour and those issues they have never thought about. So that's going to be a bit tough..." **ARC6**

6.4.4 G first (enables S and E)

(Corporate) governance seems to be the first aspect of ESG to be addressed, when developing ESG:

> "Actually […] very common in the world is corporate governance […] of ESG. People start to do integration using […] not all ESG [factors, but] corporate governance. In Japan it's the same." **ARC5**

As aforementioned corporate governance seems to be pushed first, because there is a easily perceivable direct benefit for shareholders:

> "[I]n case of governance the major stakeholder of the governance strategy is the shareholders. In case of environment, it's the neighbourhood and the community and the whole earth. And social, it's maybe for the […] workers […] and the community. So it's a bit different from the shareholders. But if it comes to the governance, the direct beneficiary of the governance is the shareholder, so that the shareholders are more interested in this governance issue. So I think it comes from the governance in the first place." **ARC6**

6.4.5 Cost of ESG

The performance of ESG funds in the past seems to have suffered from investment managers trying to pass on the costs of ESG information, as discussed before:

> "[I]t is very high commission charged on the eco-funds and ESG funds. Because why is this? The asset management companies will not bare the cost of purchasing the ESG ratings and ESG data. So they will offset this kind of cost on to the retail investors and obviously the commission is higher for ESG funds than for the rest of the funds. And that is why I become so sceptic. So what you are adding in the end, you see, you extract so much from the retail investors so what are you adding? If you are not performing much better than the normal fund you are not adding anything, you are just extracting." **ARC1**

6.5 Access to Data

This section contains passages from the interviews, where the investment managers describe their access to ESG data, i.e. they describe which data they use in the investment process and how they gain access to it.

6.5.1 ESG data provider

There seems to be a positive but critical perception of the ESG data provided through data providers and its limitations. It seems that the data and methodologies currently available are seen as a starting point in a longer process:

> "I think they are doing quite well. I mean […] they have started to gather…quantitative, analysable, information. Of course this must have been done. […] It is still very difficult to standardise…to generalise the companies, based on ESG. But at least […] you will be able to get this quantitative judgement scoring methods, I mean measurement, through databases like MSCI or Bloomberg, and so on. It is not perfect, at all, it is not a perfect scoring, but at least you will be able to know the general perception of that company based upon the ESG impression that they have, they get from those general market sources." **ARC3**

6.5.1.1 More sophistication in the use of ESG data

The readily available ESG research seems to be looking at general ESG issues, rather than company-specific ESG issues. There seems to be the perception that company-specific ESG methodology is important:

> "In a way the [provider name] type of research is that methodology primes, so methodology is the most important thing above all and then comes which company are you working on. But whereas the proprietary research was the other way around: We first understand the way the company operates, where the company is heading, who are the competitors, and that is why they are challenged by this type of sustainability issues. You see the logic is very different here." **ARC1**

> "Yeah. Only general factors of ESG cannot tell you the right answer, whether this company will earn profit and whether the stock of this company will rise in the future, so you have to find the very source of profitability or the factor of becoming less risky." **ARC4**

6.5.2 In-house data

External ESG seems to be used in addition to in-house research, especially to limit the universe to a long-list:

"I think when they're selecting a company or selecting their universe, I think the external data is very important, because their universe is like 500-600 companies. In order to screen out some of the companies, ESG data like CDP or other things, I think they look at those figures, and then they will have a smaller universe. And in that case they could do their original research. So I don't think any company will be dependent on the external research 100 per cent. They buy the data and just merge them and then get the portfolio, I don't think that will ever happen." **ARC6**

6.5.3 Information sources

In addition to information provided by the companies some analysts and investors seem to rely on information provided by the wider stakeholder base:

"They [the companies] tend to talk, to be optimistic, obviously. So we…the better way is to have other information sources that can justify their announcements, or their sort of communication. Or sometimes the NGOs would become a very important information resource. Any newswires, magazines, media, that also does now plays a major role. So… in this age of information technology I mean you will be able to get the…the basic information. So you…and you also watch any anomalies. So if they are out of the sources I mentioned." **ARC3**

6.5.4 Dialogue with the company seen as private reporting

Continuous dialogue with companies seems to be seen as an important source of information, especially when it comes to equities:

"You need to have very good engagement on day-to-day basis not necessarily about non-financial, but also financially and non-financially. And that is a very continuing process, because we are the shareholder…I mean if you are the shareholder you have to talk to the management that their strategy is right on track and to achieve the goal of your investment. Because equities are the vehicle for that in the first place." **ARC3**

This role of investor-investee meetings is in line with the development in the UK, as discussed in section 2.2.3.

However, there seems to be a concern about insider information. Also, it seems clear that ESG information is discussed during the meetings:

"[T]here is always an issue of […] insider information, so if the company is public then […] there is limited sources of information they can disclose to you. So the…it depends on how effective the management communication are, and, in terms of how specific the can be about their KPIs." **ARC3**

6.6 Japanese Stewardship Code

This section presents statements made by the interviewed investment managers regarding the Principles for Responsible Institutional Investors, i.e. the Japanese equivalent of the UK Stewardship Code.

6.6.1 Investors need to understand the reasoning

There seems to be only a small number of investors who understand the reasoning behind the Principles for Responsible Institutional Investors:

> "They said the signing of Stewardship Code would be like 80 per cent. But if you really talk and get in and check those companies, I think only 20 per cent really understand […] the concept of a stewardship and do it in the correct way. 60 per cent will just follow." **ARC6**

6.6.2 Uptake of the Stewardship Code

By end of August 2014 159 institutional investors seem to have signed up to the Principles for Responsible Institutional Investors (**ARC2** – 2).

> "Yeah. Now investor side have signed the Stewardship Code. Many investor, more than 160, signed the Stewardship Code this year. It will give us […] a lot of influence into the Japanese investor side, and just as they started to give the pressure to Japanese companies […]." **ARC5**

There seems to be a serious interest from public pension funds and investment managers, i.e. almost 100% of investment managers seem to have signed up (**ARC2** – 2). The GPIF seemed to have reviewed the statements made by its IMs and has asked IMs to rewrite it, if they felt that the statement does not satisfy their requirements (**ARC2** – 1).

6.6.2.1 Active ownership

The Principles for Responsible Institutional Investors seem to be seen as a tool for investors to increase the pressure on company management, enhancing active ownership (**ARC2** – 1).

There seems to be an understanding that continuous active ownership on financials and non-financials is the key to achieving the desired investment outcome:

> "You need to have very good engagement on day-to-day basis not necessarily about non-financial, but also financially and non-financially." **ARC3**

There seems to be a perception that active ownership is relevant across asset-classes, especially with focus on private equity:

> "If you are the private equity investor you are more obliged to commit yourself and public companies are less likely so. But this type of thing you have to talk, the investor has to communicate, well to advise or execute stewardship as necessary to guide whether the project of the business strategies are made or executed so that the company will achieve its performance, it's financials." **ARC3**

There seems to be, however, a lack of experience and knowledge in regard to active ownership, which is a drawback:

> "[T]hey signed the Stewardship Code they would have to do some engagement, but it is not so easy for them because they don't have experience and they don't have so much skill and knowledge." **ARC5**

There seems to be also the element of continuous (positive) communication:

> "For example, I run a little group of people, […] and I encourage all participants to write letters to CEOs of companies they are investing in when they receive dividends. You know, when someone gives you something you should say thank you, so you should write a letter to the president. I'm a very small shareholder, I like your company in such and such a field, the reasons, and then thank you for the dividends and I hope you continue to do very well and make the society better and better for us, that sort of very short message. Write a message and send it to the president. They never get angry. They should be happy." **ARC7**

6.6.2.2 Asset owners as driver / Business case for IMs

There seem to be some asset owners – like the previously mentioned case of the GPIF (see 6.4.1.9 for details) – who are starting to link IM mandates to stewardship. This then creates a business case for IMs to engage in active ownership and responsible investment, depending on the mandate:

> "[N]ot just asset management firms but the pension funds and asset owners are now signing, which means that they are going to pick up more responsible asset managers in order to say themselves to be responsible asset managers, at least they have to look at ESG factors." **ARC6**

6.6.3 More US style governance

The current state of the system seems to be more Germanic and continental-European than Anglo-Saxon:

> "I think it is not Anglo-Saxonian, not necessarily. They are also looking at the OECD guidelines for their corporate governance as well. So it is true that there is an influence, but in reality the Japanese system is more like the continent sys-

> tem…continent European system. So it's rather more sort of Germanic, rather than the Anglo-Saxon in reality!
> So […] most of the framework comes from the 'Preußisch' [Prussian] system rather than the UK based, principle based system." **ARC3**

There seems to be some concern that the system could move towards a US style system or short-termism:

> "Yes, well, short-term is very often talked about a big problem, maybe in Japan too, I mean some companies like Sony is a disaster. Many people think it's because of the management. Good technology, nice products, but simply management didn't work well. Too much westernised. Too many MBAs everywhere." **ARC7**

Instead there seems to be the perception that there should be a system that incorporates aspects from different styles – Japanese and US:

> "Yes, I don't think it really goes to that extent, maybe stopping at the middle field is the best, but many people, I mean Japanese people feel that too much dominance by one group is not good. They always consider the balance to be very important. Wa, W-A, is a very important concept for Japanese people and it's harmony and balance. In the eighth century we set up the first constitution of Japan and the first line says harmony and balance is the most important thing, that was Article One of the first constitution in Japan." **ARC7**

6.6.4 Ownership / control of Stewardship code

The FSA seems to own the Principles for Responsible Institutional Investors:

> "[T]hey didn't include this collaborative engagement. The reason was because the insurance company didn't want to have it, and FSA wanted Stewardship Code, anyway, and what is the best way is, not exclude this sentence, exclude this principle." **ARC5**

The example of collaborative engagement seems to show that they also own the interpretation of the principles:

> "But Mr Infu of the FSA told to the PRI Japanese network people it is OK to do that collaborative engagement in front of the people, yeah." **ARC5**

> "There are, many PRI Japan network people are listen to this voice. Then after this voice they started to join collaborative engagement, PRI collaborative engagement, because it is a kind of permission, they thought, because many people misunderstood." **ARC5**

However, the FSA does not seem to conduct quality assurance in regard to the published joining statements:

> "Oh yeah, they publish a statement, they should declare to adopt to the stewardship code, and they should declare who is comply or explain the principles of the code.

> But once they publish those policies, basically FSA doesn't see, oversee them very much." **ARC8**

6.6.5 Stewardship Code as driver for change

There is the perception that the governance code and the stewardship code have raised awareness around governance issues in Japan. These codes are seen to show the path to improved corporate governance (**ARC2**, 1 and 2).

> "Because it should be, this Stewardship Code should be the trigger for Japan to change investment industry. This summer SIF Japan had a symposium […] and at that time I said, it is a time to change this institution investment society. […] [T]his Stewardship Code should be the good trigger to change it […]." **ARC5**

6.7 Japan History

This section groups the statements made by the interviewees regarding historical developments broadly in the area of the financial industry in Japan, which effect or have affected the developments around the Principles for Responsible Institutional Investors and Responsible Investment, in general.

6.7.1 Growth period until 80s

There does not seem to have been much awareness regarding investment for the future amongst the population during the economic growth period:

> "[…] Japanese people didn't really have to think about their own future up until maybe 20 years ago. The economy was growing, our population was growing, we had a very good social welfare system, so either companies or country would take care of their post-retirement life." **ARC7**

6.7.2 Slow down since the 80s

The economic reality seems to have changed since the 80s, with the economic crisis:

> "1989 was the peak of the market and since then Japan suffered such a long period, 25 years, we suffered from a deflationary environment and recessionary environment, so they can't be very positive about the economy and the monetary aspects, and very defensive." **ARC7**

Whilst the economic reality seems to have changed, the mind-set of society does not seem to have changed:

> "But reality has changed. But mentally their mind-set still remains the same, so they never had to think about long-term investing, they never had to think about asset management for a lifetime. So whenever they hear investment it was either speculation or very short-term trading […]." **ARC7**

In this economic environment of deflation investment seems to lose value (ARC 2 – A):

> "Right. And investment funds, not only SRI funds, have decreased in […] asset since late 1980s due to recession of securities market, so not only SRI trust funds […] but also all of conventional funds decrease the outstanding asset." **ARC4**

6.7.2.1 Global Financial crisis

The global financial crisis seems to have cause a move from equity based SRI products to fixed income based SRI products, impacting the existing SRI funds:

> "Unfortunately the financial crisis attacked the SRI fund boom, and at the same year, at the same time, impact on or impact investment boom started." **ARC4**

> "Yes. So we experience a big shift from investment to bond, yeah." **ARC4**

6.7.3 Future perspective / Abenomics

The current economy situation seems to be perceived as the outcome of the slow down since the 80s – mentioned in 6.7.2. It also seems to be accepted that action is urgently required to improve:

> "So the reason why they're serious is that we're in such a dangerous situation economically, and we share that we're in a very, very urgent emergency, so in emergency you need to do lots of things." **ARC6**

6.7.4 Ownership Structure

The ownership structure of Japanese companies seems to include 30% foreign investors, as discussed in section 2.2.5.1.2:

> "No, we have I think more than 30 per cent of foreign ownership in Japanese companies." **ARC6**

6.7.4.1 Stable shareholdings

Companies seem to have a desire to have long-term stable owners. However, there seems to be scepticism that foreign investors could fulfil this:

> "But don't depend too much on them to be loyal to the Japanese market, because they are foreign, they could just go back to their own country." **ARC6**

6.7.5 Regulation

Corporate governance seems to be a factor in international regulation:

> "[...] I was expected to develop trade issues and obviously the EU-Japan the FTA (free trade agreement) has launched last year and this becomes my main topic and corporate governance is one of the very important topics within the FTA." **ARC1**

6.7.5.1 Asset classes

The composition of the GPIF seems to have changed – through regulation – allowing for the inclusion of more equity:

> "[P]rime minister Abe set up this kind of special expert group to examine the composition of the GPIF so this is already giving a good signal, that there is a change that there will be a re-balancing of the composition of the portfolio of GPIF with more weigh on the domestic equity." **ARC1**

> "[…] [G]overnment increased the GPIF to […] move to equity from fixed income, especially Japanese Government Bonds to equity […]." **ARC5**

This seems to be perceived as a positive signal for corporate governance and responsible investment in general. This seems to relate to the wider society as well as investors:

> "[T]he GPIF, the Government Pension Fund, has to raise the amount of the equity weighting from 12 per cent to 27 per cent at the maximum, the case that they have to do their fundamental research, and in order to do that they need more better data rather than just short-term financial data." **ARC6**

The wider society seems to start developing an interest in the investment approach of the GPIF:

> "[…] [P]eople realise, our pension used to invest in only Japanese Government Bond, now people realise that, ordinary people." **ARC5**

Including responsible investment in the investment approach of the GPIF seems to be seen as a way to win over the wider society:

> "So in order to change that situation, what happened in France when they introduced FRR, they persuaded the labour union, they didn't like the idea of investment which is for the capitalist side. They introduced ESG. It's long-term, it's for the workers and for the community, and it's not just gamble or money-making for the capitalists. So that kind of explanation will be necessary if GPIF is going to raise the equity portfolio ratio. How are you going to invest? It's for the community and for Japanese society, and also for the investors. I hope that kind of combination will be necessary for GPIF to tell to the public." **ARC6**

6.7.5.2 Perceived as regulation

There seems to be the perception that the Principles for Responsible Institutional Investors have a mandatory character, as they were introduced by the FSA:

> "[T]he Financial Agency is now forcing them to do this, and there is no other reason not to do this. And once they're going to do that, they want to do it in a right way. So I think there is a risk that the Japanese dialogue will be just a dialogue, like in the UK case, but a good chance of doing a better dialogue." **ARC6**

It is important to note that it is in fact not mandatory, but clearly perceived that way.

> "The public, I think it's perceived as mandatory at this moment, because the Japanese companies and people are not really used to that principle based approach." **ARC8**

7 Discussion of the Empirical Findings

7.1 Japan-centric focus of ESG issues

The perception of the investment managers and analysts seems to be that E and S issues are already resolved in Japan, it goes without saying that those are being addressed by the companies. The interviewees working for international companies see this partly as a consequence of existing environmental and social legislation in Japan, whilst the interviewees working for Japanese companies do not state this explicitly. However, interviewees working for Japanese companies see incentives provided by the government at play, e.g. for environmentally friendly products. Furthermore, the investment managers and analyst state that not much attention is being paid by the companies concerning issues outside of Japan, due to the fact that those are not issue within Japan. In fact, they perceive the social performance of Japanese firms outside of Japan as rather poor. These perceptions are being repeated by both groups, independent from the employer being a non-Japanese or Japanese company, at different times throughout the interviews, i.e. the notion reappears and is not linked to a particular context.

