

***CORPORATE SOCIAL RESPONSIBILITY IN JAPAN:
ANALYZING THE PARTICIPATING COMPANIES IN GLOBAL
REPORTING INITIATIVE***

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Working Paper 208
March 2005

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CORPORATE SOCIAL RESPONSIBILITY IN JAPAN: ANALYZING THE
PARTICIPATING COMPANIES IN GLOBAL REPORTING INITIATIVE

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ABSTRACT

Following the US and Europe, Japan is now becoming aware of the importance of Corporate Social Responsibility (CSR). In fact, Japan has become the country with the largest number of participants in Global Reporting Initiative (GRI), which is currently the most acknowledged reporting system of CSR in the world.

However, the mere number of the participants does not tell much. The Japanese approach to CSR may well differ from the Western approach, given various differences in their socio-economic characteristics. Against this background, two empirical tests are conducted. The identification of the characteristics of the Japanese adopters of GRI Guidelines implies the erosion of the traditional corporate-centered system of that country both from outside and from inside. On the other hand, the manner of adoption is found to be quite different between Japan and the West, which may be a sign of cultural or systematic resistance to total convergence.

KEYWORDS

corporate social responsibility (CSR), global reporting initiative (GRI), international comparison, Japan, system perspective

ABBREVIATIONS

CSR	corporate social responsibility
GRI	global reporting initiative
NGOs	non-governmental organizations
SRI	socially responsible investment

1. Introduction

Corporate social responsibility (CSR) is a concept whereby companies fulfill accountability to their stakeholders by integrating social and environmental concerns in their business operations. The concept has existed for a long time, but it has drawn unprecedentedly much attention in recent years. There are several reasons for this (European Commission 2001; European Commission 2002; McIntosh et al. 2003). The growth of multinational corporations has increased the cases of social conflict, particularly in developing countries. Serious environmental problems, such as global warming, have raised the concern about sustainable development. The development of mass media and information technology has facilitated non-governmental organizations (NGOs) and the general public to obtain and disseminate information about social and environmental issues, which may seriously damage corporate reputation. As technology and knowledge have gained more and more importance for their competitiveness, companies are getting more encouraged to attract good workers by acting responsibly. Companies are also getting more pressure from investors, who have become more conscious about CSR, either spontaneously or as a result of public expectation for socially responsible investment (SRI). Finally, the traditional relationship between government, society and industry has been reconsidered, and companies are expected to contribute more to the society, while public authorities reduce their role by deregulation and privatization.

Those socio-economic changes are not only observed in the United States and Europe, but also other developed countries including Japan. In fact, Japan seems to have become aware of the importance of CSR, although somewhat later than the United States and Europe. In March 2003, for example, Japan Association of Corporate Executives (*Keizai Doyukai*) published a report on CSR, which exhibited almost the same amount of awareness about the importance

of CSR among Japanese companies, compared with the worldwide survey by World Economic Forum (Keizai Doyukai 2003, pp. 173-174).

The largest business association, Japan Business Federation (*Nippon Keidanren*), also launched a group to discuss socially responsible management in October 2003. This was preceded by the conference of United Nations Environment Programme Financial Initiative on Sustaining Value, which was held in Tokyo.

On top of that, Japanese companies are now remarkable for their disclosure of CSR performance. As of November 2003, Japan is the country with the highest number of companies (66 companies) publishing their report based on the Guidelines of Global Reporting Initiative (GRI), which is currently the most acknowledged comprehensive reporting system of CSR performance.

Since disclosure is highly regarded as an important action to fulfill CSR by itself, the growing number of Guidelines adopters may be a positive sign to indicate the growing number of socially responsible companies in Japan. On the other hand, however, the mere number of Guidelines adopters does not tell much. It does not clarify how they are adopted because they do not require total compliance, nor do they impose any sanction on non-compliance. If Japanese companies adopt the same Guidelines as Western (i.e. European and American) companies, do they adopt them in the same way? It is not surprising that the Japanese approach is different from the Western approach, given various particularities in the Japanese economy and society. However, it is problematic to assume that the Japanese approach is the same as the Western approach. Even though many companies are now acting on a global scale, they may still have national, or at least regional, characteristics.

