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Understanding Corporate Responsibility in Japanese Capitalism:

Some Comparative Observations

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ABOUT THE INCAS PROJECT

INCAS is a Marie Skłodowska-Curie Actions R.I.S.E funded project under the European Commission's H2020 Programme.

The project INCAS aims at creating a top-level research and advanced training network on institutional change in Asia, in comparative perspective with Europe.
The coordinator, Ecole des Hautes Etudes en Sciences Sociales (France), promotes this network together with Oxford University (UK), Freie Universität Berlin (Germany), and in collaboration with Waseda University (Japan). The aim of the proposed mobility scheme is to give birth to a European consortium and network of faculties and advanced graduate students specialized in the comparative analysis of institutional change in Asia and Europe. The partners have chosen Japan as a reference point because of its comparability with Europe as shown by previous studies, its historical influence on development and further institutional changes in Asia, and the expertise accumulated within our research team.

Analyzing current economic dynamics in Japan and later expanding this analysis to other Asian countries promises to generate insights that might be help to better understand challenges for Europe and to prepare relevant policy proposals. Our purpose is to compare the results obtained in the case of Japan and few other Asian countries (South Korea, Taiwan, China, and possibly Thailand, after having checked the data availability), not only to previous results on Europe but also to original results we will get on European countries (primarily France – which will be our reference country in Europe – and then the UK, Germany, and Italy) in mobilizing new historical data and applying our theoretical framework.

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ABSTRACT

Corporate responsibility (CR) has emerged as a ubiquitous new form of private governance. This paper discusses cross-country patterns of corporate responsibility with an interface to the discussion of a variety of capitalisms, and how corporate responsibility mirrors or substitutes for institutionalized forms of coordination. The broader discussion is then linked to the particular situation and development of CR in Japan. Afterwards, we show empirical insights from a comparison between Japan and a wide sample of OECD countries. The paper uses a statistical analysis of listed corporations in 24 OECD countries during the years 2002 – 2014. The results show that the development of CR in Japan lags behind other OECD countries. However, Japan also shows relatively low levels of controversies in relation to social issues. Conversely, in general Japan. Finally, the paper ends with a discussion on how key institutional differences in distinct types of capitalism might influence corporate responsibility and how differences in particular institutions could explain the characteristics of the Japanese case.

JEL Codes: *P15; P51; M14*
Keywords: *corporate social responsability; institutional change; Japan*

1. Introduction

Most discussion of corporate responsibility has stressed the potential business case as a key driver for firms to adopt more responsible business practices. However, research has increasingly cast doubt on whether more social responsible business generally attains greater financial performance (Orlitzky, 2011) and shown that this link is valid only for firms with very specific strategies or occupying particular market niches (Vogel, 2006). Profit maximization and competitive pressures may also lead companies to choose controversial or even irresponsible business practices. Existing studies show that reputational sanctions for bad behavior remain surprisingly weak (Jackson et al., 2014). Therefore, the business case cannot be viewed universally as a driver of more responsible business practices, since these effects seem to be highly contingent on a number of organizational, sectoral and institutional factors.

Recent literature has shifted attention toward the wider set of institutional drivers promoting corporate responsibility (Waddock, 2008). This perspective suggests seeing corporate responsibility in relation to the social and political context of corporate governance. These contexts are associated with important differences in who is considered a legitimate stakeholder and what expectations they place on corporate behavior. Differences in state regulation and institutionalized roles of stakeholders have created distinct pathways of development for corporate responsibility in different countries. Thus, questions arise about how the development and situation of CR in particular countries could be better understood with a broader institutional comparison.

The latest CR boom have started in Europe and North America, but arrived in Japan at the latest in the early 2000s. Suzuki, Tanimoto, and Kokko (2010) show how CR became more institutionalized within Japanese companies, but also argue that "Japanese firms do not need to respond to socio-economic changes in the same way as firms in other countries. Country-specific institutional settings and cultural context differentiate the pattern of firm-stakeholder relations across countries" (page 380). This paper aims to understand the development of corporate responsibility in Japan compared to the experience of other advanced industrialized countries.

The paper is organized as followed. In Section 2, we define CR and discuss the institutional differences associated with different varieties of capitalism. Afterwards, we discuss recent developments of corporate responsibility in Japan. Section 3 describes the method and data in use in this paper. In Section 4, we benchmark the CR activities of Japanese firms against those of similar firms in other OECD countries. In Section 5, we develop more detailed conjectures about the nature of CR in Japan, provide an initial institutional interpretation of these results and outline a related research agenda. The final section draws some conclusions for future research.

2. A Cross-National Perspective on Corporate Responsibility with a particular Focus on Japan

2.1 Definitions

Corporate Responsibility refers to corporate policies, practices and outcomes related to social issues, particularly where responsibility is claimed by a company or demanded by company stakeholders. The nature of corporate responsibility remains 'essentially contested' (Okoye, 2009) because different stakeholders may place different expectations on companies. Different social issues may compete for public attention. And societal expectations around different issues are likely to emerge and change over time. Corporations respond to these expectations in efforts to increase their legitimacy, but whether or not their actions are considered appropriate responses remains a matter of the social and political context. Given its socially embedded nature, the meaning of corporate responsibility is very likely to differ across countries.

Viewing corporate responsibility in this way has several advantages, particularly for conducting international comparisons. First, this definition is descriptive and empirical in nature. It does not seek to resolve important normative debates about whether or not corporate actions meet particular ethical criteria for responsibility. Corporations may have a variety of instrumental, moral or relational motives for adopting corporate responsibility policies (R. Aguilera, Rupp, Williams, & Ganapathi, 2007). Corporate responsibility does not depend on the motives for adopting these policies.

Second, corporate responsibility is not limited to positive corporate social performance. The relationship between policies and practices, on one hand, and outcomes related to corporate social performance, on the other, may vary. Indeed, this link is important for understanding corporate responsibility as a whole. For example, corporate responsibility may sometimes manifest as so-called 'greenwashing' when policies remain largely symbolic and do little to improve outcomes (Delmas & Burbano, 2011). More broadly, excluding negative social performance outcomes leads to an incomplete understanding of corporate responsibility. Corporate responsibility is often correlated with irresponsible practices of corporations (Jackson, 2014; Kotchen & Moon, 2012). The diffusion of more responsible practices have been associated with a reduction in controversial behavior in only a very few issue areas, such as workplace diversity. Research on US firms shows that for issues such as community relations, employment quality, human rights, product safety or the environment, companies adopting policies aimed at responsible business practices are also involved in *higher levels* controversial or irresponsible behavior (see Graph 3). This correlation has grown stronger over time, and suggests that while a few firms may adopt responsibility policies pro-actively, many other firms adopt them as a defensive response to these concerns.

Third, corporate responsibility is not limited to policies and practices adopted voluntarily by corporations or which go "beyond legal requirements". Since the legal context differ from one country to another, the same action may be considered voluntary in one context, but not so in another. Corporations also respond to such legal rules, as well as codes or standards, in different ways: some through more minimal compliance and others in more pro-active ways. Understanding how corporate responses are embedded in and shaped by the regulatory context is very important when studying corporate responsibility, even more so in comparative research.

In sum, corporate responsibility may take on different meanings in relation to different stakeholders, between different regulatory contexts, and across different time periods. An important implication is that differences exist in both the level and the forms of corporate responsibility cross-nationally. For example, German firms have tended to more extensive corporate responsibility policies than US firms. Nonetheless, these differences relate to different aspects of corporate responsibility. Whereas US firms make higher levels of corporate donations, German firms have higher rates of adopting policies related to work-life balance. Many such differences have been documented in existing comparative studies.

What factors help explain such cross-national differences in corporate responsibility? Cross-national differences in corporate responsibility reflect the characteristics of institutions in different national business systems. Institutions shape the "rules of the game" in the economy, ranging from formal legal frameworks to informal norms and taken-for-granted business practices. Institutions may influence business actors by constraining some forms of business organization, but also enabling others by solving collective action problems. The "varieties of capitalism" perspective suggests that countries therefore differ in whether their institutions are more liberal and market-oriented, or whether institutions enable more relational forms of business coordination (Hall & Soskice, 2001). These institutional differences exist across several key domains of the economy, including corporate governance, employment relations, inter-firm relations, and education. Next, we turn our attention to how these institutional differences in different varieties of capitalism have shaped the development of corporate responsibility, such as in the example of the US and Germany above.

2.2 How is Corporate Responsibility shaped by different Varieties of Capitalism?

Hall and Soskice (2001) proposed that the advanced industrialized societies fall into two main types: liberal market economies (LMEs) and coordinated market economies (CMEs). Firms in LMEs tend to rely more on market mechanisms, while firms in CMEs tend to coordinate business transactions through non-market relationships.[1] These institutional differences encourage firms to invest in more short-term and transferable assets to a greater extent in LMEs, whereas firms in CMEs invest in long-term and relationship-based assets with company stakeholders. Accordingly, the extent and form of corporate responsibility is often argued to differ across these two groups of countries.

In LMEs, corporate responsibility emerged as an explicit practice in a largely business-driven fashion. Here the UK is often seen as a pioneer. During the 1980s, the British economy experienced deregulation, weakening of labor unions and welfare state retrenchment. As shareholder value emerged as a key ideology of corporate governance, firms faced problems to legitimate their social activities.

Several developments proved historically significant for corporate responsibility in the UK. Corporations responded by vastly increasing their level of charitable contributions (Steve Brammer & Millington, 2003). The newly formed association "Business in the Community" promoted voluntary corporate responsibility more broadly within industry (Kinderman, 2012). Finally, the corporate law reform in 2006 institutionalized this development through an 'enlightened shareholder-value' perspective, allowing directors to consider stakeholder interests as a means of increasing competitiveness and long-term value to shareholders. Roughly similar dynamics linking business-led initiatives for corporate responsibility to the expansion of liberal markets can be observed in other LME countries, such as the United States (Kaplan, 2015).

Corporate responsibility in LME contexts thus gives rise to a ***substitution hypothesis*** whereby firms are likely to adopt more extensive corporate responsibility in less regulated countries (Jackson & Apostolakou 2010). Here companies take on greater responsibilities that substitute for formal state regulation or more institutionally coordinated forms of stakeholder involvement. Here corporate responsibility is largely seen as a voluntary measure aimed at lessening demands for regulated forms of responsibility through public policy or formalized agreements with stakeholders (Matten & Moon, 2008). The related argument is that stronger regulation may 'squeeze out' corporate initiatives, and weaker regulation leaves scope for choosing appropriate forms of corporate responsibility, thereby facilitating its overall development.

In CMEs, the development of corporate responsibility followed a different path. For example, Germany was slower to develop explicit corporate responsibility practices relative to the UK. Strong state regulation and institutionalized stakeholder participation meant corporate responsibility remained a largely 'implicit' part of Germany's social market economy (Matten & Moon, 2008). Later, business-driven initiatives were initially perceived by stakeholders, such as unions and NGOs, as part of political deregulation (Lohmeyer, 2017). Nonetheless, stakeholders started to more broadly support these agendas in CME countries. For example, Denmark became a leader in adopting global responsibility standards, such as the Global Compact, and developing international dimensions in areas such as human rights.