The analysts extend this phenomenon to Japanese investors, which cannot be found amongst the interviewed investment managers. The analysts state that due to the fact that E and S issues do not play a role in Japan, they are not on the radar of the investors and therefore not taken into consideration when investing in companies outside of Japan.

In contrast to the investment managers and the analysts, the consultants and academics hardly comment on this phenomenon at all. Only one interviewee from this group mentions this and hesitates to generalise the observation, whilst linking the phenomenon to the late introduction of the concept of globalisation.

The phenomenon commented on by the investment managers and analysts is in line with what Biehl et al. (2012) find for the early emergence of ESG issues: The focus in the beginning lies on 'near' issues, i.e. issues that directly concern the people in question. At this stage little attention is paid to issues that occur outside of the near-sphere, i.e. Japan. The development that Biehl et al. (2012) show for ESG issues in general is that the perception becomes more globalised. In the US and Europe this was partly triggered through the Vietnam War and the peace movement, where NGOs acted as a catalyst. It remains to be seen if the development in Japan follows the same trajectory, without the existence of NGOs.

7.2 The Role of Investors Amongst Company Stakeholders

The three groups of interviewees all comment extensively on the role of the investor amongst a company's stakeholders and how this influences the dynamic between investor and investee company. What is interesting to see is that the three groups make the relevant comments in different sections of the interview. This can be seen clearly through the coding: Investment managers mention the role of the investor amongst the stakeholders in the interview section on *engagement*, linking the company's perception of the investor's importance to the engagement process. The other two groups do not refer to it in the engagement section at all or only superficially, indicating no strong perception of the existence of such a link.

In the sections regarding *Japanese Culture* and *Materiality,* however, all three groups heavily comment on the aforementioned relationship between the investor and the investee companies. Investment managers and investment analysts also comment on the link also in the sections on *Responsible Investment in Japan* and *Japanese Stewardship Code*. Here, unlike with the investment managers in the engagement section, a link between the perceived importance of the investor and the engagement process is not made.

The fact that investment managers also refer to this in the section on Japanese history and by doing so covering it in all sections but one, indicates the perceived importance of this topic to the investment managers.

The investment managers and investment analysts agree that Japanese companies treat investors as one of the stakeholders. One interviewee illustrates this with the example of a company that published the ROE figures in 2014 for the first time in over 100 years of company history. It is interesting to see that the fact that some of the interviewees work for Japanese and some for non-Japanese companies did not seem to play a role in their general perception of this topic.

In fact, all three groups of interviewees go into further detail, describing the existence of a hierarchy of stakeholders: In line with the concept of the 'Omi merchants' or Sanpo-yoshi the hierarchy places investors at the bottom and management, employees, customers and community above (Tanimoto 2013). In this hierarchy international investors seem to rank at the very bottom. Some interviewees state that investor relations teams used to be there to pay off the Yakuza and are not trained to provide meaningful

information to investors. Again, no difference between the interviewees from Japanese and non-Japanese companies can be seen.
However, an interesting difference can be found when the interviewees tried to further explain this phenomenon: There is evidence in all three groups that they do not perceive profit to be the first priority of the companies. However, whilst there is no difference between the interviewees working for Japanese and non-Japanese companies in the IA and ARC groups, only investment managers who work for non-Japanese companies share this perception. The investment managers working for Japanese companies do not explicitly mention that the management of Japanese companies is not aiming for profit. At the same time, investment managers working for Japanese and non-Japanese companies state that they perceive the aforementioned as a *material (ES)G issue*, an aspect that is not mentioned by the IA or ARC groups.
The expectation seems to be that the investors' power increases through the Stewardship Code, which moves the investors up in the hierarchy of stakeholders. Following this increase in power, higher ROE figures are expected, which would mean that this as material perceived (ES)G issue will be successfully resolved. This expectation is shared amongst all three groups – IM, IA, and ARC – regardless of the employer being a Japanese or non-Japanese company.

These findings support the observation that international investors are the driving force behind the changes that can be observed in the Japanese financial system (Sakuma-Keck 2016, Jacoby 2009). Based on Jacoby (2009) the question is whether or not there is buy-in within the Japanese system. Jacoby (2009) and Deakin and Whittaker (2009) argue that there is a constant back and forth between foreign investors and the powerful Japanese companies, with the consequences that in the past no real change occurred.
One crucial question in this process is: What are the expectations of the Japanese investor? In the past there seems to have been shared expectations between the investors and the investee company. Due to the indirect financial system, financial groups were holdings the companies' shares to confirm the business relationship and not necessarily to gain returns from the investment. The returns used to be made in other parts of the financial group, e.g. through the sales of insurances, through providing debt capital, or through managing the company pension fund. Whilst the investment analysts as well as the academics, researchers, and consultants comment on this, the investment analysts do not mention the lack of profit expectation in this context. The potential effects of this

situation on the accountability of the private ESG reporting or engagement will be discussed further in 7.3.2.

All three groups perceive the aforementioned to be the case for Japanese companies. It is interesting to note that some see the size of the company having an effect on the acceptance of Western concepts. However, there is no agreement within and across the groups on a size factor. Contrary to this, interviewees from the three groups perceive overseas exposure as a relevant factor regarding the acceptance of Western concepts. This exposure can vary, i.e. it can be through overseas investors, overseas suppliers, being a supplier to overseas companies, or selling overseas. This perception is shared amongst the interviewees working for Japanese and non-Japanese companies.

Regarding this section overall, it is interesting to observe the difference between the investment manager group and the investment analyst group: The overall sentiment in regard to the hierarchy of stakeholders is identical between the two groups. However, discussing engagement a slightly different picture started to emerge. On the one hand side, there is still overlap, but on the other hand side, the investment managers start talking about the power dynamic, which on paper is in their favour, whilst in reality, this does not seem to be the case. The explanation for the slightly different perspective is two-fold. First, the development from private reporting towards engagement, which is in line with what can be observed internationally (inter alia Solomon & Solomon 2006, Solomon & Darby 2005). The investment analysts are predominantly involved in private reporting sessions with the companies, whilst they mention problematic areas and how those effect the analyst reports, scores, or rankings, there is no direct request for change, which is a key difference in comparison to engagement. This used to be the case for investment managers as well. The meetings were a sense-making exercise to fill in the gaps in understanding the published data. As Solomon & Darby (2005) highlight for the UK and as the interviewed IMs confirm, this is especially relevant for ESG in areas of poor disclosure, which is the case in Japan, especially in regard to the English reporting.
However, there is a second aspect to the explanation of the difference between investment analysts and investment managers. Internationally, it can be seen that the process started with investors being guided by the 'Wall Street Rule', i.e. never vote against management. The perception was that management knows best how to manage the company. However, due to a myriad of scandals investors started to question

management which led to the emergence of private reporting. As covered in detail in the earlier sections, this then evolved into active investor engagement and reaching the status quo, where constructive dialogue can be seen between some companies and their investors. A difference can be seen between the international development and Japan: In Japan, due to a traditionally debt-centred financial system, financial institutions used to be involved in and informed about business decisions, as they would be needed to provide the necessary debt capital. According to the interviewees this is not necessarily the case on a junior level, due to the introduction of Chinese walls, but many senior members of staff have spent a long time in the financial organisation and know all parts of the business, e.g. before managing the investment management side they worked for the insurance or banking part of the business. On a senior level therefore, there not only tends to be detailed knowledge about the companies, but also well-established networks, leading to a situation where (in)formal dialogue takes place continuously. This is, however, dependent on networks being built over time, which adds to the explanation of the discrepancy between the mostly junior investment analysts and the mostly senior investment managers. It became explicit during the interviews when investment managers stated that they prefer to talk to the senior management, whilst investment analysts stated that they preferred to talk to the investor relations staff.

7.3 Stewardship through Private Meetings

In this section the aforementioned development of the nature of (private) investor meetings becomes relevant once again. The following three types of meetings were discussed before and will form the basis for the following discussion: Private reporting meetings, engagement meetings and investor-investee dialogue meetings. For purposes of clarity please see below a brief summary of the differences between the three types of meetings, as discussed before in this thesis:

Private reporting meetings

The investors ask for meetings with the investee companies in order to fill in gaps in the understanding of the publicly available material. Questions often concern the narratives to explain the numbers or statements in the public material. The meeting is one-directional: the investor asks and the investee company reports. In this kind of meeting the investor will not propose structured or measurable requests for change in regard to the topics discussed during the meeting.

The meeting can, however, also be initiated by the investee company. In these cases, the company tends to present the company's perspective on certain issues to the investor. As in the aforementioned scenario, structured follow up communication does not occur.

Engagement meetings

The investor approaches the company with a request for change. During the meeting the investor's expectation will be communicated to the investee company. Ideally, a structured process is followed and measurable requests will be made. This type of meeting is also one-directional: The investor requests change from the investee company. Continuous follow-up communication will take place to monitor the requested changes.

Investor-investee dialogue meetings

This meeting is two-directional: requests for such a meeting can come from the investor or investee company. However, unlike with private reporting meetings, topics are being discussed instead of merely being presented by the investee company or information being requested by investor. Both sides try to work together to exchange knowledge and resolve issues perceived by either side. These meetings take place regularly as part of an ongoing dialogue.

As mentioned before, internationally, a development can be observed from private reporting meetings to engagement meetings and investor-investee dialogue. The following section will discuss this development in the light of the empirical results for the Japanese context.

7.3.1 Overseas Investors as a Driver for Meetings

Across all groups of interviewees there was consensus that international asset owners are the driver for meetings with investee companies, either directly or through their investment managers. This push for change happened with the change in ownership structure that occurred in the beginning of the 2000s and intensified during the global financial crisis (Dore 2009, Jacobi 2009). Whilst before, companies were owned by other Japanese companies (cross-shareholdings) or by Japanese financial institutions like insurances, local banks, trust banks, etc, in the 2000s the ownership structure changed and now more than 30% of Japanese equity is owned by overseas investors (JPX 2016). This rather fast change in ownership from Japanese to overseas investors meant that companies faced new approaches and perceptions of ownership. According to

interviewees from the investment analyst group, it can be seen that Japanese companies approach Japanese analysts to gain information on how to fulfil the demands of overseas investors, or how to deal with these investors in general. The interviewees working for non-Japanese companies did not comment on this, which makes sense as it seems that only the Japanese investment analysts were approached. It is interesting to see that neither of the two other groups commented on this.
Furthermore, it can be seen that Japanese companies do not only reach out to Japanese analysts, but also to overseas investors directly. This is a point made strongly by the investment analysts working for Japanese and non-Japanese companies. In the other two groups, only interviewees with non-Japanese employers comment on this point. Given that this particular point concerns outreach towards overseas investors, it makes sense that the Japanese investors do not comment on it. Regarding the investment analysts, however, it is interesting to see that predominantly the interviewees working for Japanese companies comment on this point. Unfortunately, the potential reasons for this are not clear, which is why it cannot be discussed further at this point.
Analysing the dynamics at play in more detail the interviewees in all three groups mention that the driving force for active ownership in Japan were not the asset owners, but the Japanese investment managers. It is important to note that this is different from the international development, e.g. since the foundation of the PRI, asset owners are at the forefront internationally. This is due to the fact that the Japanese investment managers not only hold mandates from Japanese asset owners, but also from overseas asset owners. Those overseas asset owners pressured the Japanese investment managers to comply with their expectations and the international status quo. The Japanese investment managers then tried to convince the Japanese asset owners of the merit of responsible investment. With the stewardship code, Japanese asset owners have started to reach out to Japanese investment managers to learn more about active ownership. This perspective is shared across the three groups and regardless of the employer being Japanese or non-Japanese.

The dynamics in Japan changed, however, with the introduction of the Principles for Responsible Institutional Investors. Interviewees from all three groups agree that the GPIF is one of the major drivers of the Principles. Given that almost every Japanese investment manager holds a significant mandate from the GPIF, its request for any investment manager holding one of its mandates to sign the principles had a big impact. This also meant that the driving force for active ownership changed from the investment managers to the asset owners, which is in line with the international dynamics. Whilst the investment analysts and the academics, researchers, and consultants do not directly comment on this, interviewees from the investment manager group state explicitly that this trend extends to asset owners beyond the GPIF. The reason for this lies most likely in the exposure to the wider asset owner community. Whilst the investment managers tend to hold mandates from more than one asset owner, the interviewees of the other two groups tend to have limited exposure to this community. The role of the GPIF, however, was so significant that it was discussed widely in the financial industry as well as in the media in general.

A difference between employees of Japanese or non-Japanese companies cannot be seen in regard to the abovementioned aspects.

The answer to the question of why the dynamics in Japan have changed with the introduction for the Principles for Responsible Institutional Investors can be found partly in the role of the FSA and the history of financial industry regulation in Japan. The Principles are the first piece of regulation introduced by the FSA that is not mandatory. Interviewees across all three groups state that in the Japanese financial industry the Principles are treated as if they were mandatory. This perception of the Principles explains the rapid increase in interest from the asset owners.

Another interesting aspect is that across all three groups interviewees commented that Japanese investors need to become more active and take on the responsibility to make improvements to the Japanese financial markets. International investors were seen as short-term investors with a large likelihood of exiting. Therefore, Japanese investors should not rely on overseas investors to push changes like active ownership. Whilst this was only explicitly mentioned by a few interviewees, it was mentioned across all three groups, by interviewees working for Japanese and non-Japanese companies.

7.3.2 Impression Management in Private Meetings

A theme that is reoccurring throughout all groups is that shareholder engagement in overshadowed by the Yakuza activities common in the not so distant past. There is therefore the category of *hostile actors*, which the yakuza were, but this is also how the activist funds are being perceived. This kind of engagement still has a very bad reputation. However, given the structure of the dominant financial groups, the indirect financial system, and the network approach of corporate governance in Japan, for companies to work together in a constructive dialogue with financial institutions is nothing new. What is new, however, is that these meetings are being requested by investors based on the ownership of shares, rather than based on business ties.

In the following section, details of the private meeting process will be discussed, as perceived and communicated by the interviewees.

7.3.2.1 Dialogue

The interviewees talk about a relationship between the investors and the investee companies, which can be described as constructive bidirectional dialogue. Both sides ask for information or advice, with companies approaching the investors regarding the changes around sustainability reporting and stewardship, for example. The shared understanding is that investors and investee companies are on the same team, i.e. they both want the company to be successful. Given the importance of face-to-face meetings in Japan, some companies send teams out to talk to investors and gather information to feed back to the company board. No difference can be seen between the interviewees when it comes to the aforementioned development, neither based on the division into the three different groups of interviewees, nor based on the fact that they are working for a Japanese or a non-Japanese company.

Interviewees from the ARC group mention that this development is even stronger amongst funds that follow a concentrated portfolio strategy. This is to be expected as more attention can be paid to the companies held, given the small number of holdings. Also, one key-characteristic of the concentrated portfolio funds is that they are long-term oriented funds with a low portfolio-turnover. Being held by such a concentrated portfolio fund means being held by a stable investor. This seems to resonate well with the companies in general, according to all three groups of interviewees. The situation of stable shareholdings is a characteristic of the indirect financial system that could be found in Japan before the 2000s. Trying to build a good long-term relationship with the investor through open and honest dialogue is seen as a means to the end of a stable holding. However, similar to what was discussed before, there is the idea that the Japanese investors need to step up, as the international investors cannot be trusted to have a long-term interest in Japan. On occasion this constructive dialogue was portrayed as the desirable opposite of hostile activism or Yakuza-type activities.

However, whilst constructive dialogue exists according to the interviewees, it is always conditional. It can be described as an If-Then-Else-Function: If there is trust, then constructive and open dialogue takes place. Else two different scenarios are mentioned by the interviewees: One, the questions asked are not being answered at all, i.e. investors are being outright ignored. Two, the companies just present what they want to present without answering the investors questions.