Based on this idea, the present study aims to identify the characteristics of Japanese companies in their approach to CSR, and to verify them through the observation of their adoption pattern of GRI Guidelines. It also discusses how much they are likely to change in

the medium run, referring to a number of recent changes. While the study focuses on CSR, it also helps improve the understanding of Japanese companies in general.

The study is organized as follows. The next section reviews several previous discussions on CSR in Japan and identifies our perspective. Several hypotheses are also established, as to the characteristics of the Guidelines adopters in Japan, and to the characteristics of adoption by Japanese companies. The third section present two empirical analyses to verify the hypotheses, and the fourth section discusses the results of those analyses. This is followed by the concluding section.

2. Theory and hypotheses

While CSR has been present in the management literature for quite a long time (Bowen 1953; Fitch 1976; Zenisek 1979), few had brought Japanese CSR into Western academic discussion until recently. This is partly because the issue had not been considered very important domestically, and partly because relatively few companies had been active internationally, so that they seldom encountered serious conflict to recognize the importance of CSR.

Since the 1980s, however, Japanese multinationals have gained their global presence, hence drawn much academic interest. The earlier studies on CSR in Japan appeared in this context. Like many other studies on Japanese management, they centrally questioned how and why Japanese companies are different from Western companies.

Based on one of the earliest surveys on CSR issues, for example, Lewin et al. found that Japanese companies were highly aware of CSR, but tended to avoid formal administrative processes, which was preferred by Western companies. Instead, they observed that “Japanese firms predominantly use cultural mechanisms such as philosophy and guiding principles to address such issues. The planning and management of the most important issues is conducted through teams or committees, and little formal monitoring is conducted” (1995, p. 95).

Furthermore, Wokutch and Shepard (1999) discussed CSR in Japan by what they called the ‘micro moral unity paradigm’. According to them, Japanese companies follow moral values, but only within carefully circumscribed communities of interest, that is, excluding minorities, foreigners, and various other individuals on the fringes of Japanese society. To explain such a restrictive approach of Japanese companies to CSR, they referred to three characteristics which distinguish Japan and the West: the within-group/ out-of-group distinction, the Confucian sense of duty to those with whom one has a specific relationship, and the strong emphasis placed on the value of loyalty.

While those studies tended to focus on cultural aspects to explain the characteristics of CSR in Japan, Tanimoto (2002) emphasized strategic integration of various stakeholders into the system where corporate interests received greatest value, against the background of rapid economic growth after the World War II. Corporate ownership was put under control through cross-shareholding. Corporate workers were encouraged to identify the interests of their companies with their own interests, since they enjoyed longtime - often regarded as lifetime - employment. Consumers were also co-operative with companies in general, as they respected and trusted companies as the engine of the prosperity of their society. Small- and medium-sized companies also backed up the system by supplying cheaper labor and flexible transactions in return for stable relationship with buyers. Moreover, rapid industrialization and urbanization had dissolved traditional local communities, and replaced them with company-based communities and communications. In short, all those stakeholders – investors, workers, consumers and suppliers and communities – were put within the scope of corporate control. This system seemed to be successful as long as the economy was prosperous and the scope of integration was expanding in the society. In other words, it does not work when the scope of integration diminishes, or when the society becomes more open to new entries from outside, hence reducing the relative share of the integrated part.

System should be distinguished from culture. Cultural factors may have helped the formation of the system, but they may not provide direct causalities for corporate actions. While system is very difficult to change, moreover, it may change more easily than culture. The system perspective allows more expectation for future change in corporate actions, as the result of the change in socio-economic factors. From this perspective, therefore, we are able to discuss which socio-economic factors affect the change in corporate actions, such as the adoption of GRI Guidelines.