Corporate responsibility in CME contexts thus gives rise to what may be termed the ***mirror hypothesis*** whereby firms are likely to adopt more extensive corporate responsibility in countries characterized by stronger state regulation and institutionalized forms stakeholder rights. The argument here is responsible business practices are more extensive and effective when complemented by greater degrees of regulation (R. Aguilera et al., 2007; Campbell, 2007).

1 Typical of LME countries, the US features a market-driven financial system, flexible use of external labor markets, generalist education and training systems, low levels of networks and alliances among firms, and management-driven, top-down decision-making structures inside firms. By contrast, CMEs like Germany or Japan historically had a bank-led financial system providing patient capital, stronger internal labor markets based on employment protection, skills formation systems conducive to the development of specialized skills, more dense networks of cooperative alliances among firms, and consensual decision-making inside firms.

Greater institutional coordination among business, stakeholders and the state can support corporate responsibility in at least two ways. First, institutions may empower stakeholders to demand adoption of more socially responsible corporate practices. For example, employee codetermination may facilitate employee involvement in the development and implementation of social standards. Second, institutionalized coordination among business may foster greater capacity for collective responses to stakeholder demands, such as adopting common standards or certification. Firms face global pressures to address responsibilities emanating from global policy fields, such as those related to climate change or labor standards. However, their responses are shaped by the role of different stakeholders within national institutions. For example, the French state played a central role in pro-actively shaping the responses to such pressures relative to their US counterparts (Avetisyan & Ferrary, 2013).

The substitution and mirroring hypotheses make opposite predictions about the overall development of corporate responsibility in LME and CME countries. Several studies have attempted to test these ideas using comparative evidence, but with conflicting results (Stephen Brammer, Jackson, & Matten, 2012). While some studies supported the mirror hypothesis (Midttun, Gautesen, & Gjølberg, 2006; Midttun, Gjølberg, Kourula, Sweet, & Vallentin, 2015), others support the substitute hypothesis (Koos, 2012). For example, Gjolberg (2009a, 2009b) found that Scandinavian firms have high levels of corporate responsibility adoption, mirroring existing regulatory and corporatist institutions. By contrast, Jackson and Apostolakou (2010) study of Western Europe found that corporate responsibility practices were more extensively adopted by UK firms than those in CME countries.

Yet further studies observe evidence consistent with both hypotheses simultaneously. Ioannou and Serafeim (2012) explore a wide range of institutional factors during the period 2002-2008, showing that CSR mirrors some institutions (e.g. high trade union density), as well as substituting for others (e.g. supply of skilled labor) in their sample. Jackson and Rathert (2017) examine multinational corporations, showing that corporate responsibility is associated with a greater number of subsidiaries operating in host countries with poorly developed social protection or limited statehood, thus acting as a potential substitute. However, the response to foreign country institutions differs between CMEs and LMEs, whereby corporate responsibility mirrors high institutional coordination in the home country.

What can we learn from the current state of research? A key take away is that the logic of both the substitution and mirroring hypothesis yield powerful arguments for why cross-national differences exist and how institutions matter. But a key puzzle remains in that the overall cross-national differences in corporate responsibility do not, in fact, fall so neatly into the categories of LME versus CME countries. Most studies agree that the UK is a leader, but contrasts with the weaker development of corporate responsibility in other LME countries like the United States (R. V. Aguilera, Williams, Conley, & Rupp, 2006). Likewise, we can find contrasting developments between CME countries like Denmark and Germany, as discussed earlier.

The main takeaway from this comparison is that CR cannot be captured by broad dichotomous institutional typologies. While we will not repeat previous criticisms of the VoC approach here (Jackson, 2016; Jackson & Deeg, 2008, 2012), it is clearly important to further study the specific institutional determinants of CSR. In this regard, we need to take a rather cautious and more disaggregated approach to better understand the specific institutions that impact specific dimensions of CR (Fransen, 2013).

2.3 Corporate Responsibility in Japan

While an extensive literature exists on the characteristics of Japanese business enterprise, CR (respectively CSR) has only emerged as a significant topic for research in the last few years (Endo, Delbridge, & Morris, 2015). Even here, most literature is focused on environmental technologies and sustainability management, rather than a more general view of CR.

Several studies agree that Japanese firms score high in the environmental dimension relative to firms in other OECD countries. Japanese firms are often cited being as among first adopters of environmental policies (Bird, Momente, & Reggiani, 2012; Ortas, Alvarez, Jaussaud, & Garayar, 2015). Nonetheless, corporate responsibility activities in the social dimension are less explicitly developed. Past research suggests that Japanese firms tend to score similar to the US and generally lower than European or especially Nordic firms in this regard (Bird et al., 2012). Similarly, socially responsible investing (SRI) has been slow to develop in Japan compared to countries such as the UK (Solomon, Solomon, & Suto, 2004; Waring & Edwards, 2008). Until very recently, pension funds did not have strong guidelines for shareholder engagement and generally few large institutional investors had systematically incorporated CR-related criteria into their investment strategies. However, in 2015, the Government Pension Investment Fund (GPIF) became a signatory of the Principles for Responsible Investment, which is the world's largest pension fund. This recent development is orchestrated by an increasing number of signatories of Japan's Stewardship Code (Japan Sustainable Investment Forum, 2015).

In terms of the business case, Bird et al. (2012) show that changes in CR activities did not lead to significant stock market returns in Japan during the late 2000s, and generally the stock market valuation of CR was lower than in several European countries. Nonetheless, a longitudinal study of Japanese firms between 1994 and 2004 showed that firms with high levels of CR activities were less likely to experience declines in their financial performance and were more likely to recover from poor financial performance (Okamoto, 2009). A more recent comparison of Japanese, Spanish and French companies show that environmental CR had a stronger positive impact on stock price in Japan, but CR in the social dimension had a significant negative impact (Ortas, Alvarez, & Garayar, 2015). While the stock market returns for CR thus remain low, corporate scandals result in larger negative abnormal returns than in the United States (Tanimura & Okamoto, 2013).

Foreign investors have been an important driver on CR adoption in Japan (Suzuki et al., 2010). These investors are largely institutional investors, who tend to utilize international standards in terms of disclosure and government requirements. Likewise, foreign investors have facilitated the adoption of social policies, such as those around workplace diversity, that have been relatively slow to develop in Japan despite government encouragement (Suzuki, Tanimoto, & Atsumi, 2008). Tanaka (2015) shows the foreign investors hold more shares in firms with policies promoting the advancement of women into top management. These findings are broadly consistent with other studies showing that dispersed share ownership is positively associated to some types of CR, such as environmental disclosure (Burritt, Christ, & Omori, 2016). Meanwhile, family ownership appear to have a negative impact on CR in Japan, a pattern that is more similar to other LME than CME countries (Rees & Rodionova, 2015).

The institutional development of CR in Japan should further be seen against the background of its corporate governance and managerial ideology. In particular, senior managers in Japan tend to take a less favorable attitude toward shareholder interests than in the United States, despite the growing salience of this group (Witt & Stahl, 2016). Meanwhile, employee welfare and the long-term legitimacy of the firm in society seem to take greater priority (Witt & Redding, 2012). Given the strong institutionalization of these values, CR have sometimes been seen in Japan as an imported Western concept. Commitments to CR already exist 'implicitly' in the form of institutionalized commitments to stakeholders (Kang & Moon, 2012). However, the global CR discourse also exposes Japanese management to new ideas, and has promoted critical reflection on existing practices, particularly around gender inequality and human rights issues in global supply chains (Fukukawa & Teramoto, 2009).

In sum, Japan presents a somewhat puzzling case in relation to CR. Several studies suggest that Japan is a latecomer or even laggard in the field of CR, despite the fact that most comparative scholars cite Japan as an exemplar of a stakeholder-oriented form of capitalism. At the same time, CR in Japan itself seems to be driven in part by pressures of foreign investors, who are generally associated with a more liberal and shareholder-oriented model of the corporation. Given the different mechanisms of institutional influence on CR implied by the mirroring and substitution hypotheses generally, some further comparative exploration in warranted before returning to the implications for studying CR in Japan.

3. Methods and Data

We analyze firm-level corporate responsibility activities using the Asset4 ESG database from Thomson Reuters. Asset4 ESG data has been widely used in studies on CR, respectively CSR (Cheng, Ioannou, & Serafeim, 2014; Eccles, Ioannou, & Serafeim, 2014; Hawn & Ioannou, 2016; Rathert, 2016). Our sample consists of stock exchange listed firms during the period from 2002 to 2014. We report our results for 24 OECD countries with a sample size of 10 firms or greater per year during the period of observation. Table 1 shows the countries included in our analysis and the number of company-year observations for each country. Given the different institutional characteristics shaping stock exchanging, the coverage of the ASSET4 database may be different across countries and give rise to heterogeneous sets of firms. To make the sample more comparable at the country level, we exclude small and medium-size enterprises from our sample.[2] Hence, our analysis focuses only on large corporations. In total, our sample contains 29,059 firm-year observations. The number of companies per year used in the analysis varies slightly between the different years due to missing values.

2 We based our criteria on the EU definitions of SMEs as firms with fewer than 250 employees, annual sales of less than 57,000 USD, or assets of less than 47,000 USD. SMEs comprised 21% of the Australian firms or 17% of the Canadian firms in the original sample, but just 2% of Japanese firms.

Table 1. Number of company-years.

Country	N	Percent
Australia	1,799	6.2
Austria	193	0.7
Belgium	254	0.9
Canada	2,017	6.9
Denmark	275	1.0
Finland	300	1.0
France	1,071	3.7
Germany	891	3.1
Greece	238	0.8
Ireland	164	0.6
Italy	551	1.9
Japan	4,248	14.6
Mexico	160	0.6
Netherlands	372	1.3
New Zealand	116	0.4
Norway	251	0.9
Portugal	126	0.4
South Korea	489	1.7
Spain	517	1.8
Sweden	534	1.8
Switzerland	659	2.3
Turkey	149	0.5
United Kingdom	3,380	11.6
United States	10,305	35.5
Total	29,059	100

Our dependent variables measure corporate responsibility (CR) and corporate irresponsibility (CiR) activities on the firm level. For CR, the Asset4 database contains publicly available information on corporate activities in seven sub-dimensions: product responsibility, human rights, community, employment quality, health and safety, training and development as well as diversity. We used all seven sub-dimensions to create an indicator that measures the degree of CR policies and practices of each firm in each year. The indicator was generated by combining the discrete data items in each sub-dimension by calculating a simple average of "yes" activities. Next, a separate average was calculated for each of the seven different sub-dimensions and then combined into a summary measure based on the average of these sub-dimensions. While each sub-dimension has a different number of indicators (see Table 2), we give each dimension equal weight in relation to the aggregate score and capture the potential variety of CR activities. While the calculation of the dependent variable on CiR follows the same approach, the resulting scores are not directly comparable. CR data are largely based on self-reporting by companies and tend to be fairly complete. By contrast, irresponsible actions are only measured based on their appearance in newspapers, NGO reports or lawsuits. Consequently, nearly 50% of firms score zero in CiR, reflecting a downward or underreporting bias as compared to the CR Social Index. The dependent variables vary between 0 and 100, and express the percentage of measured corporate (in)responsibility activities in relation to the possible maximum for each firm.