The interviewees describe this as 'becoming an insider' or 'getting into the village'. Once one is being trusted by the company, one cannot only have an open and honest dialogue, but companies are actually very receptive and actively participate in the dialogue. If one is not being trusted or if one behaves in a way that is being perceived as confrontational by the company, one cannot accept to receive (reliable) answers.

When the interviewees talk about trust they often link the concept of trust with the concept of long-term orientation and stability / stable holdings. The key to build a trusting relationship is for the company to perceive the investor as having an interest in the long-term future of the company. This ties in with the concept of an indirect financial market, as discussed previously. Again, no difference can be seen between the groups of interviewees.

7.3.2.2 Dialogue with whom: Company Management vs. Investor Relations

The section above shows that there is a general agreement between the three groups interviewed during this research, in regard to the relationship between companies and investors, and the role that trust plays in this relationship. However, the situation is more complex when looking at investor-company dialogues in more detail.

The investment manager group prefers to meet with the company's management. In the interviews, they report that the information provided by the management is more detailed and more useful, as the management is obviously directly involved in the decision-making process. The IR team, however, can only provide second-hand information. Given that the IR team does not have the same authority as management, it cannot deviate much from a set of more or less scripted answers. The main challenge is to get access to a company's management. Here one's networks are key and whether or not one is 'inside the village', as previously discussed. This cannot be over-emphasised: Playing the

ownership card, i.e. demanding access as a shareholder, is not perceived well and is unlikely to result in a meaningful dialogue.
The accounts from the investment analyst group are in contrast to the aforementioned accounts from the investment managers: The investment analyst group prefers to meet with the investor relations teams. They do not feel that there is a difference between meeting a company's management or the IR team, if at all, the IR team is being perceived as more honest.
The only point where the IA group agrees with the IM group is that when deviating from the standard points, the IR team often cannot provide the requested information. This is in line with the perception of the IM group that the IR team's answers seem scripted.
It is interesting to see that the group of academics, consultants, and researchers does not voice a preference. Given that they are mainly working in advisory capacity and that, therefore, their exposure to those meetings is limited, this is not very surprising.
Whilst IMs from non-Japanese companies report the abovementioned points more frequently, no clear distinction between interviewees working for Japanese or non-Japanese companies can be seen.

The aspect of long-termism and trust can contribute to the explanation of the difference between the accounts from the investment manager group and the investment analysts group. Inagami (2009) analyses the typical executive career in the Japanese environment of life-long employment: The members of the senior management typically join the company in their 20s. In the span of circa 40 years, they work their way up the ranks to senior management. On their way up, they do not only move within the company, but also within the wider network of companies created through cross-shareholdings. The group of academics, researchers, and consultants highlights that the senior management not only knows every aspect of the company, but also expect similar knowledge from the investors. This is actually possible, given that the career path in the financial industry is similar to the one within the investee company, i.e. a fund manager can easily be in touch with and learn about the same investee company for decades. For example, covering the company as a junior analyst, working with the company in the insurance or loan business of the financial group, holding the company in the portfolio as an investment manager. In this kind of situation, where the investor and the investee have known each other for such a long time, all three groups of interviewees agree that the chances for a fruitful engagement and constructive dialogue are the highest.

One key difference between investment managers and investment analysts is seniority: The interviewed investment managers were on average more senior in their position than the investment analysts. Due to their work experience in the industry and the resulting networks, they have access to the management of investee companies that, based on the interview findings, the investment analysts do not have. The investee company therefore does not engage in dialogue with the investment analysts; the management because they have not built up trust yet and the IR team because they are not authorised to do so. The difference in the findings between the groups actually confirms the overall findings regarding the role of long-termism and trust, where there is no difference in perception between the three groups of interviewees.

7.3.2.3 Dialogue vs. scripted meeting

Based on the situation discussed in the previous section there are 'trust' and 'no trust' meetings. In this section, the character of those meetings will be discussed on more detail. The 'trust' meeting is described as a meeting where open Q&A takes place. Given the existing relationship between the investor and the investee company, which as aforementioned is a prerequisite to build up trust, in the meetings little time is spent on company presentations. Instead, the meetings are being described as open and truthful meetings.

The 'no trust' meetings, however, are in contrast to the 'trust' meetings. These meetings consist mainly of scripted answers to questions that had to be submitted in advance and scripted company presentations. What is interesting here is that the presentations are very information oriented, i.e. not much time is spent on creating a narrative through 'pretty pictures'. What can be observed, however, is that not all questions are answered in the 'no trust' meetings. Rather than creating a narrative or presenting the situation in a positive light, no answer at all is given at all.

All three groups of interviewees report the above in similar ways and no difference can be seen between the interviewees working for Japanese and non-Japanese companies.

One point that is only raised by interviewees from the investment managers group is that they perceive their meetings with company management to be mainly 'trust' meetings. This is in line with what was discussed in the previous section.

Solomon et al. (2013) analyse private investor-investee-meetings in detail in regard to the dynamics at play within the meetings, which they find are often merely theatrical performances with the investee aiming to create a positive impression, in line with Goffman's theory of impression management. Solomon et al. (2013) argue that there are two types of impression management at play during investor-investee-meetings in the UK: One, impression management, intentional or unintentional, through the creation of a positive narrative, inter alia through the use of positive imagery, graphs, etc. Second, concealment, i.e. information that goes against the overall impression that is being created is intentionally withheld.

Based on the discussion above, unlike in the UK, in Japan little evidence can be found for the first type, i.e. impression management through the creation of a positive narrative, positive imagery, etc. The interviewees feel that the meetings, even if the presentations and answers are scripted, is factual and information based. However, during the 'no trust' meetings, the second type, i.e. concealment through intentionally withholding information, seems to be widely spread. As shown above, the interviewees cite many occasions where questions, especially critical questions, are not being answered.

7.3.2.4 Dual myth creation

Solomon and Darby (2005) find in the UK that the investor-investee meetings often do not increase accountability, but only provide a dual myth of accountability in the UK. The meetings are seen and treated like tick-box exercises on the investor as well as on the investee company side: both parties attend the meetings and by doing so signalling to the stakeholders that the investors are active owners. However, during the meetings investors simply accept what the narrative that the investee-company provides.

The question of whether or not the creation of a dual myth in Japan can be observed is quite complex. Members of the two groups of interviewees who are in direct contact with investee-companies, i.e. IM and IA, state that they expect the investee companies to provide a positive narrative. Furthermore, they seem to see it as their job and responsibility to then dig deeper in order to reveal the true story.

The self-evaluation of the interviewees and what they perceive to be their own responsibility stands in strong contrast to what they state to be the structures and incentives in the overall financial industry in Japan. Most of the asset managers in Japan are part of a larger financial group, offering inter alia loans, insurances, and corporate pension plans. According to the interviewees, the asset management part of these groups does only contribute a small amount to the group's profit and therefore does not feature high in the hierarchy within the group. Shares are often still primarily held to foster a good relationship between the financial group and the company in question. Selling those shares is not an option, regardless of the (expected) return.

In addition to the non-existing investment decision, this provides an additional layer of complexity to the investor-investee-meetings. Given that, a lower priority is assigned to the return of the stock than to the good business relationship with the investee company, the investor has an incentive to not upset the investee company during the meetings. This ties in with the investors' previously discussed desire to not be perceived as hostile. This is reflected in the accounts of interviewees from all three groups, working for Japanese and non-Japanese companies.

Interviewees from the investment manager and investment analyst groups share further details, based on their experience with investee companies. They state that they are concerned about backlash from the company. Examples of what they perceive to be issues that anger companies are asking critical questions in meetings and voting against management proposals at AGMs. Given that these two examples describe key aspects of a meaningful engagement process and dialogue, the question has to be asked, whether active ownership through investor-investee-meetings in Japan actually increases accountability. One investment manager stated that it looks like engagement, but it is not engagement. Whilst the dynamics and incentives are different, under certain conditions, the consequence is likely to be a situation of dual myth creation similar to the one in the UK, as found by Solomon and Darby (2005) and Solomon et al (2013).

7.4 Institutional Logics in Japanese Finance Industry

The previous section revealed a variety of approaches that seem conflicting at first glance. It seems that there is not one clear approach to investor-investee meetings in Japan. Instead there seem to be different conditions that influence the development of the investor-investee relationship. Depending on those conditions and the resulting relationship, investors report to have very different experiences in regard to investor-investee meetings, ranging from box ticking exercises to meaningful dialogue.

In this section, the results discussed in the previous section will be analysed using the framework if institutional logics, motivated by the work of Atkins et al. (2015). It is an exercise of making sense of a situation where on the surface conflicting accounts seem to exist.

7.4.1 Traditional Japanese Logic

Analysing the interview findings, a reoccurring theme is 'the traditional Japanese system'. Throughout the interviews, all three groups comment on a system which they consider to be the traditional Japanese system. The traditional system is a system of governance through stakeholder networks, which are based on the shared interest in the long-term success of all stakeholders in the network. As discussed previously, at the heart of this system was the 'house bank', given that the Japanese financial markets used to be indirect and companies relied on bank loans to finance their operations. These loans as well as additional financial services used to be provided by one bank, the house bank. Due to this position of power, the bank would oversee the company's management, strategy, and operations. In order to bind the different parts of the network together, shares were exchanged, i.e. cross-shareholdings were created. These holdings were purely strategic holdings and were held with no intention of selling them at a later point in time. In addition, there was no expectation of return on those investments. The networks are clearly defined; people are either insiders or outsiders.

In this traditional system, (shareholder) engagement only exists in two forms: The Yakuza trying to extort money, and activists confronting the company with environmental issues. The concept of shareholder engagement as it is common nowadays in the UK does not make sense in this system: First, the purpose of holding shares is to build a business network and not to achieve a return on investment. Second, the investment managers were all part of a larger financial group. The interest of this group could be asserted by bank from a position of power. The traditional Japanese system followed a stakeholder network logic.

Traditional Japanese System – Stakeholder Network Logic

Focus	Stakeholder focus, shareholders not taken into consideration
Engagement / Activism	Rent seeking by Yakuza-type organisations, activist activities
Time horizon	Long-term
Purpose of the firm	Create stakeholder value
Investor-investee meetings	Within the network: open dialogue Outside the network: impression management
Transparency	Access to information for insiders, opaque for outsiders

Table 7-1: This table provides an overview of the key characteristics of the traditional Japanese system, based on inter alia Miwa et al. (2016), Sakuma-Keck (2015) and Sakuma and Louche (2008), as well as on sections 2 and the interview findings.

7.4.2 Shareholder Primacy Logic

Lounsbury (2007) identifies a finance logic in the US, which Atkins et al. (2015) identify in the UK. This finance logic is performance driven and has 'shareholder primacy' at its core, i.e. the company's management is accountable to the investment managers as shareholders. With a holding period of 8.3 months in the US in 2016 (Roberge et al. 2017), it can be seen that short-termism lies at the heart of this approach. The concept is based on short-term market inefficiencies: buy when a stock is undervalued and sell once the market has priced the stock correctly.

According to interviewees this was also a logic present in Japan, in cases where investment managers were not part of a bigger group. This led to the perception of the stock market as a place for gambling. However, the push for a shareholder primacy logic to be adopted comes from outside Japan. Overseas investors are advocating a corporate governance that relies on shareholder primacy, in contrast to the traditional Japanese logic. With the change in ownership since the Asian financial crisis towards overseas investors, and the change from an indirect loan-based to a more direct equity-based financial system, the influence of overseas investors is increasing.

Western Financial System – Shareholder Primacy Logic

Focus	Shareholder primacy
Engagement / Activism	Increasing financial accountability of the agent towards the principal Increasing short-term returns for shareholders
Time horizon	Short-term
Purpose of the firm	Shareholder wealth maximisation
Investor-investee meetings	Shareholder driven with focus on financial issues
Transparency	Focus on transparency (symmetry of information)

Table 7-2: Summary of the key characteristics of the Shareholder Primacy Logic, based on inter alia Atkins et al. 2015, Fiss 2008 and Lounsbury 2007, as well as on sections 2 and the interview findings.

7.4.3 ESG / Responsible Investment Logic

The challenge with the Responsible Investment logic is to identify the current state of the logic. Atkins et al. (2015) show that there used to be a separate responsible investment logic in the UK, however, a hybridisation process has started to set in with elements of the responsible investment logic being adopted by the mainstream logic. The ESG logic as advocated by niche investors, think tanks, RI industry association, and academics is based on long-term performance. This is in line with the interview findings from the UK, where all three groups perceive ESG issues as relevant in the long-term rather than the short-term. The expectation therefore is that investors are interested in the long-term success of the company, which leads to stable holdings. In order to be able to commit to this long-term investment a holistic in-depth analysis of the firm is required. This holistic analysis has to include the stakeholder network of the company, due to the nature of ES and to a lesser degree G factors. Furthermore, transparency through reporting is key, in order to be able to conduct this analysis. The ESG logic therefore advocates reporting on ESG issues, as mentioned frequently by the interviewees in regard to the rapid increase of integrated reporting in Japan. According to the interview findings companies see integrated reporting as a means to attracting ESG investors, which are then expected to take the aforementioned long-term position and by doing so provide a stable holding.

ESG / Responsible Investment Logic

Focus	Holistic focus on shareholders and stakeholders
Engagement / Activism	Increasing the firm values for shareholders and stakeholder
Time horizon	Long-term
Purpose of the firm	Create stakeholder value
Investor-investee meetings	Dialogue with investors
Transparency	Focus on transparency (symmetry of information)

Table 7-3: Summary of the key characteristics of the ESG / Responsible Investment Logic, based on inter alia Atkins et al. 2015 and CISL 2014 , as well as on sections 2 and the interview findings.

The Gretchen question in this case is whether this logic is actually at play in Japan, or whether one of the scenarios highlighted by Atkins at al. (2015) has set in where the hybridisation of the finance logic and the ESG / RI logic has led to mere window dressing of the finance logic.

Sakuma-Keck (2015) indicates that there is not much difference between ESG funds in Japan and conventional funds. Both are mainly large-cap index-tracking and a significant difference in holdings cannot be identified. The paradox is that whilst the perception of ESG amongst the interviewees is the one summarised in Table 7-3, all three groups agree that the characteristic of the existing ESG products are actually in line with what Sakuma-Keck (2015) describes, thereby indicating an underlying finance logic, dressed up as an ESG / RI logic.

The general perception of the interviewees seems to be that the new ESG advocated since the beginning of the 2010s is different to the ESG previously known in Japan. At the same time, the interviewees agree that the current focus lies on G issues and amongst those on issues aimed at increasing shareholder wealth. The general rationale seems to be that it is necessary to improve on G first, and the E and S will follow. Based on the interviews, it seems that an ESG logic is being advocated, however, the measures requested actually indicate the presence of a shareholder primacy logic rather than an ESG / RI logic.

Camouflaged Shareholder Primacy Logic

Focus	Shareholder primacy
Engagement / Activism	Increasing financial accountability of the agent towards the principal Increasing short-term returns for shareholders Reducing ESG risks
Time horizon	Short-term
Purpose of the firm	Shareholder wealth maximisation
Investor-investee meetings	Shareholder driven with focus on financial issues, but including ESG issues
Transparency	Focus on transparency (symmetry of information)

Table 7-4: Summary of the key characteristics of the Camouflaged Shareholder Primacy Logic, based on inter alia Jacoby (2009), Atkins et al. 2015 and Sakuma-Keck (2015), as well as on sections 2 and the interview findings.

It is important to mention that the interviewees seem to be aware of this conflict. They expect overseas investors to push for short-term increases in shareholder-wealth under the disguise of ESG / RI and then collect the returns and divest from Japan. They are therefore asking for Japanese investors to use the pressure from the overseas investors on companies, to implement measures allowing for the real ESG / RI logic (Table 7-3) to be followed, rather than following a camouflaged shareholder primacy logic as summarised in Table 7-4.

7.4.4 Japanese ESG Logic

Sakuma-Keck (2015) analyses responsible investment in Japan as a tale with two narratives, which is in line with the interview findings. One narrative is the window dressing of ESG funds as described above. However, there is also a second narrative: The development of active concentrated portfolio funds. These funds usually have a concentrated portfolio including a small number of equities. This is a key requirement for the in-depth holistic analyses that are carried out, as this would not be possible for a larger portfolio. The open dialogue between investors and investee-companies lies at the heart of this approach, in some cases even including even the beneficiaries. Such concentrated portfolio funds invest for the long-term and by doing so align their interest with the long-term success of the company.