Then, what may affect the adoption of GRI Guidelines? Since Guidelines require high cost for adoption, organizational resources may be significant (McWilliams and Siegel: 2001). In other words, larger and more profitable companies may adopt Guidelines more easily. Here it should be remembered that corporate social performance is not necessarily inconsistent with shareholder wealth maximization according to previous studies (Orlitzky et al. 2003).

It is also anticipated that companies engaged in such businesses as manufacturing, natural resources and energy are more likely to adopt Guidelines, as they have much to do with environment (Welch et al. 2002). After all, the environmental performance is one of the three essential performances required by Guidelines.

From the system perspective, furthermore, it may be speculated that the less a company is embedded into the traditional corporate-centered system, the more likely it is to adopt Guidelines. More specifically, if a company has more contact with foreign stakeholders through ownership and trade, it may be encouraged more to adopt Guidelines. Conversely, if a company keeps closer ties with its domestic partners, it may be more reluctant to adopt the product of the Western concept, or simply less conscious of it (cf. Granovetter 1973). Besides this relation-based theory, the positive association of international exchange is also proposed from the perspective of international competitiveness. “Internationally competitive industries

seem to be much better able to innovate in response to environmental regulation” (Porter and van der Linde 1995: 108; Chapple et al. 2001).

To summarize, the following hypotheses are established.

H1: Larger and more profitable companies are more likely to adopt GRI Guidelines.

H2: GRI Guidelines are more popular among companies engaged in environment-related businesses.

H3: The adoption of GRI Guidelines is positively correlated with the strength of the connection with foreign stakeholders.

H4: The adoption of GRI Guidelines is negatively correlated with the strength of the connection with traditional domestic partners.

Since GRI Guidelines are primarily, although not exclusively, produced in the West, its adopters may be considered as following the Western approach to CSR as well. Nevertheless, it must be stressed that there is a great degree of discretion in the adoption of individual indicators in Guidelines. There is no formal monitoring system or sanction against the failure of adoption. It is therefore very important to see how Japanese companies are adopting Guidelines in reality, compared with Western companies.

If Japanese companies consider the adoption of Guidelines as an action essential to review the traditional corporate system, they may well make their report more comprehensive. They may also address the issues which the traditional system had carefully avoided to commit. If they adopt Guidelines more superficially, on the other hand, their report may well be more specialized and restrictive, i.e. distinguished from comprehensive corporate issues. They may also prefer to deal with the issues which do not cause much conflict with the traditional system.

While at least some companies seem to adopt Guidelines truly substantially, we expect that this is not always the case. This expectation is formalized in the following hypotheses.

H5: Japanese CSR reports are more specialized, restrictive and distinguished from comprehensive corporate issues than Western reports.

H6: There are a number of specific CSR issues which Japanese companies are less likely to address than Western companies.

The next chapter examines how much those hypotheses are verified, with two empirical analyses.

3. Empirical tests

Characteristics of GRI Guidelines Adopters among Japanese Companies

Method. In order to identify the characteristics of GRI Guidelines adopters in Japan, a maximum-likelihood probit estimation model is applied. It is true that mere adoption may not be so important, since there is no authorized survey on the reports of the adopters. Nonetheless, poor reporting seems to damage corporate reputation very seriously once the adoption of the Guidelines has been declared. Therefore, the adoption (or non-adoption) may be a sufficient measure to reflect corporate behavior toward corporate social responsibility.

Hence the model of our estimation is expressed as follows:

$$\text{Pr (adoption} = 1) = \Phi (\alpha + \beta X)$$

where Φ is the cumulative normal distribution. X represents a vector of variables for corporate economic situation, industrial sector, connection with foreign stakeholders and

connection with traditional domestic partners. α and β are the intercept and the vector of coefficients for X respectively.

Data. The Secretariat of GRI continuously publishes the list of the Guidelines adopters on Internet website (<http://www.globalreporting.org>). 339 companies are listed as of November 2003, and Japan is the country with the largest number of adopters (66 companies), as noted at the beginning.

Since most of the adopters are very large, we focus on very large companies. Specifically, we limit the scope of our observation to the largest 300 companies (in terms of the sales in the latest financial year; excluding subsidiaries and non-listed companies) of which 53 companies are Guideline adopters.