Table 2. Composition of the CR and CiR Index

Dimensions	**CR items by sub-area**
CR – Social Score	**54**
Product Responsibility	12
Community	8
Employment Quality	9
Training and Development	8
Diversity and Opportunity	7
Health and Safety	5
Human Rights	5
CiR – Controversies	**17**

In our model, we include firm-level control variables that are known to influence corporate responsibility activities (Jackson & Apostolakou, 2010; Jackson & Rathert, forthcoming; Koos, 2012; Padgett & Galan, 2010). First, we expect that CR activities increase with ***firm size,*** measured here by the logged sales revenue in US dollars. Second, financial performance may positively influence CR activities through the availability of resources. We measure financial performance by the ***return on assets*** (pre-tax income as percentage of total assets, winsorized values in the 1st and 99th percentile). We also include a ratio of total ***debt to total assets*** to capture the impact on indebtedness. Third, CR may also be influenced by the degree of innovation, due to greater future business opportunities or the need to legitimate new products in the eyes of customers. Thus, we include the level of ***R&D spending*** as a percentage of total assets. To acknowledge possible reverse causality of size, firm financial performance or R&D performance, these variables are lagged by one year. In general, the coefficients of the control variables are consistent with former empirical studies.

Given our interest in country-level differences in CR activities, we adopt a multi-level statistical model that combines fixed effects at the firm-level level panel with random effects across both sector and country. Since industry- and country-level factors do not vary much over time (such as sector or disclosure regulation), we use random effects estimations (Wooldridge, 2010). Consequently, we have a three-level model where each firm-year observation is clustered with a particular firm, sector, and countries. We model sectoral differences based on industry classification benchmark (ICB) super sector classification to control for well-known sectoral differences that affect CR activities. At the country-level, we are interested in exploring and testing the overall degree of national-level variation, rather than explaining this variation through country characteristics. Consequently, our model adds country as a category to estimate the overall impact of institutional differences between countries. (We will return to the question of what country-level factors drive this variation later). All estimations were done using STATA 12.1.

4. Mapping Japanese CR in Comparison

Table 3 shows the descriptive country averages for the index of the CR policy over time. First, the overall mean more than doubles from 0.21 in the first period of 2002-2004 to 0.47 in 2014 with the main period of rapid growth coming in the late 2000s. The global diffusion of CR policies is also evident by the declining coefficient of variation from 0.25 to 0.19 over the same period, evidence of isomorphic processes leading to greater homogeneity of CR policies across the OECD. Second, Japan ranked only 19th of the 24 OECD countries in 2014. While Japan has not improved in the overall rankings, Japanese firms have narrowed the gap to the overall OECD average from a ratio of 0.79 in 2002-2004 to 0.86 in 2014. Interestingly, Japanese firms had more CR policies than their US counterparts during 2002-2004. However, Japan fell behind the US during the latter half of the 2000s only to again narrowly overtake the US again after 2011. These results are in line with past research suggesting that Japanese firms tend to score similar to the US and generally lower than European or especially Nordic firms (Bird et al., 2012).

Table 3. CR Social Policies Index for Large Corporations, Country Averages 2002-2014

	2002-2004	2005-2007	2008-2010	2011-2013	2014
Australia	0.247	0.226	0.321	0.336	0.316
Austria	0.243	0.216	0.393	0.480	0.448
Belgium	0.169	0.232	0.380	0.480	0.460
Canada	0.238	0.215	0.303	0.356	0.326
Denmark	0.149	0.185	0.391	0.505	0.523
Finland	0.249	0.281	0.444	0.535	0.553
France	0.259	0.341	0.533	0.609	0.612
Germany	0.236	0.313	0.496	0.560	0.564
Greece	0.173	0.218	0.355	0.433	0.448
Ireland	0.110	0.214	0.290	0.338	0.347
Italy	0.205	0.280	0.477	0.549	0.548
Japan	0.165	0.205	0.351	0.399	0.404
Mexico	0.333	0.326	0.342	0.410	0.477
Netherlands	0.249	0.359	0.542	0.586	0.561
New Zealand	0.117	0.199	0.304	0.358	0.340
Norway	0.204	0.265	0.438	0.495	0.477
Portugal	0.181	0.325	0.537	0.573	0.554
South Korea	0.284	0.447	0.423	0.439	0.411
Spain	0.233	0.340	0.587	0.637	0.658
Sweden	0.202	0.288	0.450	0.530	0.515
Switzerland	0.211	0.296	0.412	0.463	0.460
Turkey	na	na	0.374	0.430	0.446
United Kingdom	0.227	0.280	0.444	0.492	0.494
United States	0.150	0.234	0.353	0.398	0.386
Mean	0.210	0.273	0.414	0.475	0.472
Standard Deviation	0.053	0.064	0.083	0.087	0.091
Coefficient of Variation	0.254	0.235	0.200	0.183	0.193
Ratio of Japan to OECD	0.79	0.75	0.85	0.84	0.86
Ratio of Japan to USA	1.10	0.87	0.99	1.00	1.05

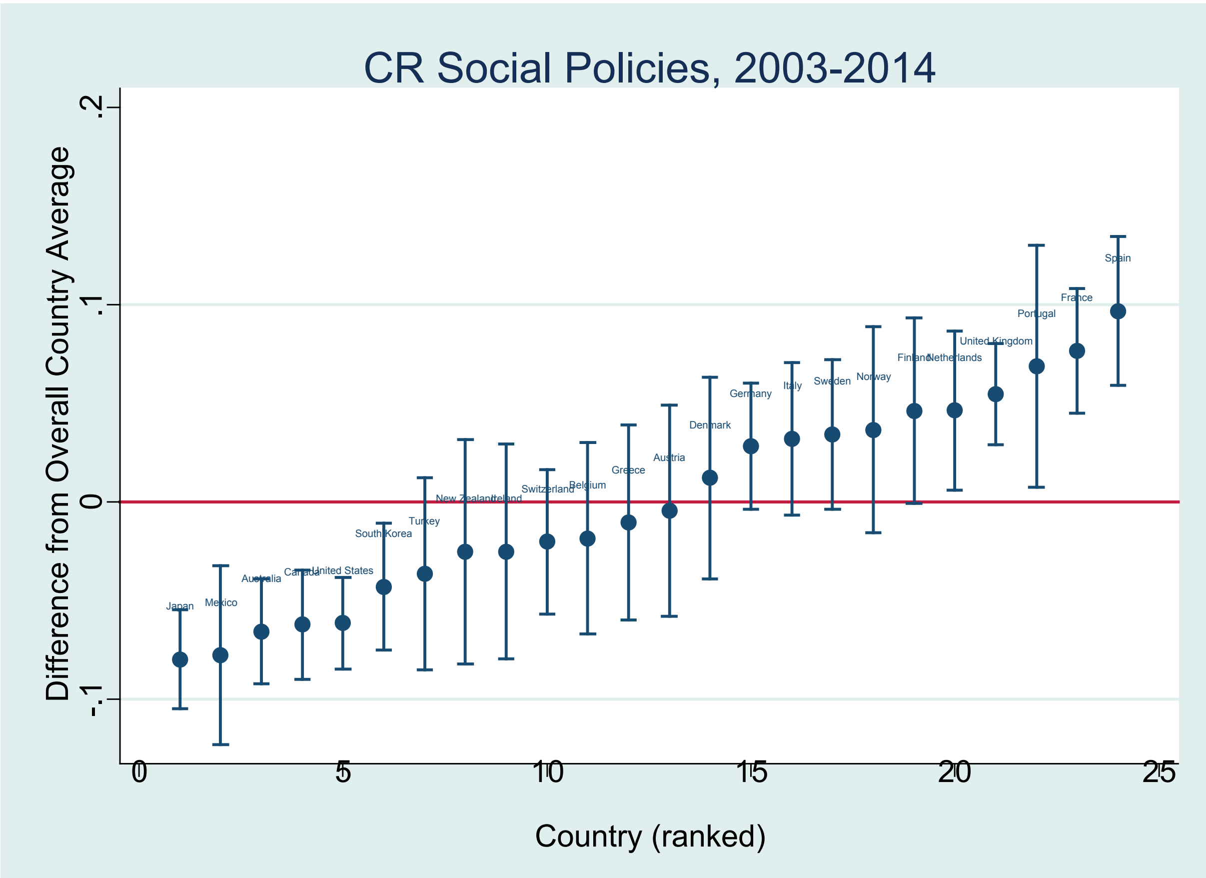
Source: Asset4, own calculation

Next, we describe the results of our multi-level statistical model. First, Table A1 in the Appendix reports the country averages for CR social policy activities, controlling for firm characteristics and industry sector to isolate the effect of country-level institutional factors in influencing CR. The intra-class correlations in our model suggest that country-level differences account for 13.6% of overall variation in the adoption of CR policies. Meanwhile, variation by industry-sector accounts for 11.2% of overall variance.

The country-level results of the estimation are presented in Graph 1, which reports the difference between the average levels of CR policy activities for each country related to the overall OECD average. The graphic also reports the 95% confidence intervals so that we can make conservative conclusions about country-level differences. Japan stands out with the lower overall score at 8 percentage points below the OECD average. Japan belongs to a group of low scoring countries that includes Mexico and South Korea, as well as several advanced liberal market economies such as the United States, Canada and Australia. Spain, France, Portugal, the UK, Sweden and Finland all belong to a group that is clearly above the OECD average. The gap between these leading countries and Japan is quite substantial—roughly 18 percentage points lie between Spain and Japan or 16 percentage points between France and Japan.

In the Appendix (see Appendix Table A2 and Graph 6), we also report estimations of country differences across 7 sub-dimensions of CR, including diversity, training or health and safety. While some interesting differences arise in the ranking of countries across separate dimensions, the below-average position of Japan is consistent across almost all dimensions. In the dimension of product responsibility, Japan is broadly in line with the OECD average. Surprisingly, Japan is particularly low on the adoption of CR policies related to employment practices. As shall be discussed later, this score does not imply that actual employment outcomes are worse in Japan than elsewhere, but only that few explicit policies are adopted under the rubric of CR.