These funds are a niche product that often involves community investment and investment in SME. However, a very similar approach is applied by international investors like Generations Investment Management or First State Stewart.
Analysing the Japanese ESG-Logic, it is almost identical with the Traditional Japanese Logic: The aim is to provide companies with stable holdings, to align incentives so that the long-term success of the company and its stakeholders is the focus of all activities, and to have mutual governance through open dialogue within the network.
The key requirement for the Traditional Japanese Logic to work is the reliance of the company on the house bank. However, due to the developments analysed in 2.2.5.1, the banks cannot fulfil these roles anymore. In the Japanese ESG-logic they are therefore replaced by the investment managers, especially the institutional investors with significant holdings.
As a consequence, the interviewees expect the Japanese ESG-logic to be in place, once the concepts of Stewardship – Active Ownership and ESG have enabled Japanese investment managers to take the role previously assigned to the house banks, and the overseas investors have collected the short-term returns and withdrawn from the Japanese market. This would in essence recreate the Traditional Japanese Logic, including some aspects from the ESG logic – see Table 7-5.

Japanese ESG Logic	
Focus	Holistic focus on stakeholders, shareholders included as part of the stakeholders
Engagement / Activism	Increasing the firm values for the benefit of all stakeholder
Time horizon	Long-term
Purpose of the firm	Create stakeholder value
Investor-investee meetings	Network of long-term investors: open dialogue Outside the network: impression management
Transparency	Focus on transparency: symmetry of financial and ESG information

Table 7-5: Summary of the key characteristics of the Japanese ESG Logic, based on Sakuma-Keck (2015), as well as on sections 2 and the interview findings.

7.4.5 The Development of Institutional Logics in Japan

The interview findings reveal a current situation in Japan where a variety of logics are competing, as discussed in the previous sections. In line with Atkins et al. (2015) findings for the UK and Lounsbury findings (2007) in the US, it is likely for hybrid logics to emerge in Japan, which combine aspects of different logics. When analysing the characteristics of the aforementioned logics, it can be seen that some are more compatible than others. In addition, the interview findings provide an indication of the expected future development of the financial market logics. Two hybrid logics are likely to emerge: Scenario one the Japanese ESG logic as a hybrid of the traditional Japanese logic and the ESG/RI logic, and scenario two, the 'Shareholder Primacy & Engagement' logic as a hybrid of the Western Shareholder Primacy logic and the ESG/RI logic.

Regarding the Japanese ESG logic and the expected development, it is possible for a logic to emerge that is a true hybrid of the two competing logics. It will consist of key element from both logics and can be seen as a development of both logics. This is the optimistic scenario for the emergence of hybrid logics as discussed by Atkins et al. (2015).

The 'Shareholder Primacy & Engagement' logic, however, is an example of the pessimistic scenario for the emergence of hybrid logics as discussed by Atkins et al. (2015). In this case the dominant Shareholder Primacy logic does not merge with the ESG/RI logic, but only adopts the tool of shareholder engagement under the camouflage of advancing ESG. At the heart of the logic are still short-term performance considerations, e.g. the increase of returns through increase of ROE, increase of dividends, and share buy-back programmes. These governance measures are presented as the first step towards an ESG logic and are pushed through the tool of engagement. This means that first, under the camouflage of the ESG/RI logic, the tool of engagement is advocated and then this tool is being used to push short-term considerations, which are at the heart of the shareholder primacy western finance logic.

The interviewees expect scenario two to emerge first, due to the influence of overseas investors. They expect that overseas investors, with the support of Abenomics and through the Principles for Responsible Institutional Investors, will push for short-term interests. However, through these endeavours the interests of shareholders will register on the corporate agenda. Once the overseas investors have received the short-term returns they are expected to be after the interviewees anticipate a change in the overall ownership structure from overseas investors towards Japanese investors. However, unlike before the investors will now find a situation where the changes brought in through the Shareholder Primacy & Engagement logic have paved the way for the Japanese ESG logic to be implemented. Specifically, shareholder interests will then be on the agenda, transparency will have improved, and engagement will be an established practice. The final outcome will be stable holdings of Japanese companies by Japanese investors, an adjusted re-creation of the ‘reality’ from before the Japanese financial crisis.

7.5 Institutional Logics: Investor-Investee Meetings

Based on the discussion in section 7.3 impression management occurs in investor-investee meetings and depends to a large degree on trust, long-term interests and whether the investor is considered to be part of the inside network of the investee company. The discussion in section 7.4 shows that there are different logics at play, with different considerations regarding the importance of long-term focus, which, as discussed previously, is a prerequisite for trust and for entering the insider network.

In this context, the presence of impression management in inventor-investee meetings can be seen as a function of the logic followed. An investor who does not follow a logic that has an alignment of long-term interests at heart, will, according to the interview findings, face impression management in the meetings. Regarding the aforementioned logics, this means that investors following the Shareholder Primacy logics, with or without ESG camouflage, are likely to face impression management as discussed in section 7.3. Investors who, in contrast, follow a logic that entails a genuine interest in the long-term success of the company and its stakeholders, i.e. the traditional Japanese logic, the ESG/RI logic, or the Japanese ESG logic, are likely to face a situation of open dialogue.

Whilst it seems clear, that the shareholder primacy logics lead to impression management based on the interview findings, the degree to which the long-term logics lead to a situation of open dialogue is more complex, as discussed in section 7.3.

8 Conclusion

The interview findings suggest that there are five institutional logics at play in regard to investor-investee meetings in Japan. The inherent Japanese logic is the 'Stakeholder Network Logic', whilst traditionally Western investors were trying to introduce the 'Shareholder Primacy Logic' into the Japanese financial market, with little success. With the development of the 'ESG / RI logic' in the west, a logic arose that has a long-term focus, similar to the traditional Japanese logic. Based on those similarities, the 'ESG / RI logic' gained popularity in Japan, with the introduction of the Principles for Responsible Institutional Investors being one clear sign of this development. However, based on the interview findings and in line with research in the UK, it is not clear how the 'ESG / RI logic' will merge with the other existing logics, i.e. the 'Stakeholder Network logic' on the one hand side and the 'Shareholder Primacy logic' on the other hand side. Based on the interview findings indications can be seen for the emergence of two hybrid logics: 'Camouflaged Shareholder Primacy logic' and the 'Japanese ESG logic'.

	Institutional Logics		
	Shareholder (SH) Primacy	**ESG / RI**	**Camouflaged SH primacy**
Focus	Shareholder primacy	Holistic focus on shareholders and stakeholders	Shareholder primacy
Engagement / Activism	Increasing financial accountability of the agent towards the principal Increasing short-term returns for shareholders	Increasing the firm values for shareholders and stakeholder	Increasing financial accountability of the agent towards the principal Increasing short-term returns for shareholders Reducing ESG risks
Time horizon	Short-term	Long-term	Short-term
Purpose of the firm	Shareholder wealth maximisation	Create stakeholder value	Shareholder wealth maximisation
Investor-investee meetings	Shareholder driven with focus on financial issues	Dialogue with investors	Shareholder driven with focus on financial issues, but including ESG issues
Transparency	Focus on transparency (symmetry of information)	Focus on transparency (symmetry of information)	Focus on transparency (symmetry of information)

Table 8-1: Comparison of the key characteristics of the Shareholder Primacy, the ESG / RI and the Camouflaged Shareholder primacy logics, based on the discussion in section 7.4.

The first scenario is the creation of a hybrid logic where the 'Shareholder Primacy logic' has assimilated the 'ESG / RI logic' with any remainders of ESG being a (dual) myth – see Table 8-1.

The second scenario is the creation of a hybrid logic between the traditional Japanese 'Stakeholder Network Logic' and the 'ESG / RI logic' preserving characteristics of both logics, trying to strengthen the positive aspects of each logic – see Table 8-2.

	Institutional Logics		
	Stakeholder Network	**ESG / RI**	**Japanese ESG**
Focus	Stakeholder focus, shareholders not taken into consideration	Holistic focus on shareholders and stakeholders	Holistic focus on stakeholders, shareholders included as part of the stakeholders
Engagement / Activism	Rent seeking by Yakuza-type organisations, activist activities	Increasing the firm values for shareholders and stakeholder	Increasing the firm values for the benefit of all stakeholder
Time horizon	Long-term	Long-term	Long-term
Purpose of the firm	Create stakeholder value	Create stakeholder value	Create stakeholder value
Investor-investee meetings	Within the network: open dialogue Outside the network: impression management	Dialogue with investors	Network of long-term investors: open dialogue Outside the network: impression management
Transparency	Access to information for insiders, opaque for outsiders	Focus on transparency (symmetry of information)	Focus on transparency: symmetry of financial and ESG information

Table 8-2: Comparison of the key characteristics of the Shareholder Primacy, the ESG / RI and the Camouflaged Shareholder primacy logics, based on the discussion in section 7.4.

Investor-investee meetings will play a critical role in any institutional logic, due to the global developments towards stewardship through active ownership. However, the key question is whether the stewardship narrative is true and an increase in accountability can be achieved through those meetings. This depends to a large degree on the presence or absence of impression management during the investor-investee meetings. Therefore, it is crucial to understand the factors determining the use of impression management, as discussed in detail in section 7.3.

The traditional network logic entails impression management as the default option for anyone who is not considered to be part of the network. Outsiders are met with distrust and investor-investee meetings are dominated by impression management. In this situation, the investor can either participate in the creation of a dual myth or call out the company's behaviour. Calling out the company has an additional level of complexity in the Japanese system: Most investment managers are not independent, but part of larger financial groups. In this situation, there is pressure on the investor to engage in the creation of a dual myth for the perceived greater good of the whole group, as upsetting the company could result in the loss of business for the insurance or bank, which are also part of the same group.

The situation seems to be very different for insiders. Members of the network can engage in open dialogue without the risk of backlash. The underlying assumption is that all members of the network trust each other to be interested in the long-term success of the company. Trust is therefore an important determinant of the nature of investee-investor meetings. In regard to this it is interesting to see how the findings seem to differ between investment managers and investment analysts: Investment managers express more trust in company management to be honest, whilst investment analysts express more trust in investor relations more to not use impression management. This perceived difference, however, confirms the underlying logic, because company management and investment managers are part of the same network built on trust. The investment analysts are in general more junior and therefore have not had the chance to build trust. As a consequence, they are not part of the network, are therefore treated as outsiders, and face impression management when talking to company management.

Regarding the general relationship between investee companies and investors, becoming part of the network is key, which is also very important for overseas investors. Trust can only be built through long-term interest in the benefit of the company, which traditionally this happened through cross-shareholdings as part of the indirect financial system, i.e. the alignment of business interests. The ESG / RI logic provides an alternative way of building trust as an overseas investor, based on the long-term investment horizon. This explains why some foreign investors do not face impression management when talking to Japanese companies whilst others do. The ones that do face impression management are likely to be in this situation because the company does not trust them. This could be because they are following a different logic and might for example seem to be only interested in the short-term gain, i.e. they follow the (camouflaged) shareholder primacy logic rather than the ESG / RI logic.

The challenge is that the ones that follow the camouflaged ESG logic will always face impression management. If they try to use forceful measures to push against the company, they will be perceived as hostile and activist raiders and receive backlash, e.g. more impression management.

The fact that impression management is part of the old Japanese logic can be seen in the example of independent directors. Whilst the ESG logic advocates independent directors to increase transparency, the old JP logic does not appreciate this interference as they are outsiders who are not trusted. They are therefore using impression management to address this issue: Independent directors are often from 'group' companies where cross-shareholdings exist. These 'independent' directors have known the company management for a long-time as they are part of the same network and therefore are independent only on paper.

The solution is to have a true long-term orientation, which takes the characteristics of the Japanese financial market into consideration, like the Japanese ESG logic. If this is the case, the investor can become part of the trusted network and engage in open dialogue with the company. As a consequence, impression management will disappear and accountability will increase, as intended by the Principles for Responsible Institutional Investors.

8.1 Research Questions

The research questions that guided this project were answered in detail throughout this thesis, especially during the discussions in section 7. The following overview provides a conclusive summary of the findings in regard to each question, based on the aforementioned discussions. For more details please refer back to the discussion section.

8.1.1 What is the impact of the introduction of Principles for Responsible Institutional Investors in Japan?

Contribution

Interviewees have reported that companies have changed the way they respond to investors, e.g. they have started to create meaningful investor relations departments. In addition, the willingness of company management to meet with investors has increased.

Due to the pressure from the GPIF, investment managers have started to embrace active ownership, which can be seen inter alia through increased voting and an increasing number of investor-investee meetings.

This study has provided a framework to evaluate and make sense of the changes that occurred in Japan since the introduction of the stewardship concept, which entered the industry through the Principles for Responsible Institutional Investors. The study shows that the introduction of the concept of stewardship has initiated a hybridisation of the institutional logics at play in the financial industry in Japan.

Limitations and further research

The main limitation of this study in regard to the impact of the PRII is that the interviews were undertaken shortly after the introduction of the PRII. There are two sides to this: The positive side is that the study captures the market at a time when the institutional logics were hit by a shock and are starting to adapt to the new situation. This development is captured in this study. The negative side is that the full impact of the PRII cannot yet be evaluated based on the interviews that form the foundation of this study. However, future research can reflect the status quo can be reflected with the results of this study to evaluate the impact of the PRII.

8.1.2 What are the characteristics of investor-investee meetings in Japan?

Contribution

This study has shown that the characteristics of investor-investee meetings depend on the institutional logic followed by the investor and investee company. Depending on this logic the characteristics can vary significantly. The most important determinant of the logics at play in the meeting is trust in the long-term alignment of interests between the investor and investee. This study has also shown that different logics are at play depending on the type of attendees, i.e. whether investors meet with management or investor relations.

Limitations and further research

One of the main limitations of this study is the access to interviewees, given the tightly woven networks in the Japanese finance industry and the importance of being part of the existing networks. This study relied on the snowball sampling method, which has the disadvantage that all interviewees belong to the same network. Even though this study started with a number of snowballs and could therefore utilise several networks, it would have benefitted from a more diverse group of interviewees. In future research, it would be beneficial to address this problem, although due to the nature of the Japanese financial market this will be a challenge for any project relying on in-depth expert interviews.

8.1.3 What is the role of impression management in investor-investee meetings?

Contribution

This study shows that impression management in investor-investee meetings in Japan works as a function of trust, with the underlying institutional logic providing the framework. Based on the analysis of the interview data investor-investee meetings can be open and constructive dialogues were the two parties exchange knowledge and provide support to each other. They can, however, also be theatrical performances where the company presents what it wants to present and does not answer any questions beyond the presented material.

This study has shown links between impression management and institutional logics, as well as the Japan-specific elements that determine these links.

Limitations and further research

Future research should involve interviews with representatives of companies. It would have been interesting to include the perception of Japanese companies in regard to responsible investment and stewardship. Based on those interviews it would be possible to connect the responsible investment discussion with the corporate governance discussion, which is essential but was unfortunately beyond the scope of this project. Seeing that even investors seem to struggle to gain access to companies, this will be a serious challenge for future research.

8.1.4 What are the differences and similarities between investment managers, investment analysts, and academics, consultants and researchers?

Contribution

This study finds significant differences between the three groups in regard to the investor-investee meetings. Based on those findings, the study then provides a conceptualisation of the link between institutional logics, trust, and impression management, which explains these differences.

Making the underlying institutional logics explicit contributes to the sense-making of a situation in Japan that seems to be very contradictory, e.g. some investors reporting open dialogue and others reporting that their questions were not answered at all.

Limitations and further research

In future research beneficiaries and companies should be included. It would have been interesting to receive additional perspectives on the development of the Japanese financial markets. Given that responsible investment used to be mainly retail focused it would be interesting to include retail investors in a future study.

8.2 Policy recommendations

The key outcome of this study is that impression management and dual myth creation not only exist in Japan, but that they are accepted aspects of existing institutional logics. This means that an increase in stewardship will not automatically increase accountability. In order to increase accountability and achieve the desired effects on corporate governance, the aspects that lead to impression management and dual myth creation need to be addressed. One of the key hurdles is that investment managers tend to be part of larger financial groups. Due to life-long employment they build networks within many parts of those groups, which makes them vulnerable to conflicts of interests, e.g. 'Should I raise a critical point with the investee, given that she is one of the biggest insurance customers?'.