For the independent variables, we include sales and net profit to indicate economic situation. The sales data (million yen) are obtained from the latest financial report (mostly the financial year 2002) and are logged to increase the statistical fitness of the model. With regard to net profit, we use its ratio to sales in order to measure its relative gravity. With the assumption that corporate decisions should be influenced more by the financial result of multiple years than of a single year, we use three-year average of net profit.

The variable for industrial sector is binary, which marks 1 for manufacturing, natural resource and energy, i.e. environment-related sectors. As for the connection with foreign stakeholders, two variables are specified: the share of foreign ownership and the share of overseas sales. Finally, two binary variables are used to indicate the strength of the connection with traditional domestic partners. The first is the participation of large business groups, such as Mitsubishi and Sumitomo, in terms of a company's membership of group presidential meetings at the end of the 1990s. Although some presidential meetings have disappeared after the merger of the group core banks, much time has not passed since then, and it is not

surprising that many companies still keep their ties, if not visibly. The other variable to indicate the domestic connection is the large share of ownership, which has often been used to keep strong inter-firm relations. The variable marks 1 when a company has a large shareholding (10% and more) by other listed domestic companies.

The basic statistics of those variables are shown in Table 1.

Insert Table 1 about here

Result. Table 2 shows the result of the analysis. The fitness of the model, measured by log-likelihood ratio chi-square, is sufficiently high. With regard to the coefficients, those for sales, net profit, environment-relatedness, foreign ownership and overseas sales are positive, while those for large business group participation and large ownership by domestic companies are negative. This is consistent with the first four hypotheses. However, only the variables for sales, environment-relatedness, foreign ownership, and overseas sales are statistically significant at 10% level. The variable of net profit and the two variables regarding domestic ties are not statistically significant at all. Consequently, only the second and the third hypotheses are fully established.

Insert Table 2 about here

Characteristics of Guideline Adoption by Japanese Companies

Method. To illuminate the characteristics of Guidelines adoption by Japanese companies, we surveyed the reports of the 20 companies adopting Guidelines in Japan, and compared them with those of the 20 Western companies in a number of points.

In light of the fifth hypothesis, the title of the CSR report is compared first. We also compare the volume of the two major components: environmental issues and social issues. Another point of comparison is whether CSR is linked with fundamental management structure, i.e. corporate governance.

Regarding the sixth hypothesis, furthermore, we look at the companies' approach to the following two issues: diversity in workplace and communication with stakeholders. Specifically, we examine whether the reports present the data of female workforce, and whether they show the effort to collect the opinion of employees and the general public on CSR issues.

Data. The 20 companies in each group are selected primarily because they are the largest in terms of sales in the latest year. However, their compositions are adjusted to include 15 companies from environment-related sectors and 5 from other sectors. The purpose is to avoid selection bias caused by possible difference in the approach to CSR reporting between environment-related companies and others.

To avoid other possible error, however, we exclude those companies which do not publish all major issues in the same format. Some companies publish a report which exclusively focus on the environmental aspect and provide the report on other aspects only on Internet. Such a separate format is not appropriate to some of the following analyses. For the same reason, the survey also excludes the cases where CSR issues are incorporated into corporate annual reports.

Result. The result of the report survey is summarized in Table 2. On the whole, there are many differences between Japanese and Western reports. With regard to the title of the report, Japanese companies still seem to focus on 'environment', whereas 'sustainability' is the most

popular word for the title among Western companies. ‘Corporate citizenship’ is the second most popular in the West, but it is not familiar as a title phrase for Japanese companies.

In parallel with this tendency, Japanese reports put far more weight on environmental issues than on social issues. The ratio of ‘social’ pages to ‘environmental’ pages among Japanese reports is 0.42 on average. This means that environmental issues take more than twice as much as social issues. The corresponding figure in the West is 1.20. In contrast to Japanese companies, therefore, Western companies are slightly more eager to discuss social issues than environmental ones.