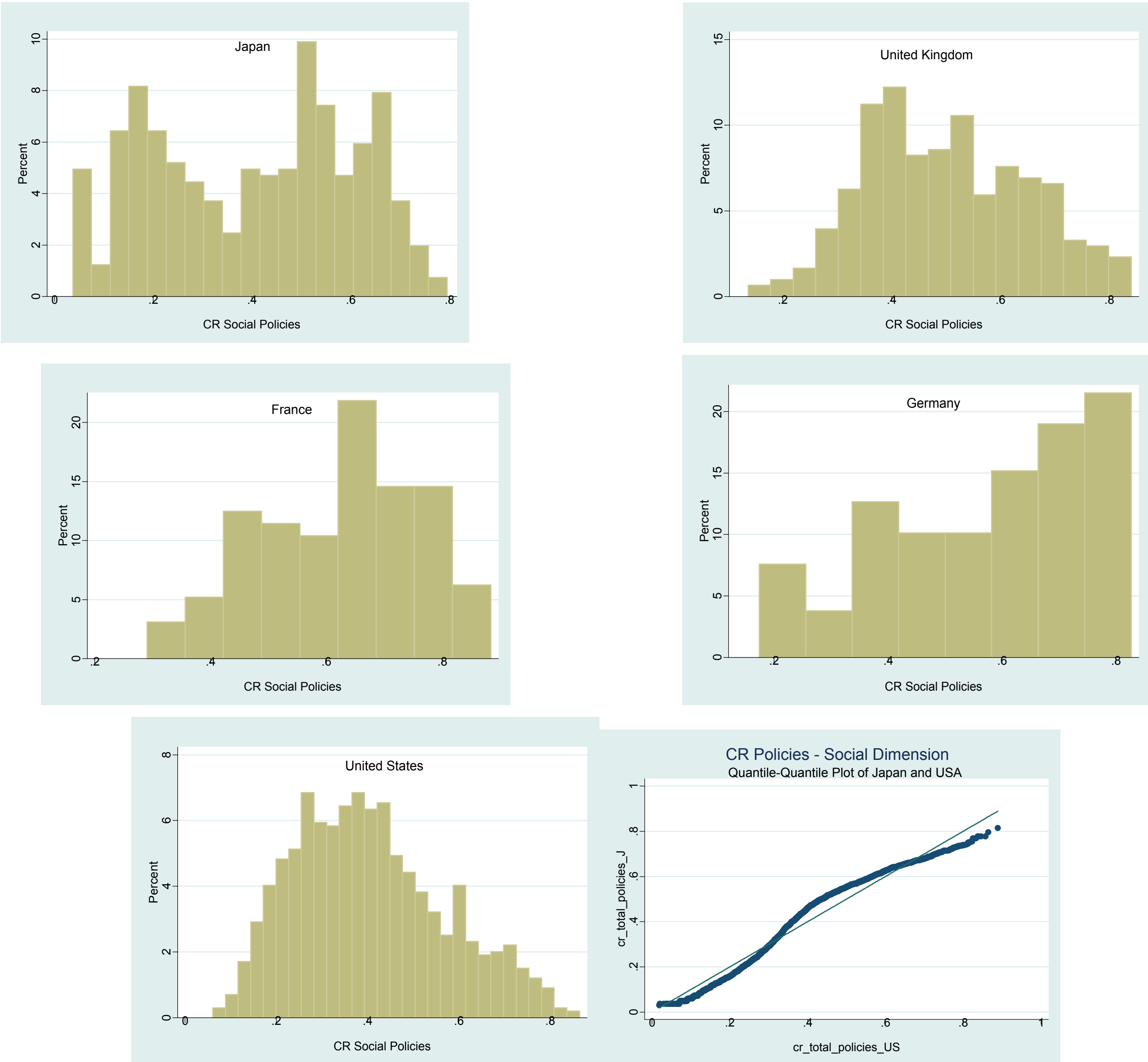
Graph 1: CR Social Policies 2002-2014



Source: Asset4, own calculation

So far, the results in Graph 1 show relatively low levels of responsible actions within Japanese companies in comparison to the OECD sample. Nevertheless, this picture becomes more differentiated when investigating the variation of firms in each country. Graph 2 illustrates the distribution of corporate responsibility acuities in Japan, UK, France, Germany and the US in the year 2013. Notably, the distribution of CR scores for Japanese firms seems to be a bi-model one characterized by a group of firms with very low scores and a group with rather high scores. Meanwhile, the US and UK both have a relatively normal distribution of scores, despite the differences in the mean score between the two countries. The distribution of scores France and Germany are right skewed, showing that most firms have relatively high scores and only a small number of firms have very low scores. These differences may suggest a clue to interpreting the position of Japan—Japanese companies score lower than the US at both the bottom and top of the distribution, but score substantially better around the median.

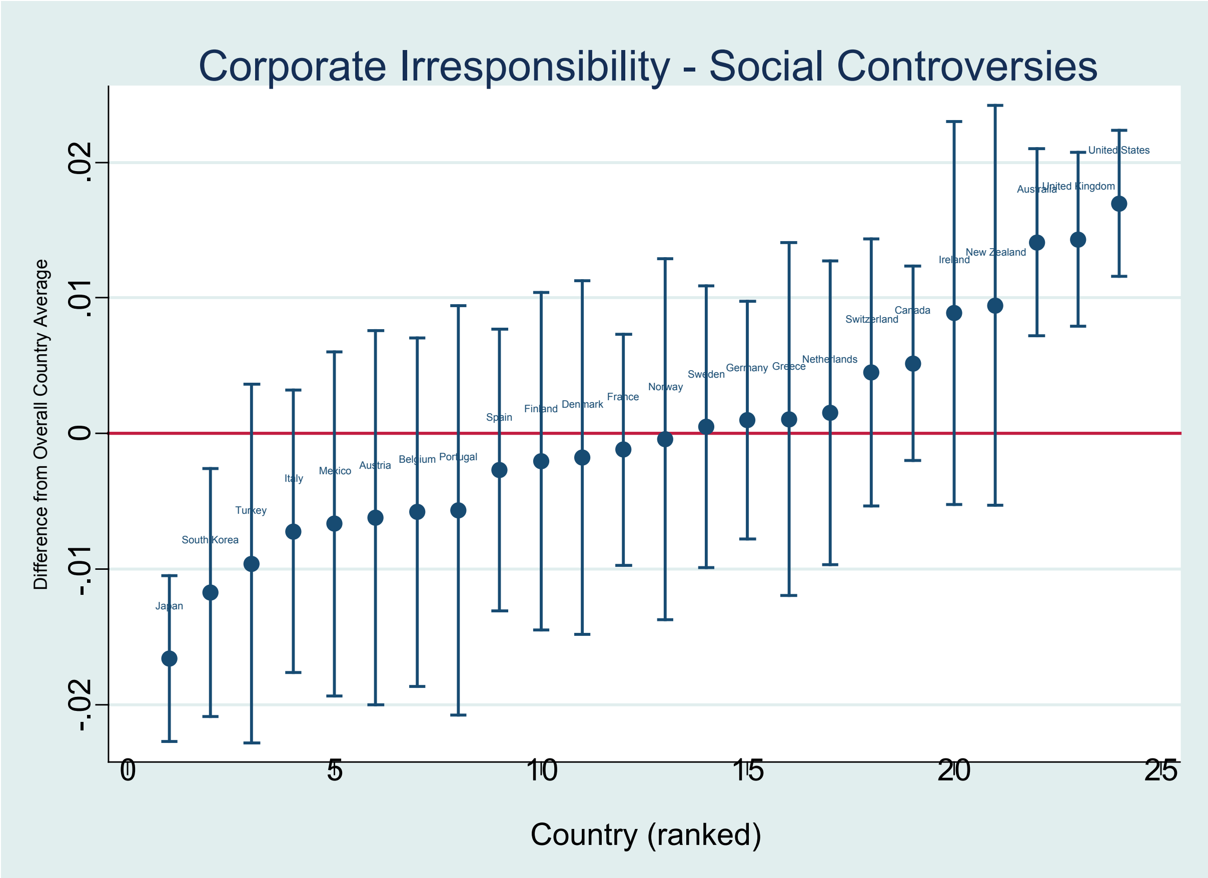
Graph 2: Variation of CR in Japan, UK, France, Germany and the US in in 2013



Source: Asset4, own calculation

While our data suggest that CR remains underdeveloped Japan in relation to the social dimension of CR, Japanese firms have experienced far fewer controversies in relation to social issues than firms in most OECD countries. Graph 3 shows the results of our estimation model for the number of social controversies per firm in each country. Generally, country-level differences in corporate irresponsibility are smaller than in relation to corporate responsibility, meaning that a large group of countries fall around the OECD mean and the estimations have rather wide confidence intervals, suggesting that small differences in the average cannot be reliably interpreted. Nonetheless, Japan falls very clearly below the OECD average and contrasts notably with the very high levels of irresponsible actions related to US, UK and Australian firms. Here US firms have similarly low scores on CR policies to Japanese firms, but very high levels of controversy. Interestingly, UK firms occupy a rather paradoxical position in having high levels of *both* responsible and irresponsible actions. Conversely, Japan is characterized both relatively low levels of responsible and irresponsible actions.

Graph 3: Corporate Irresponsibility 2003-2014



Source: Asset4, own calculation

A final observation relates to how Japanese firms do on measurable outcomes related to corporate responsibility. The 'underdevelopment' of CR could be viewed as problematic from a normative perspective to the extent that social outcomes for stakeholders are inferior. Here it is important to recall two aspects of the CR literature. First, many scholars have argued that CR is a form of symbolic management that is largely decoupled from organizational outcomes (Crilly, Zollo, & Hansen, 2012; Jamali, 2010). In this sense, CR may be something of a Western concept for communicating commitment to stakeholders, but have less relevance with the East Asian context – for example, different understandings of stakeholder relationships underpin corporate governance in different countries (Witt & Stahl, 2016). Second, some CR scholars go further than arguments on decoupling to claim that CR may actually be associated with negative outcomes for stakeholders. Here a large literature on "greenwashing" suggests that CR is used symbolically in ways that deflect attention from underlying problems (Delmas & Burbano, 2011; Marquis, Toffel, & Zhou, 2015; Ramus & Montiel, 2005). Indeed, CR is often correlated with irresponsible outcomes (Kotchen & Moon, 2012; Lin-Hi & Muller, 2013), in which case CR may help to legitimate or at least perpetuate negative corporate actions.

Turning to indicators of social performance outcomes, Japanese firms are leaders on some dimensions, while lagging on others. Table 4 shows several indicators of Japanese firms relative to the US, UK, France and Germany. First, executive salary is relatively modest in relation to overall wages of employees. This confirms the idea of Japanese firms being relatively egalitarian with low levels of inequality. Second, the next row of Table 4 show Japanese firms are far less likely to announce layoff, being observed in only 2.7% of firm-year observations compare to 11.6% in the USA. Third, employee turnover in Japan is very low at around 5.4% of the workforce compare to 12.2% in the USA. So far, these three observations confirm the picture of Japanese firms as being far more oriented to long-term employment of their employees. Meanwhile, Table 4 also shows that Japanese firms have far fewer female senior managers, averaging just 7.1% in Japan compare to 31% in the USA. Similarly, spending on charitable donations is far lower in Japan than the OECD average.

Table 4: Social performance outcomes in Japan, UK, France, Germany and the US 2002-2014

Social Performance Outcomes	Japan	UK	France	Germany	USA	OECD average
Executive salary to total wages	0.030	0.050	0.018	0.017	0.042	0.049
Percentage of firms announcing lay-offs	0.027	0.077	0.115	0.129	0.116	0.084
Employee Turnover	0.054	0.137	0.147	0.081	0.122	0.115
Female Managers	0.071	0.250	0.298	0.200	0.310	0.246
Donations to sales ratio	0.0002	0.0006	0.0006	0.0003	0.0017	0.0011

Source: Asset4, own calculation

5. Discussion: Understanding Japan through a Comparative Observation

International comparisons suggest that institutions matter for the development of corporate responsibility. The policies, practices and outcomes related to social responsibility and irresponsibility of corporations are shaped by different varieties of capitalism, even where these patterns do not fall neatly into differences between LME and CME countries. Corporate responsibility both mirrors certain types of institutions and state regulation, while substituting for others — sometimes even within the same country.

What can we say about how institutions may support corporate responsibility? And particularly, how this might help to understand the Japanese case? Jackson and Bartosch (2016) investigate how different varieties of capitalism influence the level of corporate responsibility activities. Graph 4 reports their results examining the influence of single institutional indicators on country averages of the corporate responsibility during the 2008 and 2014. Their results indicate which specific institutions have an effect on CR and thus might help to better understand differences across countries.