The long-term focus can only work if active ownership increases accountability, which at the moment depends on many factors that cannot be addressed through the launch of the Principles for Responsible Institutional Investors.

8.3 Industry recommendations

The first recommendation for any member of the financial community is to critically reflect on the investor-investee meetings in order to identify potential impression management. A dual myth of accountability can only be created if the investors are complicit. Any investor who has an interest in long-term investment and believes that ESG issues are material for her portfolio must avoid the creation of a dual myth at all cost, as it does not create accountability. Even worse it turns important tools like the

Stewardship Code and the Principles for Responsible Institutional Investors into toothless tigers.

The second recommendation, especially for overseas investors, is to spend time understanding the underlying institutional logics at play in the different markets. Many of the tools, best practice guides, implementation support documents, etc. have a heavy Western bias. This study shows clearly that it is not possible to simply copy the engagement approach from the UK and apply it to Japan. The result will be resistance, impression management and lack of access to management. This has nothing to do with a potentially bad ESG performance of the company, but it is simply a feature of the underlying institutional logic triggered by the investor following the wrong approach. The success of the engagement is determined by the investor's understanding of the institutional logic at play.

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Appendix:

Responsible Investment and Stewardship in Japan

PhD in Accounting

Henley Business School

Christoph F. Biehl

January 2018

10 Appendix

10.1 Acronyms

ACCA	–	Association of Chartered Certified Accountants
ACGA	–	Asian Corporate Governance Association
AGM	–	annual general meeting
ASrIA	–	Association for Sustainable & Responsible Investment in Asia
AO	–	asset owner
AUM	–	assets under management
CG	–	corporate governance
CSR	–	corporate social responsibility
ESG	–	environmental, social, governance
EuroSIF	–	European Sustainable Investment Forum
EU	–	European Union
FCA	–	Financial Conduct Authority (UK)
FRC	–	Financial Reporting Council (UK)
FSA	–	Financial Services Agency (Japan)
FTA	–	Free Trade Agreement (EU – Japan)
GPIF	–	Government Pension Investment Fund
GSIA	–	Global Sustainable Investment Association
IM / AM	–	investment manager / asset manager
IR	–	Investor relations *(depending on context)*
IR	–	Integrated reporting *(depending on context)*
JPX400	–	Index at Tokyo Stock Exchange based on CG criteria
JSIF	–	Japan Sustainable Investment Forum
METI	–	Ministry of Economics, Trade and Industry (Japan)
PFA	–	Pension Funds Association
PRI	–	Principle for Responsible Investment
PRII	–	Principles for Responsible Institutional Investors (JP Stewardship Code)
RI	–	responsible investment
RoA	–	return on assets
RoE	–	return on equity
SEE	–	social, ethical, environmental
SEET	–	social, ethical, environmental, trust
SER	–	social and environmental reporting
SIF	–	Sustainable Investment Forum

SRI	–	socially responsible investment
TSE	–	Tokyo Stock Exchange
UKSIF	–	United Kingdom Sustainable Investment Forum
UN	–	United Nations
WWII	–	World War II (1939 – 1945)

10.2 Financial Groups in Japan

This section includes examples of financial groups in Japan and their subsidiaries. It can be seen that in line with the discussion in the thesis that different subsidiaries face potential conflicts of interest.

Mitsui Sumitomo Financial Group (SMFG 2016)

- Retail, Wholesale, Investment Banking
  - SMBC Sumitomo Mitsui Banking Corporation
  - SMBC Trust Bank Ltd.
  - SMFL Sumitomo Mitsui Finance and Leasing Co, Ltd.
  - Cedyna Financial Corporation
  - Sumitomo Mitsui Card Company, Ltd.
  - SMBC Consumer Finance Co. Ltd.
  - The Minato Bank Ltd
  - Kansai Urban Banking Corporation
  - Sumitomo Mitsui Banking Corporation Europe Ltd.
  - Sumitomo Mitsui Banking Corporation China Ltd.
  - SMBC Guarantee Co. Ltd.
- Asset Management
  - SMBC Nikko Securities Inc.
  - SMBC Friend Securities Co. Ltd.
  - Sumitomo Mitsui Asset Management
- Other
  - Japan Research Institute

The above-mentioned companies are a small subset of SMFG's subsidiaries and are chosen to highlight the potential conflict of interests as discussed on the thesis.

Mizuho Financial Group (2018)

- Retail, Wholesale, Investment Banking
  - Mizuho Bank
  - Mizuho Trust & Banking
  - Mizuho Private Wealth Management
- Asset Management
  - Mizuho Securities
  - Asset Management One
- Other
  - Mizuho Research Institute
  - Mizuho Information & Research Institute

The above-mentioned companies are a small subset of Mizuho Financial Group's subsidiaries and are chosen to highlight the potential conflict of interests as discussed on the thesis.

Mitsubishi UFJ Financial Group (2017)

- Trust Bank
  - Mitsubishi UFJ Trust and Banking
- Commercial Banking
  - Bank of Tokyo-Mitsubishi UFJ
- Securities
  - Mitsubishi UFJ Securities Holdings
  - Mitsubishi UFJ Morgan Stanley Securities
  - Morgan Stanley MUFG Securities
- Research and Consulting
  - Mitsubishi UFJ Research and Consulting
  - Mitsubishi Asset Brains
  - Mitsubishi UFJ Trust Investment Technology Institute
- Asset Management
  - Mitsubishi UFJ Kokusai Asset Management
  - MU Investments

The above-mentioned companies are a small subset of MUFG's subsidiaries and are chosen to highlight the potential conflict of interests as discussed on the thesis.

Daiwa Securities Group Inc. (2018)

- Retail
  - Daiwa Securities Co Ltd.
  - Daiwa Capital Markets Singapore Ltd.
- Wholesale
  - Daiwa Securities Co Ltd.
  - Daiwa Capital Markets Europe Ltd.
  - Daiwa Capital Markets Hong Kong Ltd.
  - Daiwa Capital Markets Singapore Ltd.
  - Daiwa Capital Markets America Inc.
- Asset Management
  - Daiwa Asset Management Co. Ltd.
  - Daiwa SB Investments Ltd.
  - Daiwa Real Estate Asset Management Co. Ltd.
  - Mi-Casa Asset Management Inc.
  - Daiwa Office Investment Corporation
- Investment
  - Daiwa Corporate Investment Co. Ltd.
  - Daiwa PI Partners Co. Ltd.
  - Daiwa Securities SMBC Principal Investments Co. Ltd.
- Other
  - Daiwa Institute of Research Ltd.
  - Daiwa Institute of Research Business Innovation Ltd.
  - Daiwa Next Bank Ltd.
  - Daiwa Securities Business Centre Co. Ltd.
  - Daiwa Property Co. Ltd.

The above-mentioned companies are a small subset of Daiwa Securities Group's subsidiaries and are chosen to highlight the potential conflict of interests as discussed on the thesis.

Sumitomo Mitsui Trust Holdings (2017)

- Trust Bank
  - Sumitomo Mitsui Trust Bank, Ltd.
- Retail Total Solution Services Business
  - Sumitomo Mitsui Trust Wealth Partners Co. Ltd.
  - Sumitomo Mitsui Trust Club Co. Ltd.
  - Sumitomo Mitsui Trust Card Co. Ltd.
  - Sumitomo Mitsui Trust Guarantee Co. Ltd.
  - SBI Sumishin Net Bank Ltd.
- Wholesale Total Solution Services Business / Wholesale Asset Management Business
  - Sumitomo Mitsui Trust Trust Panasonic Finance Co. Ltd.
  - Sumitomo Mitsui Trust Loan & Finance Co. Ltd.
  - Sumitomo Mitsui Trust Investment Co. Ltd.
  - Sumitomo Mitsui Trust (Hong Kong) Ltd.
  - Sumitomo Mitsui Trust (Thai) Plc.
  - Zijin Trust Co. Ltd
- Stock Transfer Agency Services Business
  - Tokyo Securities Transfer Agent Co. Ltd.
  - Sumitomo Mitsui Trust TA Solutions Co. Ltd.
  - Japan Stockholders Data Service Company Ltd.
  - Japan Securities Agents Ltd.
- Real Estate Business
  - Sumitomo Mitsui Trust Reality Co. Ltd.
  - Sumitomo Mitsui Trust Real Estate Investment Management Co. Ltd.
  - Mitsui & Co. Logistics Partners Ltd.
  - Sumitomo Mitsui Trust Research Institute Co. Ltd.
- Fiduciary Services Business
  - Sumitomo Mitsui Trust Asset Management Co. Ltd.
  - Nikko Asset Management Co. Ltd.
  - Sky Ocean Asset Management Co. Ltd.
  - JP Asset Management Co. Ltd.
  - Japan Trustee Service Bank Ltd.
  - Japan Pension Operation Service Ltd.
  - Sumitomo Mitsui Trust Bank (USA) Ltd.
  - Sumitomo Mitsui Trust Bank (Luxembourg) SA
  - Sumitomo Mitsui Trust (Ireland) Ltd.
  - Sumitomo Mitsui Trust (UK) Ltd.
  - Sumitomo Mitsui Trust International Ltd.
- Others
  - HR One Corporation
  - Sumitomo Mitsui Trust General Service Co. Ltd.
  - Sumitomo Mitsui Trust Business Service Co. Ltd.
  - Sumitomo Mitsui Trust Systems & Service Co. Ltd.

The above-mentioned companies are a small subset of SMTH’s subsidiaries and are chosen to highlight the potential conflict of interests as discussed on the thesis.

10.3 Index: Figures

10.4 Index: Tables

10.5 Supportive table for section 2

Pre-1940s: The Early Centuries[6]

Year	Category No.	Topic Category	Short Description	References
1688	S1	Religious	Boycott of slavery (Quaker)	H.J. Cadbury (1942)
1760	S2	Religious	John Wesley (Methodists) Guidelines for the “Responsible Use of Money“	Sparkes (2002)
1919	S3	Policy	US prohibition	Sparkes (2002); Ian Tyrrell (1997)
1920	S4	Religious	Methodist Church avoids alcohol and gambling investments	T. Guay, et al. (2004)
1920	S5	Religious	Quakers avoid investments in weapon manufacturers	T. Guay, et al. (2004)

Table 10-1: Pre-1940s: The Early Centuries

[6] The table consist of (i) the year when the SET event or the year when the SET issue started to arise, (ii) the category (S=social, E=environmental, T=trust) and a continuous number, (iii) a short description of the SET issue or event, and (iv) references supporting the description which are recommended for further reading. The social, environmental and trust issues and events in the table, are chosen because they play an important role in the development of the SET categories. The selection of the SET events is based on but not limited to Gray (1983), Sparkes (2002) and Guay et al. (2004).
This applies to tables Table 10-1 till Table 2-2, the footnote will not be repeated.

1940s: Post-World War II Era

Year	Category No.	Topic Category	Short Description	References
1948	S6	Religious	UK church invests ethically	Sparkes (2002); P. Luxton (1992)
1948	S7	Human Rights	UN Declaration of Human Rights	Sparkes (2002)

Table 10-2: 1940s: Post-World War II Era

1950s: The Discovery of Pension Funds as a Tool

Year	Category No.	Topic Category	Short Description	References
1952	E1	Pollution	16.000 people die of smog in London from December 1952 till February 1953	Sparkes (2002); M.L. Bell & D.L. Davis (2001);
1954	S8	Labour movement; Shareholder activism	Teamsters Union buys $1mio. of Montgomery stocks and threatens proxy fight; results in union being allowed to organize the company	H. Gray (1983)
1956	E2	Policy	Clean Air Act (UK), world's first piece of environmental legislation (response to 1952's smog catastrophe)	Sparkes (2002)
1958	S9	SRI	"United Auto Workers" proposal to invest pension fund for the benefit of Ford workers	H. Gray (1983)

Table 10-3: 1950s: The Discovery of Pension Funds as a Tool

1960s: The Movement Decade

Year	Category No.	Topic Category	Short Description	References
1960s /70s	S10	Gender equality	Gender equality movement	R. Milkman (1985)
1960	S11	Anti-Apartheid	Sharpeville massacre leads to increasing international pressure	B. Kidd (1988)
1960s	S12	Anti-Apartheid	Anti-Apartheid CSR, shareholder activism, and ethical investment initiatives with focus on pension funds	H. Gray (1983)
1963	S13	Labour movement	Lane Kirkland states in his handbook that pension funds' investment should benefit the workers e.g. housing, impact investment	H. Gray (1983); L. Kirkland
1964; 1965	S14	Civil Rights	Civil Rights Act; Voting Rights Act	Sparkes (2002; R.K. Berg (1964); B.K. Landsberg (2007)
1965 – 1974	S15	Vietnam War	Vietnam War Movement	Sparkes (2002); S. Schueth (2003)
1965	S16	Labour movement; SRI	New York Times Co. Pension Plans: joint union managed trusteeship 'forced' through strike	H. Gray (1983)
1965	S17	SRI; Religious	ANSVAR SRI Fund created in Sweden; partly funded by religious groups	T. Guay, et al. (2004)
1966	S18	Consumer (Rights)	Publication of Nader's book "Unsafe at any speed"; targeting safety issues at General Motors	Nader (1966)
1967	S19	Civil Rights; Shareholder Activism	FIGHT initiates protests concerning Eastman Kodak's civil rights policy	Sparkes (2002); Wadhwani (1997)
1969	S20	Vietnam War, Shareholder Activism	First submission of responsible shareholder resolution at the AGM of Dow Chemical's	Sparkes (2002); Guay, et al. (2004)

1960s: The Movement Decade

1969	S21; E3	general	Council for Economic Priorities (CEP) – First company to carry out in depth ES research	Sparkes (2002); Brown et al. (2007)

Table 10-4: 1960s: The Movement Decade

1970s: The Organisation and Implementation Decade

Year	Category No.	Topic Category	Short Description	References
1970	S22	Vietnam War	Yale Debate on SRI	Sparkes (2002)
1970s	S23	Labour Movement	Improvements of working standards	Gray (1983)
1970	E4	general environment	World Earth Day – inform about and raise awareness for environmental problems	Gallagher (1997)
1970	E5	general environment ; policy	Federal Environmental Protection Agency is established in the US	Gallagher (1997)
1970	E6	general environment ; policy	First environmental legislation gets past in the US: Natural Environmental Policy Act	Gallagher (1997)
1970	S24	Consumer (Rights)	First social responsibility issue to appear at a proxy ballot (Ralph Nader - General Motors)	Sparkes (2002); Schwartz (1971)
1970	S25	SRI	Prof. Ray Schotland, Georgetown Law Journal: provides legal foundation of alternative investment	Gray (1983); Schotland (1980)
1970s	S26	SRI; Ethical Investment	Publication of “The Ethical Investor: Universities and Corporate Responsibility”	Gray (1983); Simon, et al. (1972)
1970s	S27	Shareholder Activism	Breach of ‘Wall Street Rule’, i.e. institutional investors vote against management in proxies	Gray (1983)

1970s: The Organisation and Implementation Decade

1971	S28	Vietnam War, SRI	First modern SRI fund in US: Pax World Fund	Sparkes (2002); Guay, et al. (2004)
1971; 1973	S29; E7	general	Creation of Corporate Responsibility Centres (ICCR & IRRC)	Sparkes (2002)
1972	E8	Global Growth	"The Limits to Growth"; Club of Rome publishes a forecast concerning the (environmental) consequences of global growth	Sparkes (2002); Meadows (1972)
1973	S30	Gender equality	AFL-CIO (largest union federation in the US): Equal Rights Amendment	Milkman (1985)
1973	S31	SRI	First attempt to create a UK ethical unit trust	Sparkes (2002)
1975	E9	Global Warming	Science article about global warming: "Are we on the brink of a pronounced global warming?"	Broecker (1975)
1976	E10	Pollution (Accident)	Seveso dioxin leak in Italy; Seveso had to cover the costs of evacuating 600 people, treating 2000 because of dioxin poisoning and the decontamination of the area	Sparkes (2002); Cavanagh & Linn (2006)
1977	S32	Anti-Apartheid	Sullivan Principles: Ethical guidelines for companies conducting business with South Africa	Sparkes (2002); Sullivan (1983)
1977	S33; E11	Consumer; Policy	Ban of chemicals which lead to cell mutations (DDT, PCB)	Sparkes (2002)
1978	E12	Pollution	Love Canal Area is declared a national emergency (Toxic waste land fill in the 30s and 40s); leads to the creation of a superfund for toxic clean-up ($1.6 billion), the government's permission to sue companies for clean up costs and up to $50 million fine.	Sparkes (2002); Kahn (2007)
1978	S34	Labour Movement	Rifkin & Barker state that investment of pension funds harms union workers	Gray (1983)
1978	S35	SRI	(Impact) investment within Massachusetts	Gray (1983); "Investing in Ourselves:

				Strategies for Massachusetts”
1978	S36	SRI	(Impact) investment within Wisconsin	Gray (1983); Smart (1979)
1979	E13	Nuclear Power	Three Mile Island / Pittsburgh Incident: End of construction of commercial nuclear power plants in the US; leads to increase in regulations	Sparkes (2002); Kahn (2007)
1979	S37	SRI; legal framework	Labour Department (Head of all State Pension Funds) states that Alternative Investment *does not* violate the prudence rule per se	Gray (1983)
1979	S38	SRI; legal framework	“[T]he federal prudence and diversification rules neither absolutely preclude nor specifically authorize the selection of investments that have been affected by nonfinancial considerations” (H. Gray (1984), p.55)	Gray (1983); Hutchinson & Cole (1980)
1979	S39	Labour movement; SRI	Chrysler pension fund: joint union-management advisory board	Gray (1983)
1979	S40	Labour movement; SRI	P.F. Laboratories pension fund: joint union-management control	Gray (1983)
1979; 1982	S41	Anti-Apartheid	Massachusetts stops the public pension funds from investing in companies doing business with repressive regimes	Gray (1983)
1979	S42	SRI	Corporate Data, Exchange Report: ‘Pension Investments: A Social Audit’ find that exclusion takes place on an Ad-Hoc basis	Gray (1983)
1979	S43	Social Performance	Control Data — report on pension funds’ social performance policy	Gray (1983)

Table 10-5: 1970s: The Organisation and Implementation Decade

1980s: The Decade of Societal and Political Attention

Year	Category No.	Topic Category	Short Description	References
1980s	S44	Anti-Apartheid	Mainstream phase of Anti-Apartheid Movement	Sparkes (2002); Posnikoff (1997)
1980	S45	Labour Movement	AFL-CIO adopts employee participation	Gray (1983)
1980	S46	SRI; legal framework	ERISA framework; "The concept of 'benefits', however need not be limited to payments that a participant or beneficiary would receive upon retirement, i.e. pure economic return to an investment. It is arguably broad enough to include numerous types of positive returns, e.g. job security and improved working conditions. Thus, this provision can be construed to promote non-traditional objectives at the expense of adequate return and corpus safety if the investment produces a direct 'other benefit'." (H. Gray (1984), p.57)	Ravikoff & Curzan (1980); Gray (1983)
1980	S47	SRI; legal framework	"The Labor Department has taken the position that nonfinancial criteria that affect profitability can legally be used to make investment decisions." (H. Gray (1984), p.58)	Gray (1983)
1980	S48	Labour movement; SRI	Heileman Brewery pension fund: joint union-management administration	Gray (1983)
1980	S49; E14	SRI	Connecticut Policy – "However, it has become increasingly apparent that the standard of prudence and responsibility should be considered in light of this additional criterion, social and environmental policies of the corporations in which the state owns or	Gray (1983)

1980s: The Decade of Societal and Political Attention

Year	Category No.	Topic Category	Short Description	References
			contemplates owning investment." (H. Gray (1984), p.93)	
1980	S50	Anti-Apartheid	Connecticut — prohibit investment in South Africa unless Sullivan principles are signed by the company	Gray (1983)
1980	S51; E15	Shareholder Activism	The New York State Retirement System starts voting in favour of ES(G) at proxies	Gray (1983)
1981	S52	Labour movement; Human rights; SRI	National Conference of Public Employee Retirement Systems: avoidance of (i) any anti-labour company, (ii) any country, government, or regime which does not respect human dignity	Gray (1983)
1981; 1983	S53	SRI; legal framework	Labour Department vs. Operating Engineers Pension Fund concerning alternative investment; OEPF wins, i.e. ruling pro alternative investment	H. Gray (1983)
1981	S54; E16	SRI	U.S. Trust Co. of Boston – investment program to attract alternative investors	Gray (1983)
1981	S55	Anti-Apartheid; Shareholder Activism	'The Public Employers Retirement System of California' and 'State of New Jersey Division of Investment' contact management of companies about their investment in South Africa	Gray (1983)
1982	S56	Anti-Apartheid	Connecticut establishes social performance criteria for state investment, i.e. companies investing in South Africa need to follow the Sullivan Principles.	Sparkes (2002); Springer (1988)
1982	S57; E17	SRI	Calvert Group introduces mutual funds with social and environmental screening approach	Gray (1983); Guay et al. (2004)
1982	S58; E18	Shareholder Activism	The New York Employers Retirement System releases an official ESG proxy voting policy	Gray (1983)

1980s: The Decade of Societal and Political Attention

Year	Category No.	Topic Category	Short Description	References
1983	E19	NGOs	UN World Commission on Environment and Development – Brundtland Report ("Our Common Future")	Sparkes (2002)
1983	S59	Labour movement; SRI	Eastern Air Lines pension fund: two union representatives on board of trustees	Gray (1983)
1983	S60	SRI	Shearson / American Express introduces mutual fund with social screening approach	Gray (1983)
1984	S61	SRI	First ethically screened mutual fund in UK: Friends Provident Stewardship Funds	Sparkes (2002); Guay et al. (2004)
1984	E20	Pollution (Accident)	Toxic gas leak in Bhopal kills 3.500 and injures 50.000 (subsidiary of US chemical company); leads to increase in regulations; approx. costs $527 million	Sparkes (2002); Kahn (2007)
1984	E21	Policy	National database on toxic chemical production as a reaction to Bhopal leak	Sparkes (2002)
1985	S62	Anti-Apartheid	Opposition against Apartheid increases because the 'case of emergency' law is used by the South African regime.	Sparkes (2002)
1986	E22	Nuclear Power	Nuclear Power incident in Chernobyl	Sparkes (2002); Kahn (2007)
1986	E23	Pollution (Accident)	Leak in Sandoz chemical plant leads to severe pollution of the Rhine close to Basel; approx. $85 million	Sparkes (2002); Knight & Pretty (1996)
1986	S63	SRI; shareholder activism	First shareholder resolution sponsored by a mutual found (Calvert)	Guay, et al. (2004)
1986	S64	SRI	First Canadian SRI Fund (Ethical Growth Fund)	Guay, et al. (2004)

1980s: The Decade of Societal and Political Attention

Year	Category No.	Topic Category	Short Description	References
1987	E24	Ozone Layer	Montreal Protocol leads to ban of CFC production in developed countries.	Sparkes (2002); Velders, et al. (2007)
1988; 1990	E25	Biodiversity	Heinz Food gives in to consumer pressure, and shareholder resolutions concerning dolphin friendly fishing nets	Sparkes (2002); Frooman (1999)
1988	E26	NGOs	CERES (Coalition for Environmentally Responsible Economies) – increasing impact after Exxon Valdez incident in 1989	Sparkes (2002)
1988	E27	SRI	UK environmental funds, e.g. Merlin Jupiter Green Fund	Sparkes (2002)
1989	S65; E28	SRI	First SRI in the Rockies Conference	The Ethical Partnership (2011)
1989	E29	Pollution (Accident)	Exxon Valdez disaster – 11mio gallons crude oil spill; in addition to direct costs, payment of $150million fine and $900 million civil settlement: approx. sum $11,500 million; leads to increase in regulation	Sparkes (2002); Cavanagh & Linn (2006); Kahn (2007); Knight & Pretty (1996)
1989; 1990	E30	general; policy	Green Tide in whole of Europe during European Elections; 15% for Green Party UK leads Margaret Thatcher to adopt environmental profile	Sparkes (2002); J. Curtice (1989)
1989	E31	SRI	Launch of Green Norway (Gront Norge)	Guay, et al. (2004)
1989	S66	SRI	First Australian trust to offer SRI: Australia Ethical Investment	Guay, et al. (2004)

Table 10-6: 1980s: The Decade of Societal and Political Attention

1990s: SET Issues Reach Finance

Year	Category No.	Topic Category	Short Description	References
1990	S67	SRI	Domini Social Index	Domini Social Investments (2011)
1990s	S68; E32	Consumer	Beginning of Ethical Consumerism, e.g. Fair Trade, Organic Food	Sparkes (2002); Irving, et al. (2002)
1992	E33	general	Earth Summit in Rio; process which has been started by the meeting leads to increasingly international environmental law	Sparkes (2002); Freestone (1994)
1992	E34	Biodiversity	Convention on Biological Diversity signed by 158 countries; legally binding document in December 1993	Sparkes (2002); Batisse (1993)
1992	S69; E35	SRI	First SRI fund in South Africa: UNITY	Guay, et al. (2004)
1993	E36	SRI	Green Project Fund (Groenprojectenfonds) launched in the Netherlands: ASN Aandelenfonds	Guay, et al. (2004)
1994	S70; E37	Consumer	Launch of Fair Trade Foundation (consumer label)	Sparkes (2002)
1996	S71; E38	SRI	Moskowitz Prize (SRI in the Rockies Conference) for excellent academic research in the field of sustainable and responsible investment	US SIF (2011)
1996	S72; E39	SRI	Global Principle Fund launched in Norway: Storebrand developed with Amnesty International, Human Rights Watch and University of Oslo	Guay, et al. (2004)
1997; 2005	E40	Global Warming	Kyoto Protocol – 37 countries commit themselves to a reduction of greenhouse gases	Sparkes (2002)
1998	E41	Pollution (Accident)	Longford liquefied petroleum gas processing plant (Esso) accident: $1.3 billion total estimated cost for the industry due to the disruption in the gas supply	Cavanagh & Linn (2006)

1990s: SET Issues Reach Finance

Year	Category No.	Topic Category	Short Description	References
1999	E42	Consumer; Genetically Modified	Tight genetically modified ingredients labelling in the UK; major supermarkets ban GM ingredients	Sparkes (2002); BBC (1999)
1999	S73; E43	SRI	First Asian SRI fund launched in Singapore: United Global Unifem Fund	Guay, et al. (2004)
1999	E44	SRI	First Japanese SRI fund: Eco-Fund	Guay, et al. (2004)
1999	S74; E45	SRI	Dow Jones Sustainability Development Indices	Guay, et al. (2004)

Table 10-7: 1990s: SET Issues Reach Finance

2000s: The Era of Responsible Investment Starts

Year	Category No.	Topic Category	Short Description	References
2000s	T1	Globalisation	Concerns over globalisation and deregulation and resulting increase of power of companies; lack of trust towards companies leads to loss of trust in the system	Sparkes (2002)
2000	T2	Globalisation	The Lisbon EU Head of State Summit stressed the role of CSR to target the problems of globalisation and increase trust	Sparkes (2002)
2000	S75; E46	SRI	Specific SRI section during EU Summit on Corporate Social Responsibility in Brussels.	Sparkes (2002)
2000	E47	Nuclear Power	Germany introduces legislation and a schedule to close down all nuclear power plants	Sparkes (2002); The Independent (2000)

2000s: The Era of Responsible Investment Starts

Year	Category No.	Topic Category	Short Description	References
2000	E48	Religious; Genetically Modified	Church of England bans GM trial from land owned by the church.	Sparkes (2002)
2000s	E49	Renewable Energy	Inter alia governmental incentives to invest in Solar, Wind, Geothermal, Biofuel, Biomass, or Hydropower lead to increasing investment.	Sparkes (2002)
2000	E50	SRI	First Renewable Energy Fund, launched by Merrill Lynch	Sparkes (2002)
2000s	S76	Renewable Energy	Higher profit opportunities of bio fuel plants in comparison to 'food' plants lead to substitution of food plants with bio fuel plants. As a consequence food prices rise	Evans (2009)
2000	S77; E51	SRI; policy	Consideration of Social, Ethical, and Environmental aspects added to UK Pensions Act	Guay, et al. (2004)
2001	S78; E52	SRI	1st SRI fund in an emerging market (ABN AMRO, Brazil)	ABN AMRO (2007)
2001	E53	Pollution; Legal	Asbestos liabilities reduce up to 50% of companies market cap in 2001 leading to the bankruptcy of several companies	Sparkes (2002)
2001	S79; E54	SRI; policy	SRI clause included in German pension legislation	Guay, et al. (2004)
2002	S80; E55	SRI; policy	Australian investment firms have to report the degree to which they take Social and Environmental criteria into account: Financial Services Reform Act	Guay, et al. (2004)
2005	E56	Global Warming	ETS largest emissions trading scheme in the world	European Union (2010)
2006	S81	Darfur Divestment	Darfur Divestment Task Force	Bechky (2009, 2010)

2000s: The Era of Responsible Investment Starts

Year	Category No.	Topic Category	Short Description	References
2006	S82; E57	SRI	Launch of Principles for Responsible Investment (PRI) by Kofi Annan	Principles for Responsible Investment (2011)
2007	S83	Darfur Divestment	US Sudan Accountability and Divestment Act of 2007	Bechky (2010)
late 2000s	T3	Subprime Mortgage Crisis	Loss of trust in financial system	Carey (2009)
2008	E58	Pollution (Accident)	Dioxin is found in Italian cheese	Traynor (2008)
2009	S84	Human Rights	UN Resolution concerning severe human rights violations in Burma	U.N. General Assembly (2009)

Table 10-8: 2000s: The Era of Responsible Investment Starts

2010s: Trust Issues Enter the Stage and Social and Environmental Issues Enter the Mainstream

Year	Category No.	Topic Category	Short Description	References
2010	E59	Pollution (Accident)	Deep Water Horizon — Oil spill in the gulf of Mexico; BP sets aside $41 billion which equals 2.5 times 2009 profit	Mervin (2011)
2010	E60	Nuclear Power	Mass protests in German following the new government's decision to revoke the legislation concerning the shut-down of all nuclear power plants	Pidd (2011)
2010	E61	Biodiversity	Creation of palm oil plantations (subsidized by the EU and others) for renewable diesel lead to the destruction of rainforest and the killing of rare species.	Sheil, et al. (2009)
2011	E62	Nuclear Power	Nuclear Power incident in Fukushima; Tepco loss of £9.4 billion mainly due to incident	Campbell and Pancesvski (2011); Layne and Uranaka (2011)
2011	E63	general; policy	First Green Party governor of a German federal state; national Christian Democratic Government is forced to adopt greener profile	Campbell and Pancesvski (2011)
2011	E64	Nuclear Power	After the Fukushima incident the German government decides immediately start the process of shutting-down all nuclear power plants	Pidd (2011)
2011	E65	Pollution (Accident)	Dioxin is found in German eggs; scandal leads to bankruptcy of responsible company	Brandt, Fröhlingsdorf, et al. (2011)
2011	E66	Pollution (Accident)	Rising costs for natural disasters: Companies hold liable for damage, e.g. BP for Deep Water Horizon incident	Sparkes (2002)
2011	T4	Eurozone crisis	Financial crisis in Eurozone (with Greece as main actor) results in loss of trust in the financial system	Sapienza and Zingales (2011)

Table 10-9: 2010s: Trust Issues Enter the Stage and Social and Environmental Issues Enter the Mainstream

2000s and 2010s: The Development of Stewardship in the UK

Year	Topic Category	Short Description	References
1992	Stewardship	"Cadbury Report published – First policy document to stress the importance of institutional investor engagement with investee companies" (Atkins et al., 2015, p. 36)	Atkins et al. 2015
2000	Reporting	"GRI guidelines launched – First guidelines for sustainability reporting launched. They are now in their fourth generation." (Atkins et al., 2015, p. 36)	Atkins et al. 2015
2001	Reporting, Stewardship	"Change of the UK pension fund law – Mandatory requirement for all institutional investors to disclose in the Statement of Investment Principles the extent to which […] they consider social, ethical and environmental issues in their investment decision making" (Atkins et al., 2015, p. 36)	Atkins et al. 2015
2001	Reporting, Stewardship	"Association of British Insurers' (ABI) SEE reporting guidelines – This set of guidelines indicated what SEE information institutional investors would like to see disclosed" (Atkins et al., 2015, p. 36)	Atkins et al. 2015
2002	Reporting	"Carbon Disclosure Project (CDP) launched – This global institutional investors' collaborative group asks companies to complete an annual survey on carbon emissions and related information" (Atkins et al., 2015, p. 36)	Atkins et al. 2015
2002	Stewardship	"Institutional Shareholders' Committee (ISC) Code published – *The Responsibilities or Institutional Shareholders and Agents: Statement of Principles* established a benchmark for institutional investor practice in the areas of engagement and voting" (Atkins et al., 2015, p. 36)	Atkins et al. 2015
2006	Stewardship	"UN endorsement of PRI – Endorsement of the PRI Principles by the UN provided them with greater international profile" (Atkins et al., 2015, p. 36)	Atkins et al. 2015

2000s and 2010s: The Development of Stewardship in the UK

Year	Topic Category	Short Description	References
2009	Stewardship	Walker Review published – One of the key recommendations of the Walker Review was for the FRC to provide a code on stewardship.	Walker Review 2009
2010	Stewardship	"Stewardship Code published – ISC code adopted by the FRC as a code aimed to enhance the quality of engagement between institutional investors and companies" (Atkins et al., 2015, p. 36)	Atkins et al. 2015
2010	Stewardship	"PRI Clearinghouse – The establishment of the Clearing House Engagement Platform marks a distinct step towards greater collaborative activism among global institutional investors on ESG issues" (Atkins et al., 2015, p. 36)	Atkins et al. 2015
2012	Stewardship	FRC publishes a revised Stewardship Code – The revised code clarifies the responsibilities that asset owners and investment managers have in regard to stewardship.	FRC (2012)
2012	Stewardship	Publication of the Kay review – The Kay Review recommends the establishment of an Investment Forum in the UK to target short-termism in the investment industry.	Kay review (2012)
2014	Stewardship	Launch of the UK Investor Forum – The main purpose of the forum is, as recommended by the Kay review, to increase a long-term focus amongst investors. It is also to provide investors with a model of how to engage with UK companies.	Investor Forum (2018)
2017	Stewardship	FCR Tiering Exercise – The FRC divided all signatories of the stewardship code in three tiers, based on the signatory statements. Tier 3 signatories will be delisted.	FRC 2017

Table 10-10: Selection of events showing the development of stewardship in the UK. This table is based on a selection of events by Atkins et al. (2015).