There is also clear contrast in the treatment of corporate governance. While 9 out of 20 companies discuss corporate governance in their report, the number doubles among Western companies. The contrast is even clearer when it comes to the disclosure of the data about female workforce. While 18 out of 20 companies report the data about female workforce in the West, only 6 companies do so in Japan. It is true that most of the companies discuss work-life balance and equal opportunities even in Japan, but many seem to be reluctant to present gender-related data. In the field of employment, we also find that much fewer Japanese companies show the effort to collect the opinion of their employees than Western companies.

Interestingly, however, Japanese companies seem to be more willing to collect public opinion about their approach to CSR. 17 out of 20 Japanese companies present their effort, while only 9 Western companies are counted to do so.

Insert Table 3 about here

4. Interpretations and discussions

The first empirical test confirms that the adopters of GRI Guidelines in Japan tend to be larger, engaged in environment-related business and more connected with foreign owners and buyers.

The contribution of foreign ownership and overseas sales may suggest the erosion of the traditional domestic system from outside.

Conversely, the likelihood of adoption is not significantly affected by net profit and two attributes regarding domestic ties. It is difficult to say whether this reflects positive or negative attitude of Japanese companies toward Guidelines. On the one hand, it may be interpreted that even non-profitable companies or companies with domestic ties do adopt Guidelines, which may be a sign of erosion of the traditional system. On the other hand, the same result may be interpreted that even profitable companies or companies without domestic ties do not adopt Guidelines, which may imply strong cultural resistance to the Western approach.

While it is difficult to take a definite standpoint, several socio-economic trends can be provided to indicate recent erosion of the traditional system, as a support for the positive view. The first is the change of public consciousness about the role of companies in the society. The economic slump since the 1990s has reduced the credibility of the traditional corporate-centered system, which can no longer afford to expand. The recent increase of NGOs may be considered as a reaction to this trend. The perception of the importance of CSR has increased as well. According to a cross-country (Japan, the United States and Britain) survey on those interested in equity investment (Ministry of Environment, Japan 2003), the importance of CSR is perceived more in Japan than in Britain, although less than in the United States.

Secondly, the globalization of ownership, production and sales is very significant, just as in other regions of the world. The share of foreign owners in the overall investment in Japan is 17.7% at the end of the financial year 2002, nearly three times as much as ten years ago (Zenkoku Shoken Torihikijo 2003). What is more, 33.0% of the equity trading at the first section of Tokyo Stock Exchange is dealt by foreign investors in 2002 (Tokyo Stock Exchange 2003). On the production side, it is reported that the share of overseas production

by Japanese manufacturers accounts for 14.6% in the financial year 2002, which is also trebled for the last ten years (Cabinet Office, Japan 2003). The above empirical test only shows direct impact of foreign ownership and sales, but it is also expected that such general expansion of global connections may marginalizes the role of traditional connections between domestic companies.

Indeed, in parallel with the growing presence of foreign owners, cross-shareholding has reduced its share in the stock market from 17.8% to 7.4% (NLI Research Institute 2003). The shareholding of financial companies, which is a major instrument to back up the network of large business groups, has also reduced from 31.8% in 1992 to 17.0% in 2002 (ibid.). While those traditional shareholdings are retreating, some new types of investment are burgeoning. A number of SRI funds have been established since 1999, some of which are now invested by institutional investors such as pension funds. SRI stock index, like Dow Jones Sustainability Index in the United States, also launched in Japan in 2003.

Yet we should remember that the second empirical test reveals that Japanese companies are more likely to confine the scope of their CSR disclosure to environment, and are less likely to address the issues which had long been put outside of the traditional system. This may imply the existence of strong cultural resistance, and/ or the difficulty in total collapse of the traditional system despite the recent changes stated above.

However, it may also be a matter of practice diffusion. Many Japanese companies might not use 'sustainability' or 'corporate citizenship' for the title, nor include such issues as corporate governance and female workforce in the report simply because others do not. The diffusion perspective may be most helpful to understand why the effort to collect public opinion on CSR is far more popular in Japan than in the West, contrary to the expectation from both cultural and system perspectives.