In the domain of corporate governance, employee codetermination on corporate boards as well as governmental non-financial disclosure requirements plays an important role. They both positively influence the level of corporate responsibility activities. Thus, countries with mandatory disclosure requirements related to corporate responsibility score higher than countries without such rules. Disclosure is a key basis for creating market incentives for responsible business practices. Stakeholders must be informed enough to evaluate, reward and sanction corporate responsibility. Disclosure policies, have played important roles in increasing the flow of information that is reliable, valid, and allows trustworthy comparisons across companies. In Japan, no regulation for non-financial disclosure exists, neither hard law on the representation of employees on the corporate board. This is for instance different in the France or Denmark, both leading countries for corporate responsibility activities.

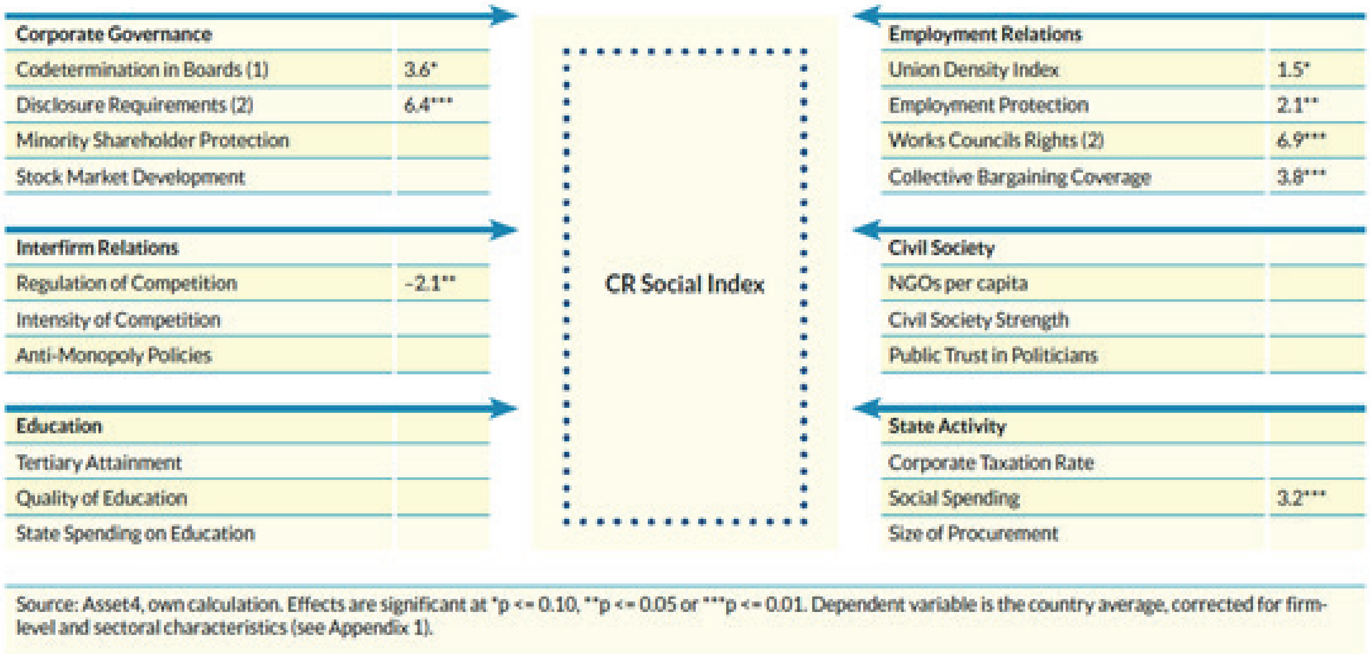
The results in Graph 4 also suggest that different institutions of employment relations including works councils rights and collective bargaining agreements have a positive effect on CR. Institutions of employment relations refer broadly to the degree and forms of employee participation within managerial decision-making with regard to employment, wages and working conditions. For instance, the results show that in countries where works councils have rights to both information, consultation and advice, countries score higher on corporate responsibility activities as compared to countries without these characteristics. Institutions in the domain of employment relations indicate the importance of stakeholder rights. Even though employment relations are very important in Japan, works councils only have the formal right of information and consultation without further rights of advice or eve codetermination (Visser, 2015). Many leading countries show more institutionalized forms of employment relations, such as Denmark or Germany that both guarantee consultation rights.

In terms of state activities, Graph 4 also shows a positive effect of social spending. State capacity refers to the degree and form of institutionalized state involvement in the economy. Levels of welfare spending shape corporate responsibility through the demand for social welfare such as pensions or health care. In Japan, social spending is already relatively low (Suzuki et al., 2008), similar to the US and UK. Some leading countries in regard to CR show considerable higher spending such as France, Germany or Denmark.

Likewise, CR is associated with weak regulation of product markets. But here Japan is quite average across the OECD with neither particularly liberal, nor particularly strict product market regulations. Interestingly, differences in educational institutions and civil society do not seem to be major drivers of differences in CR across countries. In Japan, the level of the regulation of competition is similar to other countries like France, Spain, Denmark or Germany. On the other hand, more liberal countries like the UK or Australia are less restrictive. In that case, the more liberal institutional setting of the regulation of competition is positively influencing the development of CR, but only in liberal countries.

Surprisingly, Jackson and Bartosch found that education and civil society institutions had no significant effects on overall corporate responsibility. However, they show that these institutions do significantly influence sub-dimensions of corporate responsibility such as diversity or community. While Japan is sometimes cited as being a case with a relatively weak role of civil society organizations, this factor does not appear to be a primary driver of Japan's slow development regarding CR.

Graph 4: Institutional Influences on Corporate Responsibility (Policies and Outcomes)

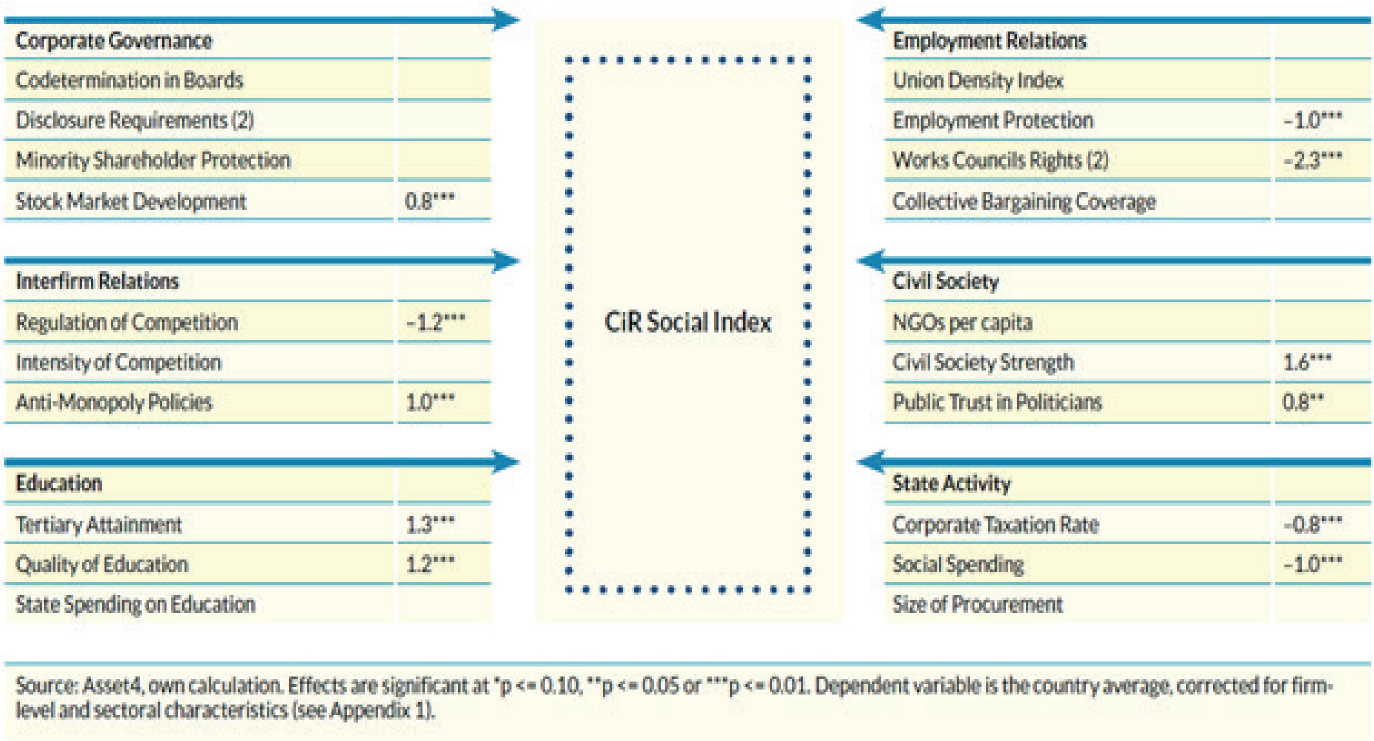


Source: Jackson, G./ Bartosch, J. (2016): Corporate Responsibility in Different Varieties of Capitalism: Exploring the Role of National Institutions. Bertelsmann Foundation. Gutersloh. The coefficients express the average change in the CR Social Index within each country based on one unit change in the institutional characteristic. For the purposes of comparison, the scales of the institutional characteristics are standardized.

In sum, the weak development of CR in Japan appears to be partially related to the nature of its employment relations institutions. The comparative findings here suggest a strong "mirroring" effect, which is largely absent in Japan. Japan has high levels of employment protection legislation, which is one factor supporting higher CR activities. But on other measures, Japan lacks more centralized collective bargaining and formalized forms of worker participation. Here the Japanese type of "micro-corporatism" seems to place little emphasis on developing explicit CR-type policies on social issues and communicating these to the general public. Rather, employment relations seem to be a genuinely more implicit domain of internal negotiation among stakeholders. While these institutions deliver very good results in terms of few scandals and positive outcomes on many dimensions of employment, these institutional factors also place strong limits on the development and effectiveness of CSR. A good example relates to the topic of diversity, where Japanese firms have only very recently begun to develop stronger policies. Opening "insider" employment relations up toward the outsider concerns of women or immigrants has been very difficult to institutionalize in Japan due to conflicts between firm-internal norms and broader societal norms, and has only very recently begun to take hold more strongly (Brinton & Mun, 2016). Meanwhile, comparative evidence also suggests a possible "substitution" effect of CR in countries with very liberal product market regulations. But here Japan is "not liberal enough" to fall into this type of pattern.

Meanwhile, what can we say about how institutions may support corporate irresponsibility? And what can we learn for Japan? In sum (see Graph 5), the results show that greater irresponsibility is associated with more liberal, market-enhancing institutions. Likewise, a high degree of institutional coordination is often associated with lower levels of irresponsibility. For instance, institutional coordination in form of the institutions of employment relations negatively influence irresponsible activities and thus decrease irresponsibility. On the other hand, for instance higher stock market development is associated with an increase in irresponsible actions by corporations, representing a liberal market-based institutions within LME countries.

Graph 5: Institutional Influences on Corporate Irresponsibility (Policies and Outcomes)



Source: Jackson, G./ Bartosch, J. (2016): Corporate Responsibility in Different Varieties of Capitalism: Exploring the Role of National Institutions. Bertelsmann Foundation. Gutersloh. The coefficients express the average change in the CR Social Index within each country based on one unit change in the institutional characteristic. For the purposes of comparison, the scales of the institutional characteristics are standardized.