2000s: The Eco-Fund Crash and Rise of ESG

Year	Topic Category	Short Description	References
2000	SRI	Introduction of first SRI fund in Japan to include social issues in addition to environmental issues.	Solomon et al. (2004)
2008	Impact Investment	Introduction of first social contribution bond in Japan; indicates move from equity to fixed-income. DAIWA – International Finance for Immunization bond.	Sakuma-Keck (2016)

Table 10-11: 2000s: The Eco-Fund Crash and Rise of ESG

1990s/2000s: Long-term funds vs. Eco & ESG

Year	Topic Category	Short Description	References
1996	Long-term fund: Sawakami AM	"[…] Share the profit from business growth with society in a broad perspective."	Sakuma-Keck (2016)
2004	Long-term fund: Arigato AM	"[…] Pursue long-term asset growth without being allured by short-term market movement."	Sakuma-Keck (2016)
2006	Long-term fund: Saison AM	"Build assets of ordinary people in the long-term so that they will not be distracted by new theme[d] funds […]"	Sakuma-Keck (2016)
2007	Long-term fund: Commons AM	"[…] Dialogue: As a truly long-term and stable shareholder, we build trust with management and participate in value creation."	Sakuma-Keck (2016)
2008	Long-term fund: Kamakura AM	"[…] Individual investors can see how their money is invested and realize that they contribute to societal development. Build trust and share value amongst investors, asset managers, investors and investors, and investors and investee companies."	Sakuma-Keck (2016)

Table 10-12: Key long-term funds available in Japan and their mission. Data published in Sakuma-Keck 2016.

10.6 Appendix A: First Coding

ID	Code	Theme
Level 2	ED1	Impact of engagement
Level 3	ED1A	Post event changes
Level 2	ED2	Views on usefulness of engagement and dialogue
Level 3	ED2A	Meetings called by companies
Level 3	ED2B	Meetings called by investors
Level 3	ED2C	Wallstreet rule
Level 3	ED2D	Concept of hostile investor / activist / Sokai-ya
Level 3	ED2E	Engagement strategy
Level 3	ED2F	Understanding the Investor
Level 3	ED2G	Collaboration vs. confrontation
Level 2	ED3	Collaborative engagement
Level 3	ED3A	Communication amongst investors
Level 3	ED3B	Legal requirements (filing of block holdings)
Level 2	ED4	Impression management
Level 3	ED4A	Activities are not reported / presented to stakeholders
Level 3	ED4B	Japanese companies are honest
Level 2	ED5	Concealment
Level 2	ED6	Pre investment meetings
Level 2	ED7	Management vs. Investor relations
Level 3	ED7A	IR information limited
Level 3	ED7B	Silos within the company (CSR, IR, Legal, Mgmt)
Level 2	ED8	Obstacles to engagement
Level 3	ED8A / JC6A	Cross shareholdings
Level 3	ED8B	Conflict of interest (strategic holdings)
Level 2	ED9	Japanese vs. Non-Japanese investors
Level 2	ED10	Trust and Reputation
Level 3	ED10A	Trust and Reputation
Level 3	ED10B	Language barrier: English vs. Japanese
Level 3	ED10C	Importance of physical meetings
Level 2	JC1	Japanese corporate attitudes to ESG
Level 2	JC2	Japanese culture and ESG
Level 3	JC2A	Japanese-style governance
Level 3	JC2B	Consensus as a driver / market moves as 'one'
Level 3	JC2C	NGOs
Level 3	JC2D	Ethical investors (e.g. churches)
Level 3	JC2E	Japanese culture and environment

ID	Code	Theme
Level 3	JC2F	Japanese culture and long-term
Level 3	JC2G	Japanese culture and the community
Level 3	JC2H	Inside Japan vs. Outside Japan
Level 3	JC2I	Japanese culture and society
Level 2	JC3	Resistance to ESG in Japan
Level 2	JC4	Secrecy
Level 2	JC5	Family owned companies
Level 3	JC5A	Long company history
Level 2	JC6	Japanese corporate culture
Level 3	JC6A / ED8A	Cross shareholdings / Keiretsu groups
Level 3	JC6B	(Management), employees, customers, community, investors
Level 2	JC7	Companies with international business
Level 2	JC8	Profit not 1st priority for companies
Level 2	JC9	Size of companies influences ESG
Level 2	M1	ESG / RI materiality
Level 3	M1A	ESG outperformance
Level 3	M1B	Performance difference between E and ESG
Level 2	M3	ESG time horizon
Level 2	M4	E specific
Level 2	M5	S specific
Level 2	M6	G specific
Level 3	M6A	Difference between E, S and G
Level 3	M6B	ROE
Level 2	M7	Investment strategy
Level 3	M7A	Concentrated portfolio
Level 3	M7B	Active
Level 3	M7C	Passive
Level 3	M7D	Shift from equity to other asset classes
Level 2	M8	ESG as risk indicator
Level 2	M9	Philanthropy
Level 2	M10	Gearing of companies
Level 2	RIJ1	Evolution of ESG in Japan
Level 3	RIJ1A	E awareness
Level 3	RIJ1B	G awareness
Level 3	RIJ1C	S awareness
Level 3	RIJ1D	Life-long employment
Level 3	RIJ1E	Economic development and ESG
Level 3	RIJ1F	Women in the workforce

ID	Code	Theme
Level 3	RIJ1G	IM and Asset owners
Level 3	RIJ1H	ESG as marketing
Level 3	RIJ1I	GPIF as driver
Level 3	RIJ1J	ESG integration
Level 2	RIJ2	ESG reporting in Japan
Level 3	RIJ2A	ESG reporting in English
Level 3	RIJ2B	Integrated reporting / international initiatives
Level 2	RIJ3	ESG to be integrated in main stream research
Level 2	RIJ4	G first (enables S and E)
Level 2	RIJ5	Cost of ESG
Level 2	DA1	ESG data provider
Level 3	DA1A	More sophistication in the use of ESG data
Level 2	DA2	In-house data
Level 2	DA3	Information sources
Level 2	DA4	Visit facilities
Level 2	DA5	Stakeholder dialogue
Level 2	DA6	Dialogue seen as private reporting
Level 2	JSC1	Investors need to understand the reasoning
Level 2	JSC2	Uptake of the Stewardship Code
Level 3	JSC2A	Active ownership
Level 3	JSC2B	Asset owners as driver / Business case for IMs
Level 2	JSC3	More US style governance
Level 2	JSC4	Awareness of Stewardship concept
Level 2	JSC5	Ownership / control of Stewardship code
Level 2	JSC6	Stewardship Code as driver for change
Level 2	JH1	Growth period until 80s
Level 2	JH2	Slow down since the 80s
Level 3	JH2A	Global financial crisis
Level 2	JH3	Future perspective / Abenomics
Level 2	JH4	Ownership Structure
Level 3	JH4A	Stable shareholdings
Level 2	JH5	Regulation
Level 3	JH5A	Asset classes
Level 3	JH5B	Perceived as regulation
Level 2	JH6	Domestic bonds
Level 2	JH7	Fiduciary duty

10.7 Appendix B: Second Coding – Codes

2nd Coding	Theme – Description
1	Impact of engagement on bottom line / business model
2	Engagement can impact whole market, not only one company / include stakeholders in engagement
3	Afraid of backlash from the company when engaging
4	Investors approach companies as source of information
4.1	Emergence of dialogue companies approach investors for advice
5	JP companies looking for info on how to make overseas investors happy / how to do ESG
6	Investors actively engage during crisis
6.1	Investors vote against if issues cannot be resolved
7	JP investors / shareholders do not feel they have power
8	(perception of) hostile investors / Yakuza / overseas activist funds
9	investors want to be perceived positively / perception is changing / companies accept engagement due to foreign investors
10	Gaiatsu / external pressure
11	Divestment only as last solution
12	Reality / logic is changing
13	UK/US vs. JP: Investor - investee relationship
13.1	UK/US more confrontational
13.2	JP more of a constructive relationship
14	JP: Gaining trust / becoming part of the network is important
15	Collaborative engagement not suitable for JP context
15.1	no collaboration between JP investors
15.2	Foreign investors use collaborative engagement
15.3	collaboration is starting / community is forming
16	Obstacles to collaborative engagement in JP
16.1	Legal requirements / FSA prevent collaborative engagement
16.3	Companies use METI to lobby against engagement
16.4	Collaborative engagement requires sharing of information: seen as giving away an advantage
17	Impression Management: Companies pushing the agenda of the meetings vs. lack of impression management in general / understatement
17.1	Companies avoid answering the questions during the meetings / companies just present and do not have Q&A
19	E&S seen as 'achieved' in Japan
20	JP companies are honest about performance / achievements
21	meetings mainly post-investment and not pre-investment
22	Meetings with management more useful than IR / IR provide scripted answers

2nd Coding	Theme – Description
23	Low level board access / difficult to organise meetings with board members
24	Separation of ESG and other departments within the company / silos
24.1	Integrated reporting seen to start breaking down the silos within the companies / tool for change in the company
25	Obstacles to individual engagement: AGMs all at the same time
25.1	Obstacle to individual engagement: No material available / no reporting / no reporting in English
26	(engaging) investors are part of a (financial) group with business ties to the target investee companies
27	Strategic holdings will not get sold / no pressure from the investors / challenge for institutional investors
27.1	Reduction of strategic holdings
28	Foreign investors are based on the bottom in terms of importance for the company
29	life-long employment / trust is built on a personal level
30	Company as good citizen / look after stakeholder
30.1	Large companies sub-contract small (family) companies / big business supports small business
31	Different understanding of E, S and G in JP
32	JP-style corporate governance / shareholder not important
32.1	US-CG lost credibility during the GFC
33	Companies reach consensus and move together / market moves together
33.1	cross-holdings lead to companies moving together
35	NGO's / civil society / religious investors drive development of RI / ESG (not in Japan)
36	Focus on JP not outside of JP / issues that do not occur in JP, e.g. not factories in China
37	Reporting / access to data focusses on JP / no overseas data, e.g. production / supply chain abroad
38	Resistance to change of CG / ESG in line with international arguments, e.g. poor past performance, fiduciary duty
39	Companies see long-term survival (often centuries) as proof of sustainability
40	long-term oriented companies
41	Signing something (in this case the Stewardship Code) is not an empty gesture / UK signatures but slow progress
42	Companies are not run for the shareholders, but for the stakeholders / Priorities: (1) Management (2) Employees (3) Customers (4) Community (5) investors (residual)
43	JP companies are split into two groups: JP only and business outside of JP
44	ESG information is seen as material
44.1	ESG information is seen as material: across asset classes
44.2	ESG: negative perception / bad performance in the past

2nd Coding	Theme – Description
44.3	ESG leads to outperformance / risk reduction
44.4	ESG funds (newer) and Eco-funds (older) perform differently
44.5	Different ESG issues are material at different times, e.g. some short-term, some long-term
44.6	Interviewees have an investment horizon > 3 years - up to 10 years / equities some only 12-18 moths
45	E mostly regulation driven / due to pollution in the 1970s
46	Different perception of S / Western perspective poor S performance
47	G is seen as an important issue, motivated by governance failures, e.g. Olympus
48	Governance seen as a necessary step to implement better E & S
49	Currently there is a focus on G
50	Responsible Investment in JP focused on equity
51	JP companies are looking for long-term investors
52	ESG research needs to be in-depth / concentrated portfolio approach
53	Engagement even on the back of passive products
54	Companies do not care / know if investors are active or passive
55	ESG can only be considered if economy is doing well and returns are good
56	IMs seem to be drivers for RI in JP, not AO like in the UK [this is different for the stewardship code] / AO are becoming more active (GPIF) / overseas AO pressure JP IM
57	Analysts are starting to be trained to include ESG / Difficulties integrating ESG factors
58	There is a cost to ESG activities in the short-term, e.g. ESG data, engagement, analysts
59	ESG data providers are being used, but there is scepticism in regard to the quality
60	In-house data is supplemented with external data
61	Involving stakeholders, e.g. through site-visits
62	Principles of STC are new and investors need time to understand the merit
63	Active ownership encouraged / JP investors should take responsibility as they are in for the long-term
64	high growth from the end of WWII till 1980s no awareness of investment / banking and fixed-income system
65	Abenomics as a driver for ESG and STC to attract foreign investment / GPIF pushes
66	Fiduciary duty: hesitation to divest from companies with business ties a threat to fiduciary duty
67	Company size affects implementation / resource argument
68	STC to raise ROE

10.8 Appendix C: Second Coding – Details

10.8.1 Engagement and Dialogue

Code	IM – Code 2	IA – Code 2	ARC – Code 2
ED1	1 / 2 / 3	1	n/a
ED1A	1	1	n/a
ED2	n/a	6	1 / 9 / 4.1, 13.2 / 33 / 65 / 23, 52
ED2A	4 / 5 / 6 / 4, 5, 6	17 / 4.1	4.1 / 13.2
ED2B	4, 5, 6	4	1
ED2C	7 / 8 / 9 / 10	56, 63 / 6.1, 47	n/a
ED2D	7 / 8 / 9 / 10	8	8
ED2E	2 / 9 / 11	n/a	n/a
ED2F	4.1 / 12	4.1, 5 / 5 / 4.1	4.1, 5
ED2G	4.1 / 7 / 13, 13.1, 13.2 / 14	4.1, 13.2 / 14, 40, 51	n/a
ED3	3 / 15 / 15.1 / 15.2	15.3, 16, 16.4	15.3, 16.4 / 15, 16.3 / 15.3
ED3A	15.3	15.3 / 16.4	15.1
ED3B	16 / 16.1	n/a	16.1
ED4	4, 5, 6, 17 / 12 / 13, 14 / 16.3 / 17.1	17	17 / 60, 61
ED4A	4 / 17 / 19	17	n/a
ED4B	17 / 20	17, 20	n/a
ED5	n/a	n/a	n/a
ED6	4 / 21	n/a	n/a
ED7	17, 18, 22	22	n/a
ED7A	17, 18, 22 / 7, 17.1, 23 / 8	17, 22	17, 17.1, 22, 24
ED7B	12 / 24 / 24.1	24	22, 24 / 24
ED8	25 / 25.1	8	42
ED8A / JC6A	26	16, 26, 66	26 / 26, 66
ED8B	12, 17 / 26, 27 / 26 / 27.1	16, 26, 66	n/a
ED9	8, 13, 14 / 7, 28	14, 40, 63 [8 vs. 63] / 13, 14 / 8, 14 / 4.1, 9, 43	14, 40, 51 / 56 / 14, 40, 51, 63
ED10	14 / 14, 29	4.1, 14, 40 / 4.1, 14, 22, 40	14 / 14, 29
ED10A	14, 40 / 14, 20	4.1, 13.2, 14, 40, 51	4.1, 13.2, 14, 29 / 14
ED10B	8, 13, 14	14, 63 / 4.1, 14	25.1
ED10C	n/a	4.1, 14	n/a