5. Conclusions

Focusing on the adoption of GRI Guidelines, this study has considered how Japan and its companies react to the Western approach to CSR. According to the first empirical test, the adoption of Guidelines is affected by company size, environment-relatedness, foreign ownership and overseas sales. The last two factors may be particularly important for understanding the erosion of the traditional system from outside. While the contribution of the domestic ties is not significant, this may not suggest that the other factor, i.e. culture, is overwhelming, but rather that the traditional system is dissolving. However, the second empirical test shows that Japanese companies do not always adopt Guidelines in the same way as Western companies. The reason may be culture, the legacy of the traditional system, the diffusion of different practices or the mixture of all those factors. Further discussions require more detailed analysis.

We should also remember that it may be too early to make a complete analysis. There are some aspects where Japanese companies seem to be catching up Western practices. For instance, much more Japanese companies are expected to publish ‘Sustainability’ report for the next issue. On the other hand, the debate on CSR has not been settled yet, not only in Japan but also in the West. There is no consensus on the very definition of CSR. GRI is not free from skepticism even among Western companies. There are many companies which develop their own framework, independent of GRI Guidelines.

We should also remember that the ‘West’ is not monolithic. There is a great diversity in the approach to CSR even among Western countries (Adams et al. 1998; Maignam and Ralston 2002). In that sense, our dichotomous view may be simplistic.

Despite those deficiencies, the current study may still serve as a starting point of the discussion on the adoption of the Western approach to CSR in Japan. Whether verified or rejected, it is interesting to see how our hypotheses will be addressed in the future.

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TABLE 1 Basic statistics of the variables in the first empirical test

Continuous variables	Mean	Standard deviation	Maximum	Minimum
Sales (million yen, logged)	5.90	0.38	7.21	5.46
Ratio of net profit to sales (%), three-year average	0.00	0.08	0.23	-0.70
Share of foreign ownership (%)	13.50	11.82	65.10	0.20
Share of overseas sales (%)	19.30	23.83	85.00	0.00
Binary variables	Mean	Standard deviation	Case 0	Case 1
GRI Guidelines adoption	0.18	0.38	247	53
Environment-related sectors (binominal)	0.60	0.49	119	181
Participation of large business groups	0.30	0.46	209	91
Large ownership ($\geq 10\%$) by domestic companies	0.15	0.36	255	45

TABLE 2 Characteristics of GRI Guidelines Adopters among Japanese Companies

Independent variables	Coefficient	Standard error	$P > z $
Sales (million yen, logged)	1.11	0.25	0.00
Ratio of net profit to sales (%), three-year average	0.05	1.45	0.97
Environment-related sectors (binominal)	0.51	0.24	0.03
Share of foreign ownership (%)	0.02	0.01	0.03
Share of overseas sales (%)	0.01	0.00	0.09
Participation of large business groups	-0.03	0.22	0.89
Large ownership ($\geq 10\%$) by domestic companies	-0.33	0.35	0.36
Intercept	-8.37	1.53	0.00
Number of observations		300	
Loglikelihood Ratio Chi-square (df=7)		58.18	
Pseudo R2		0.21	

TABLE 3 Characteristics of Guideline Adoption by Japanese Companies

	Japan	West
Title of the report		
Environment/ global environment	6	1
Environmental action/ environmental management	5	0
Environment and society/ Society and environment	5	2
Sustainability/ sustainable development	2	11
CSR/ corporate responsibility	2	3
Corporate citizenship/ society	0	4
Others (company name)	0	1
Total	20	22*
Average ratio of the number of 'social' pages to 'environmental' pages	0.42	1.20
Number of the reports discussing corporate governance	9	18
Number of the reports presenting the data of female workers	6	18
Number of the reports showing the effort to collect employees' opinion	6	16
Number of the reports showing the effort to collect public opinion on CSR	17	9

* Two reports include two elements in their title, and are counted into two categories.