These results are in line with the prior discussion on the relatively low levels of corporate irresponsible activities in Japan. Similar to countries such as France or Denmark, Japan has some features that limit irresponsible behavior such as higher corporation taxation, strong employment protection and moderate levels of regulated competition. Some drivers of irresponsibility are also absent, such as very strong stock market pressure. Interestingly, several education variables and civil society strength are associated with more irresponsible corporation actions. However, these factors are unlikely to explain the extremely low levels of scandals in Japan. Meanwhile, the positive effect of civil society strength point to some potential limitations of the analysis, since it is unlikely that civil society is the cause of corporate irresponsibility, but could possibly be a reaction to it. Moreover, it may be that civil society development influences the detection of irresponsible actions rather than actual corporate behavior, suggesting that corporate scandals in Japan are underreported.

6. Conclusion

The comparative study of corporate responsibility remains in its infancy. Using detailed internationally comparative data on firm-level CR adoption, this paper documents very substantial differences in the extent of CR policy adoption across countries. Here Japan seems to be an outlier as a country with relatively weakly developed CR activities in relation to the social dimension. The paper further discussed some possible institutional drivers to understand the position of Japan. But this somewhat negative picture should be seen in the context of relatively few social controversies in Japan, as well as the evidence of positive outcomes for at least some stakeholders – the male, full-time workforce of Japanese firms. The further development of CR in Japan will require a partial shift away from the closed nature of the traditional enterprise community in Japan, and stronger regard for public interest aspects of the wider society and its transformation to one of greater gender equality or more internationalized view of human rights, just to name two aspects.

The comparative observations suggest an important research agenda in relation to CR in Japan in at least three ways.

First, an extensive qualitative study is needed to understand the drivers and inhibitors of CR in Japan from the view of corporate management, investors, and other company stakeholders. Given that many employment institutions in Japan are not highly formalized, Japanese firms could potentially adopt CR based on a logic of substitution. Although Japanese firms lag behind similar firms in other OECD countries, a substantial group of large Japanese firms have fairly extensive CR policies. Understanding how and why these high performing companies adopt CR despite the lack of institutional support remains a key unanswered question from previous research. Similarly, it is important to further explore firms with very low CR adoption from a qualitative perspective to better understand the extent of awareness of CR issues, as well as key constraints faced by these firms to more extensive adoption.

Second, a further study is needed to explore the environmental dimension of CR. Here Japanese firms may exhibit a very different pathway, where they have taken a stronger position of leadership in promotion green products and technologies. Here different institutional drivers may also play a role. To the extent that environmental and social dimensions of CR have diverged in Japan, it would be interested to compare their parallel development.

Third, more research is needed to explore the role of corporate irresponsibility. Given that this is a pioneering area of research, a first task would be to verify the quality of ASSET4 data by using Japanese-language sources, as well as comparing a sample of Japanese firms with a carefully matched sample of similar firms in the US or a European country. Our comparative analysis suggests that irresponsible actions can, in fact, be a strong driver of CR policy adoption, particularly in liberal contexts characterized by weak stakeholder coordination. However, these scandals seem to play relatively little role in Japan compared to other countries, thus suggesting a potentially distinct dynamic of CR in Japan. Likewise, more research is needed to explore the link between CR policies and actual outcomes. Given the partial strengths of Japanese firms in these areas, an interesting question remains as to whether CR is adopted ex post as a kind of rationalization of existing practices to outside stakeholders, or whether CR adoption is associated with firms trying to improve their low performance on social outcomes.

In sum, Japan represents an interesting case within the debate over comparative CR. While being a relatively late developer in this field, several features of Japan make it an interesting context to explore the theoretically rich relationships between CR and institutions, between CR and CiR, and between CR policies and their effects of key stakeholders.

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Table A1: Results of our multi-level statistical model

	(1)
	Index of CR Policies
Log Sales	0.0438***
	(0.00107)
ROA (lagged)	-0.00112
	(0.00495)
R&D to total assets (lagged)	0.0308
	(0.0285)
Debt ratio (lagged)	-0.000820
	(0.00414)
Year=2003	-0.235***
	(0.00271)
Year=2004	-0.216***
	(0.00223)
Year=2005	-0.189***
	(0.00207)
Year=2006	-0.169***
	(0.00204)
Year=2007	-0.0684***
	(0.00199)
Year=2009	0.0246***
	(0.00188)
Year=2010	0.0385***
	(0.00187)
Year=2011	0.0647***
	(0.00187)
Year=2012	0.0867***
	(0.00187)
Year=2013	0.0894***
	(0.00188)

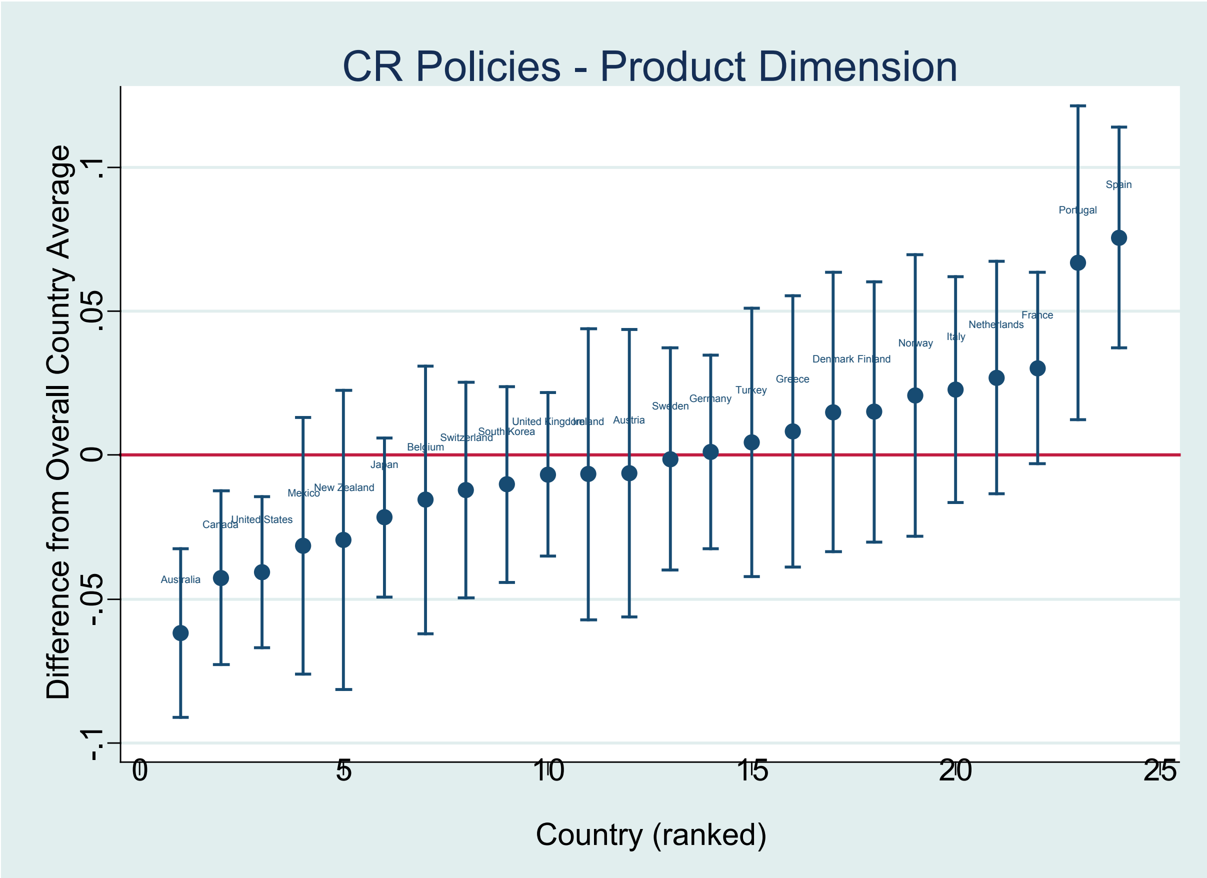
Year=2014	0.0881***
	(0.00196)
Constant	-0.284***
	(0.0202)
Random Effects	
Country	0.0030
	(0.001)
Industry Sector	0.0025
	(0.0004)
Firm	0.0124
	(0.004)
Residual	0.0044
	(0.0000)

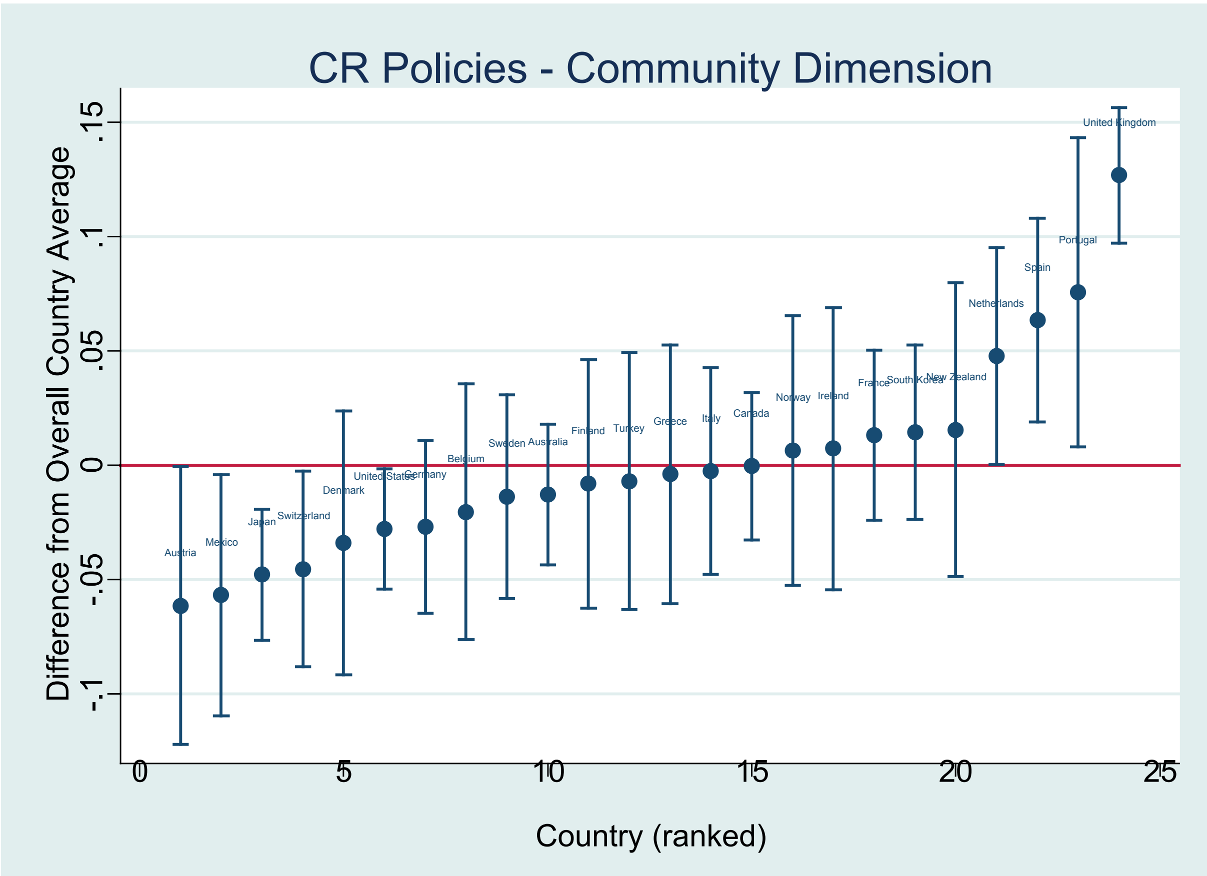
Notes: Dependent variable is CR social policies. Baseline year is 2008.
Standard errors in parentheses
* p<0.1, ** p<0.05, *** p<0.01