10.8.2 Japanese Culture

Code	**IM – Code 2**	**IA – Code 2**	**ARC – Code 2**
JC1	29 / 30 / 30.1 / 29, 31	43 / 19, 31 / 38, 44.2	30
JC2	n/a	30, 31, 46 / 31, 46	33 / 44.2
JC2A	30, 32 / 32 / 32.1	32 / 32, 47, 49 / 8 / 17, 32 / 32	12, 13, 32
JC2B	2, 33 / 2, 26, 33, 33.1	20, 32	31
JC2C	35	35	35 / 35, 45
JC2D	35	35, 44.2	35
JC2E	30, 31	45 / 19, 55 / 45	44.4, 45, 55
JC2F	8, 14 / 40	14, 40 / 39, 40 / 40, 51	39, 40
JC2G	30	30, 42 / 52	n/a
JC2H	30, 36 / 37	19 / 36 / 19, 36 / 17	36
JC2I	30	30 / 30, 31, 42, 46	n/a
JC3	32, 38 / 38	33, 38	44.2 / 56
JC4	17	n/a	n/a
JC5	40	4.1, 5	39, 40, 42
JC5A	39	n/a	39, 40 / 39, 40, 42
JC6	30, 42 / 41	30, 42	42
JC6A / ED8A	30, 42	n/a	n/a
JC6B	7 / 7, 30, 42	42 / 7, 28, 30, 42	32, 42 / 42
JC7	32, 42, 43	36, 43	5, 43
JC8	42	30, 42	42
JC9	25.1, 43	67 / 1, 67	67

10.8.3 Materiality and ESG Performance

Code	IM – Code 2	IA – Code 2	ARC – Code 2
M1	44 / 44.1 / 38, 44.2	44, 44.3 / 44.5 / 44.2, 44.4 / 38, 44.2, 44 / 44 / 62	44 / 57
M1A	44.3	44.2 / 44.3	44.2 / 44 / 44, 49
M1B	44.4	44.4	n/a
M3	44.5 / 44.6	44.5, 58 / 44.5 / 44.6 / 56, 63	44.5
M4	19, 45 / 38, 44.2	44.4	44.4
M5	19 / 31, 46	44, 44.5	46
M6	7, 42 / 40, 43 / 47 / 48	n/a	49, 65
M6A	42, 48, 49 / 19, 45 / 32	47, 49	n/a
M6B	Not coded for IM.	32, 42 / 32, 42, 51 / 7, 12, 42, 68	49, 65 / 12, 49 / 1, 13.1, 49 / 30, 32, 42
M7	44.1, 50 / 14, 51	44.2, 44.4	44.2, 44
M7A	52 / 52, 53	52	4.1, 32, 52
M7B	44.2 / 1, 53	44.5, 44.6, 57	35 / 44.2, 44.4 / 44, 52
M7C	25, 25.2 / 54	14, 17, 20 / 56	n/a
M7D	44.1, 50, 50.1	n/a	44.1, 50
M8	44.3	44.3 / 35 / 44.3	44.3
M9	30, 42	n/a	30
M10	42 / 42, 51	n/a	n/a

10.8.4 RI / ESG in Japan

Code	IM – Code 2	IA – Code 2	ARC – Code 2
RIJ1	52 / 52.1	38 / 38, 44.2 / 65 / 47, 49 / 44.4 / 33, 44.2 / 12 / 47, 49 / 9	44.4
RIJ1A	19, 30, 45 / 30, 36, 45 / 55 / 19, 45	30, 36, 45 / 25.1, 45 / 25.1	45
RIJ1B	47	47, 49 / 32 / 4, 5 / 13, 13.1, 13.2, 32 / 13.1, 32 / 47, 49	47, 49 / 12, 49, 56 / 33, 49 / 9
RIJ1C	19, 36	19, 36, 37 / 46 / 31, 46	n/a
RIJ1D	29, 30, 42 / 14, 29 / 29, 30, 42	29	14, 29 / 17, 22, 29 / 14, 29 / 26, 29
RIJ1E	55	n/a	55, 65
RIJ1F	46	46 / 43 / 19, 46	25.1
RIJ1G	56	5, 56 / 56 / 56, 63	56 / 56, 63
RIJ1H	52.1	17	12, 52 / 44.4
RIJ1I	56 / 7, 42, 56	63	56, 65
RIJ1J	57	44, 57 / 57	57 / 44
RIJ2	4, 25.1 / 4.1, 5 / 24.1 / 4, 25.1	45 / 36, 37	25.1, 43 / 2, 25.1 / 25.1, 46, 65 / 49
RIJ2A	25.1, 43	25.1	n/a
RIJ2B	Not coded for IM.	24.1 / 37 / 43 / 24.1, 62	24.1, 40, 51 / 24.1
RIJ3	57	57	57 / 44
RIJ4	7, 42, 48	48 / 44, 47, 48, 49	48, 49
RIJ5	44, 44.5, 58	44.2, 58	44.2

10.8.5 ESG Data

Code	IM – Code 2	IA – Code 2	ARC – Code 2
DA1	59	59 / 59, 60 / 31, 59, 60	59
DA1A	Not coded for IM.	52	52, 59
DA2	59, 60	60	59, 60
DA3	4	52 / 60	61
DA4	61	n/a	n/a
DA5	61	61	n/a
DA6	4 / 4, 33	4	4 / 4, 16.1

10.8.6 Japanese Stewardship Code

Code	IM – Code 2	IA – Code 2	ARC – Code 2
JSC1	62	62, 63 / 8, 62, 63 / 4.1, 13.2	62
JSC2	33, 62	4.1, 41, 62	41
JSC2A	25.2, 63 / 44.3 / 63	65 / 62	63 / 44.1 / 4.1, 13.2
JSC2B	56	56, 65 / 56 / 56, 57 / 35, 52	56, 65
JSC3	32, 42	13, 65 / 13, 16.3, 42, 65	13, 13.2 / 12, 13.1 / 12
JSC4	4.1, 62	63	n/a
JSC5	63	n/a	65 / 16.1 / 65
JSC6	Not coded for IM.	62, 65	12 / 65

10.8.7 Japanese History / Development / Economy

Code	IM – Code 2	IA – Code 2	ARC – Code 2
JH1	64	64	64
JH2	7, 42, 55	n/a	64
JH2A	Not coded for IM.	Not coded for IA.	44.2
JH3	40, 65 / 65	65	65
JH4	5 / 27, 27.1, 66	n/a	n/a
JH4A	14, 40, 51	40, 51	51
JH5	2	65	n/a
JH5A	44.1, 50, 50.1, 64 / 56	65	65 / 40, 65
JH5B	65	65	65
JH6	56, 64	n/a	n/a
JH7	26 / 38 / 66	38	n/a

10.9 Appendix D: Interview Themes

This is the information regarding the content of the interviews that was provided to the interviewees in advance.

Semi-structured Interviews

The interview method for the interview will be 'semi-structured'. This means that the researcher follows pre-set themes that provide the framework for the interview, whilst the precise questions are not constructed in advance.

The advantage of this method is that the researcher avoids restricting the process of exploration through the use of potentially preconceived questions. This assures that the emphasis lies on the *interviewee's expertise* and avoids bias through suggestive questions.

Five Themes of the Interview

Section 1: General questions about the interviewee

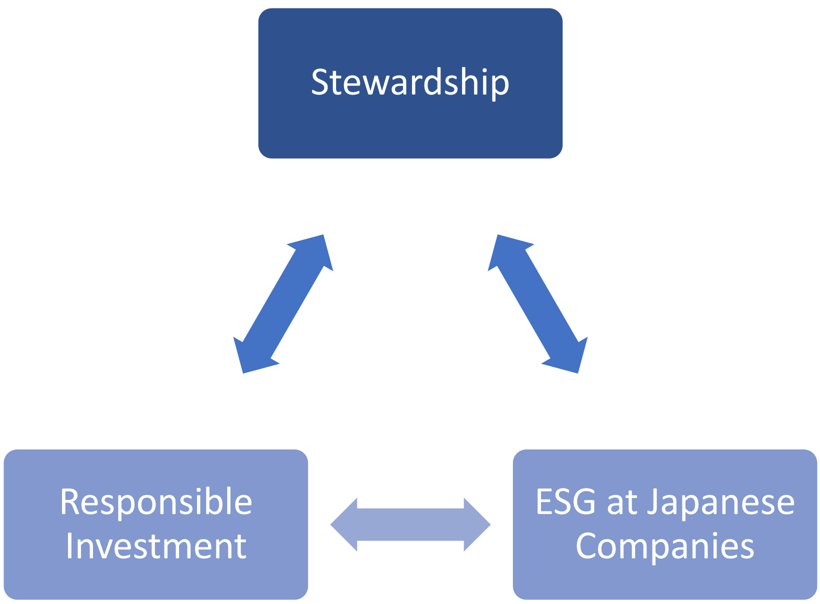
Section 2: Responsible Investment globally and in Japan

Section 3: ESG data and company reporting

Section 4: ESG at Japanese businesses

Section 5: Stewardship activities

Interview topics and questions



The interview will be covering three main areas: Responsible Investment (RI) in Japan, environmental, social and governance (ESG) aspects at Japanese Companies, and Stewardship.

The questions about responsible investment will draw on, inter alia, the general development of RI in Japan up to the status quo, the structure of RI, e.g. asset classes, and Japanese RI in the global context.

Regarding ESG at Japanese companies the questions will explore, inter alia, to what degree ESG aspects are taken into account in Japanese business, and to what degree ESG is seen as homogeneous, e.g. whether one aspect is included to a larger degree than the others.

Stewardship of investors is seen as the intersection between the Responsible Investment industry and the companies in the portfolio. The third part will contain questions around the relationship between investors and companies. This includes, inter alia, the new Principles for Responsible Institutional Investors, the Corporate Governance code, and engagement.

Please note that you can decide to skip questions at any time. You are also invited to draw attention to additional aspects of business and investment in Japan.

10.10 Appendix E: Supporting Data and Information

10.10.1 Distribution Percent of Market Value Owned by Type of Shareholder

(Units：%）

Survey Year	Govt. & Local Govt.	Financial Institutions	City & Regional Banks	Trust Banks	Investment Trusts	Annuity Trusts	Life Insurance Cos.	Non-life Insurance Cos.	Other Fin. Institutions	Securities Companies	Business Corps.	Foreigners	Individuals
1970	0.6	31.6	15.8	–	2.1	–	10.0	3.7	2.1	1.3	23.9	4.9	37.7
1975	0.4	35.5	19.0	–	2.2	–	10.2	4.4	2.0	1.4	27.0	3.6	32.1
1980	0.4	38.2	19.9	–	1.9	0.4	11.5	4.6	2.3	1.5	26.2	5.8	27.9
1985	0.3	39.8	20.9	–	1.7	0.8	12.3	4.1	2.4	1.9	28.8	7.0	22.3
1990	0.3	43.0	15.7	9.8	3.7	0.9	12.0	3.9	1.6	1.7	30.1	4.7	20.4
1991	0.3	42.8	15.6	9.7	3.4	1.0	12.2	3.9	1.4	1.5	29.0	6.0	20.3
1992	0.3	42.9	15.6	9.9	3.2	1.2	12.4	3.8	1.2	1.2	28.5	6.3	20.7
1993	0.3	42.3	15.4	10.0	2.9	1.4	12.1	3.7	1.1	1.3	28.3	7.7	20.0
1994	0.3	42.8	15.4	10.6	2.6	1.6	12.0	3.7	1.1	1.2	27.7	8.1	19.9
1995	0.3	41.1	15.1	10.3	2.2	1.8	11.1	3.6	1.0	1.4	27.2	10.5	19.5
1996	0.2	41.9	15.1	11.2	2.0	2.4	11.1	3.6	0.9	1.0	25.6	11.9	19.4
1997	0.2	42.1	14.8	12.4	1.6	3.8	10.6	3.5	0.9	0.7	24.6	13.4	19.0
1998	0.2	41.0	13.7	13.5	1.4	4.7	9.9	3.2	0.8	0.6	25.2	14.1	18.9
1999	0.1	36.5	11.3	13.6	2.2	5.0	8.1	2.6	0.9	0.8	26.0	18.6	18.0
2000	0.2	39.1	10.1	17.4	2.8	5.5	8.2	2.7	0.7	0.7	21.8	18.8	19.4
2001	0.2	39.4	8.7	19.9	3.3	6.0	7.5	2.7	0.7	0.7	21.8	18.3	19.7
2002	0.2	39.1	7.7	21.4	4.0	5.8	6.7	2.6	0.7	0.9	21.5	17.7	20.6
2003	0.2	34.5	5.9	19.6	3.7	4.5	5.7	2.4	0.9	1.2	21.8	21.8	20.5
2004	0.2	32.0	5.2	18.4	3.8	3.9	5.2	2.2	1.0	1.2	22.1	23.3	21.3
2005	0.2	30.9	4.7	18.0	4.3	3.5	5.1	2.1	1.0	1.4	21.3	26.3	19.9
2006	0.3	30.7	4.6	17.6	4.6	3.5	5.3	2.2	1.0	1.8	20.8	27.8	18.7
2007	0.4	30.5	4.7	17.3	4.8	3.5	5.4	2.2	0.9	1.5	21.4	27.4	18.7
2008	0.4	32.0	4.8	18.8	5.0	3.5	5.3	2.1	0.9	1.0	22.6	23.5	20.5
2009	0.3	30.6	4.3	18.4	4.7	3.4	5.0	2.0	0.9	1.6	21.3	26.0	20.1
2010	0.3	29.7	4.1	18.2	4.4	3.2	4.5	1.9	1.0	1.8	21.2	26.7	20.3
2011	0.3	29.4	3.9	18.6	4.5	3.0	4.3	1.8	0.8	2.0	21.6	26.3	20.4
2012	0.2	28.0	3.8	17.7	4.5	2.5	4.1	1.6	0.8	2.0	21.7	28.0	20.2
2013	0.2	26.7	3.6	17.2	4.8	2.1	3.7	1.4	0.7	2.3	21.3	30.8	18.7
2014	0.2	27.4	3.7	18.0	4.8	1.8	3.6	1.4	0.7	2.2	21.3	31.7	17.3
2015	0.1	27.9	3.7	18.8	5.6	1.5	3.4	1.3	0.7	2.1	22.6	29.8	17.5
2016	0.1	28.4	3.5	19.6	6.3	1.3	3.4	1.2	0.7	2.2	22.1	30.1	17.1
High (Year)	0.9(1986)	44.1(1988)	20.9(1985)	21.4(2002)	6.3(2016)	6.0(2001)	12.8(1986)	4.8(1979)	2.6(1987)	2.3(1988)	30.3(1987)	31.7(2014)	37.7(1970)
Low (Year)	0.1(1999)	26.7(2013)	3.5(2016)	7.3(1986)	1.4(1998)	0.4(1982)	3.4(2016)	1.2(2016)	0.7(2016)	0.6(1998)	20.8(2006)	2.7(1978)	17.1(2016)

(Note) The number of Trust Banks are included in that of City & Regional Banks in and before 1985 Survey.

Extracted from the '2016 Shareholder Survey', p. 3 (JPX 2016).

10.10.2 Ratio of 1st Section Companies with two or more Independent Directors according to JPX (JPX 2018)

2011 15.0%

2012 16.7%

2013 18.0%

2014 21.5%

2015 48.4%

2016 79.7%

2017 88.0%