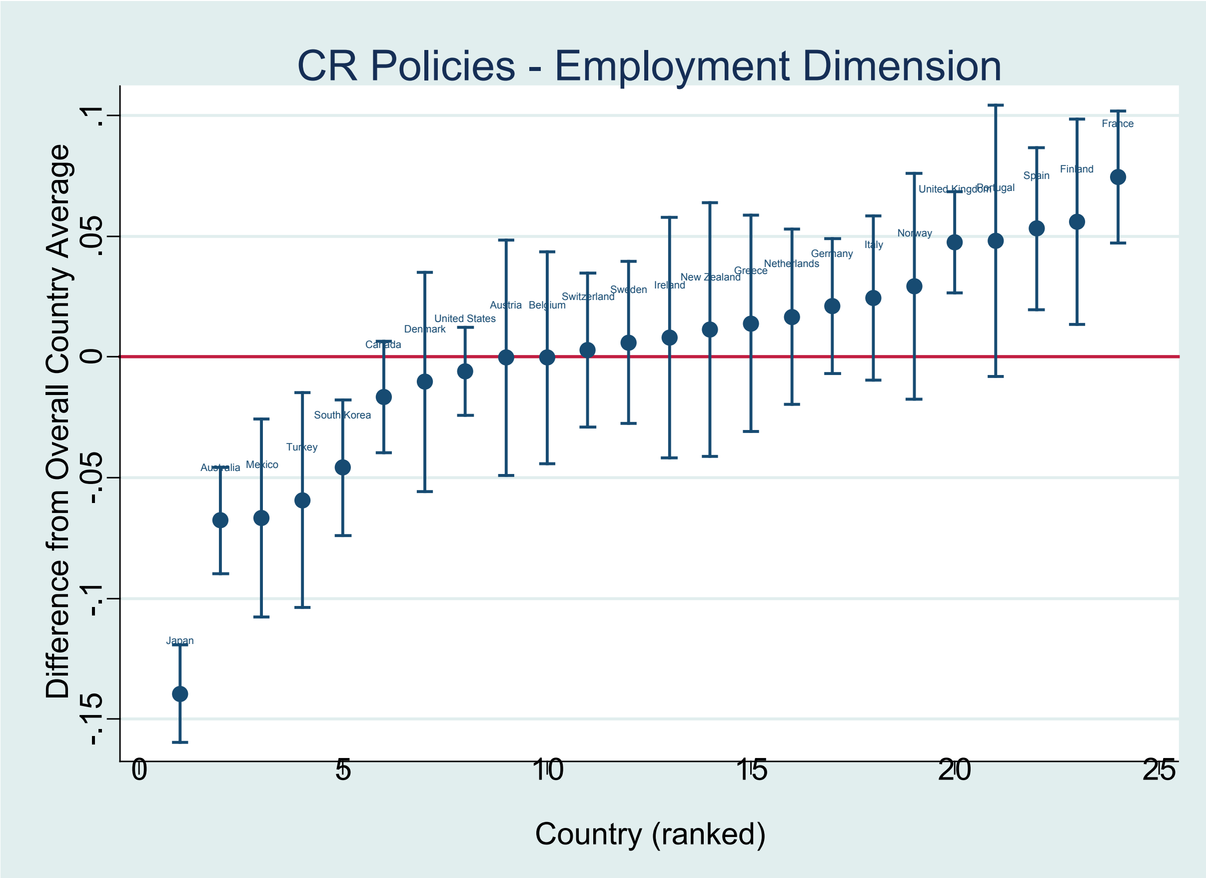
Table A2: CR Policies – Differences from OECD Average by Country, 2003-2014

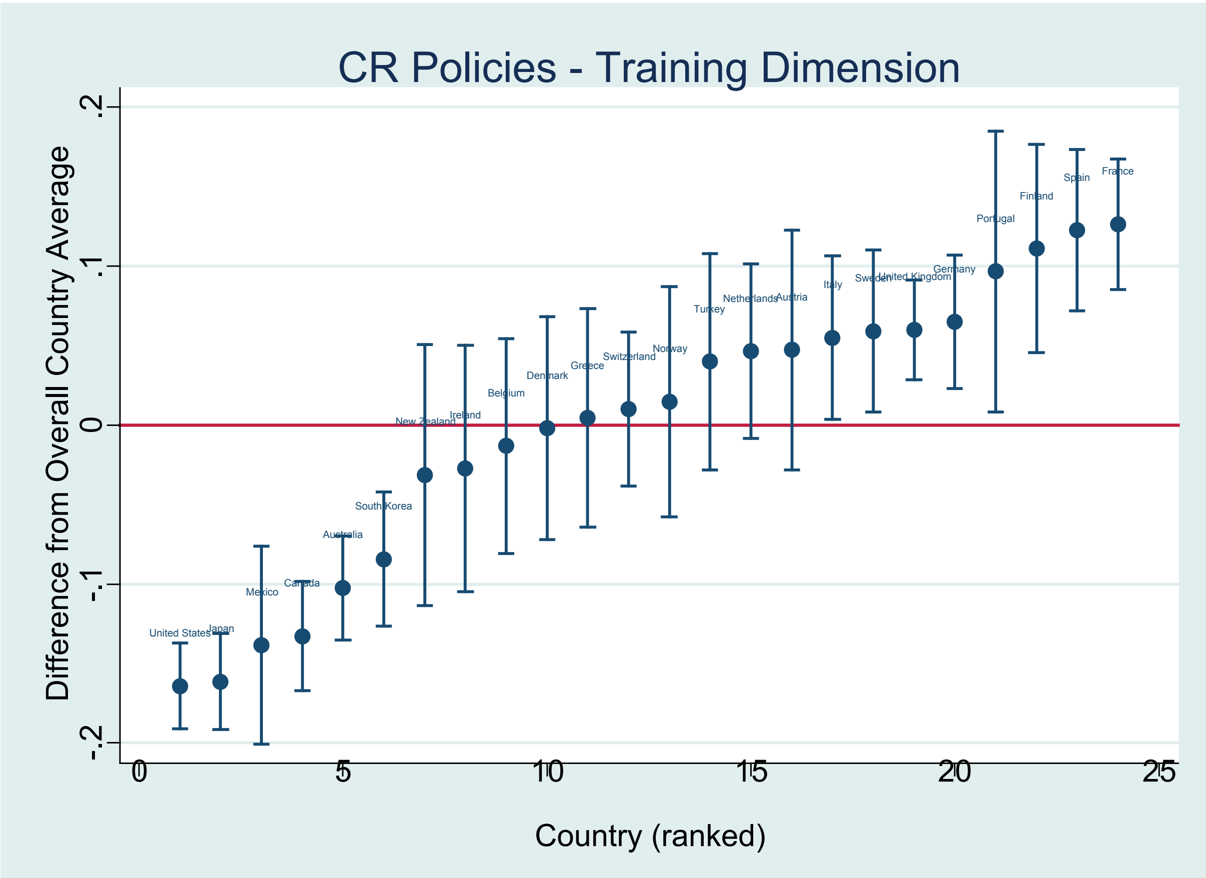
	Product	Community	Employment	Diversity	Training	Health & Safety	Human Rights	CR - total
Australia	-0.062	-0.013	-0.068	0.047	-0.102	0.036	-0.123	-0.066
Austria	-0.006	-0.061	0.000	0.035	0.047	-0.065	-0.026	-0.005
Belgium	-0.016	-0.020	0.000	-0.053	-0.013	-0.018	-0.015	-0.019
Canada	-0.043	0.000	-0.017	-0.058	-0.133	-0.035	-0.093	-0.062
Denmark	0.015	-0.034	-0.010	-0.010	-0.002	0.034	0.125	0.012
Finland	0.015	-0.008	0.056	-0.011	0.111	0.061	0.111	0.046
France	0.030	0.013	0.075	0.089	0.126	0.085	0.086	0.077
Germany	0.001	-0.027	0.021	0.092	0.065	-0.050	-0.006	0.028
Greece	0.008	-0.004	0.014	-0.043	0.004	-0.034	-0.024	-0.011
Ireland	-0.007	0.007	0.008	-0.043	-0.027	0.068	-0.096	-0.025
Italy	0.023	-0.003	0.024	0.044	0.055	0.024	0.025	0.032
Japan	-0.022	-0.048	-0.139	-0.043	-0.161	-0.156	-0.092	-0.080
Mexico	-0.032	-0.057	-0.067	-0.119	-0.138	-0.085	-0.035	-0.078
Netherlands	0.027	0.048	0.017	0.016	0.046	0.063	0.092	0.046
Norway	-0.030	0.006	0.011	0.072	0.015	0.096	0.063	-0.025
New Zealand	0.021	0.015	0.029	-0.018	-0.031	0.034	-0.097	0.036
Portugal	0.067	0.075	0.048	-0.069	0.097	0.085	0.094	0.069
South Korea	-0.010	0.014	-0.046	0.132	-0.084	-0.152	-0.088	-0.043
Spain	0.076	0.063	0.053	0.028	0.123	0.063	0.120	0.097
Sweden	-0.001	-0.014	0.006	-0.041	0.059	0.032	0.144	0.034
Switzerland	-0.012	-0.045	0.003	-0.113	0.010	-0.052	-0.025	-0.020
Turkey	0.004	-0.007	-0.059	0.067	0.040	-0.085	-0.079	-0.037
United Kingdom	-0.007	0.127	0.048	-0.034	0.060	0.137	0.046	0.055
United States	-0.041	-0.028	-0.006	0.034	-0.164	-0.085	-0.107	-0.062
Country-level variance	0.053	0.064	0.113	0.105	0.170	0.125	0.151	0.136
Industry-level variance	0.134	0.083	0.062	0.073	0.062	0.254	0.098	0.112
Firm-level	0.497	0.549	0.482	0.533	0.506	0.407	0.455	0.555

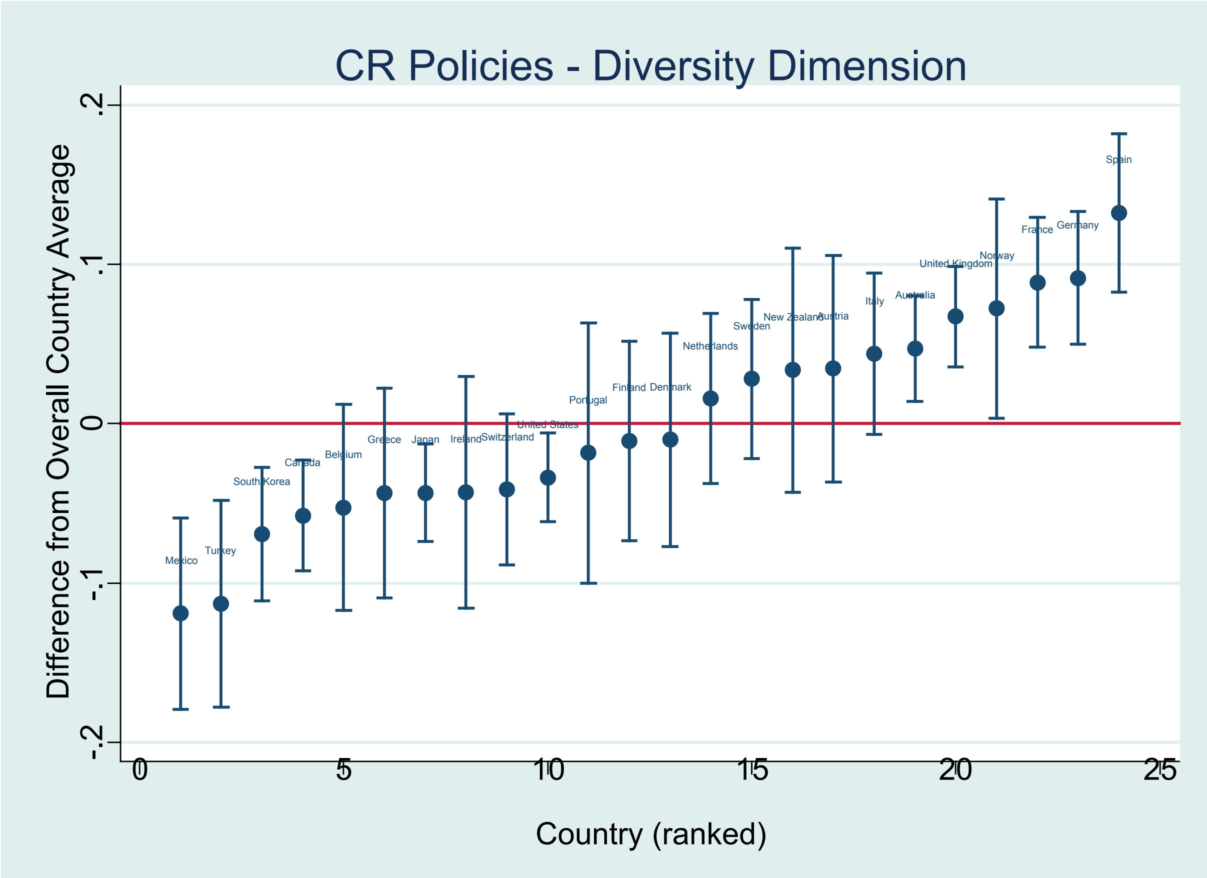
Graph 6: CR Policies, by Dimension, 2003-2014

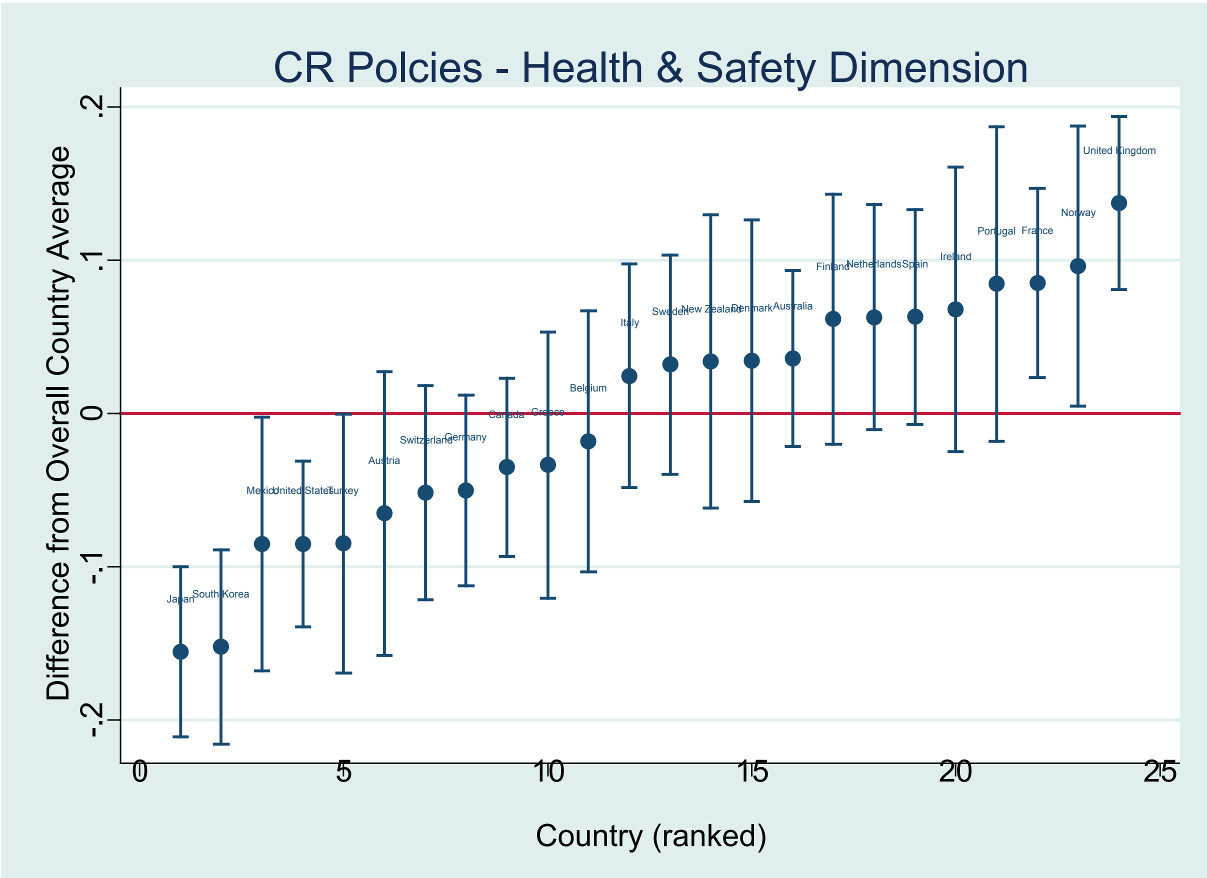


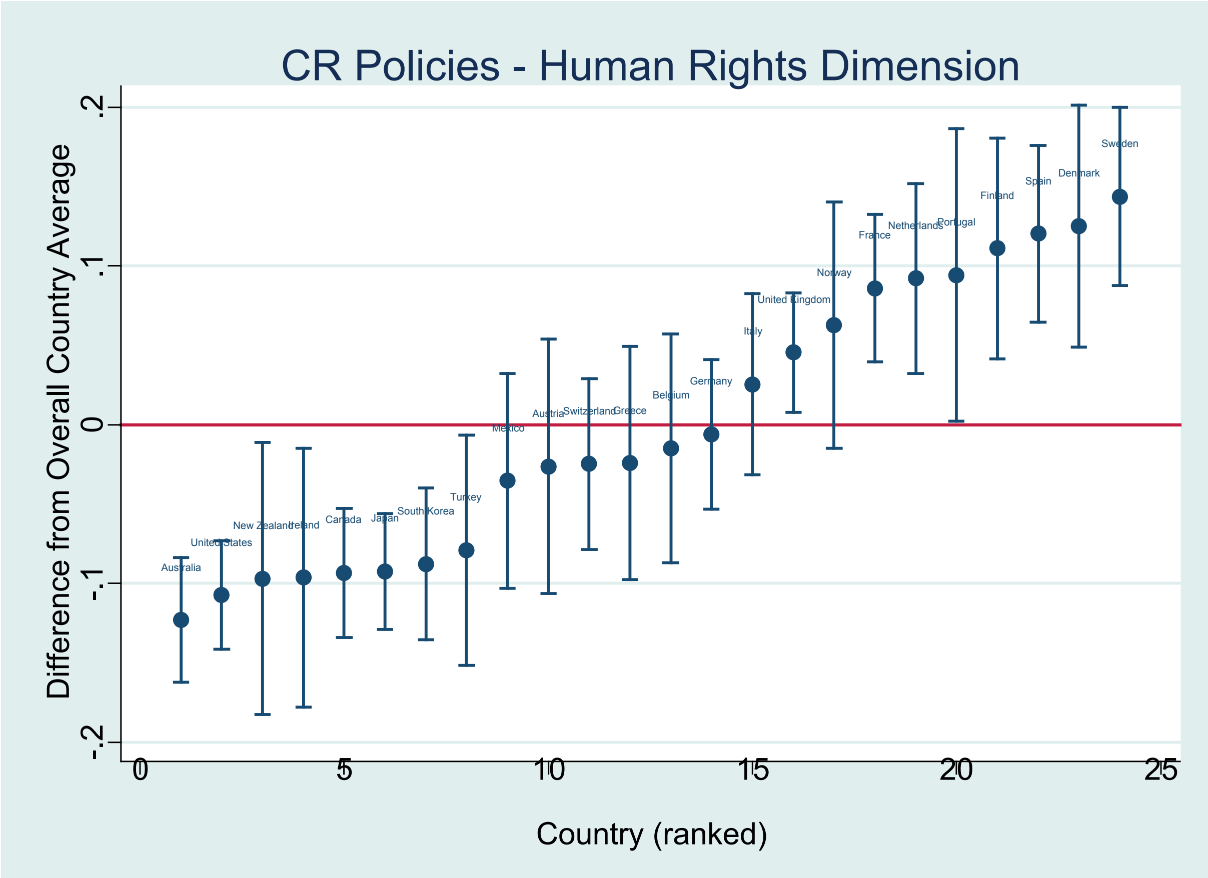



CR Policies - Employment Dimension
Difference from Overall Country Average
Country (ranked)
Japan
Australia
Mexico
Turkey
South Korea
Canada
Denmark
United States
Austria
Belgium
Switzerland
Sweden
Ireland
New Zealand
Greece
Netherlands
Germany
Italy
Norway
United Kingdom
Portugal
Spain
Finland
France


CR Policies - Training Dimension
Difference from Overall Country Average
Country (ranked)
United States
Japan
Mexico
Canada
Australia
South Korea
New Zealand
Ireland
Belgium
Denmark
Greece
Switzerland
Norway
Turkey
Netherlands
Austria
Italy
Sweden
United Kingdom
Germany
Portugal
Finland
Spain
France


CR Policies - Diversity Dimension
Difference from Overall Country Average
.2
.1
0
-.1
-.2
0
5
10
15
20
25
Country (ranked)
Mexico
Turkey
South Korea
Canada
Belgium
Greece
Japan
Ireland
Switzerland
United States
Portugal
Finland
Denmark
Netherlands
Sweden
New Zealand
Austria
Italy
Australia
United Kingdom
Norway
France
Germany
Spain


CR Polcies - Health & Safety Dimension
Difference from Overall Country Average
.2
.1
0
-.1
-.2
0
5
10
15
20
25
Country (ranked)
Japan
South Korea
Mexico
United States
Turkey
Austria
Switzerland
Germany
Canada
Greece
Belgium
Italy
Sweden
New Zealand
Denmark
Australia
Finland
Netherlands
Spain
Ireland
Portugal
France
Norway
United Kingdom


CR Policies - Human Rights Dimension
Difference from Overall Country Average
Country (ranked)
.2
.1
0
-.1
-.2
0
5
10
15
20
25
Australia
United States
New Zealand
Ireland
Canada
Japan
South Korea
Turkey
Mexico
Austria
Switzerland
Greece
Belgium
Germany
Italy
United Kingdom
Norway
France
Netherlands
Portugal
Finland
Spain
Denmark
Sweden