

# **Corporate social responsibility (CSR) reporting in Japan: Effects of government guidelines and initiatives**

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# Corporate Social Responsibility (CSR) Reporting in Japan: Effects of Government Guidelines and Initiatives

Kam Phung  
Fall 2010

## ABSTRACT

This paper explores the influence and effects of government guidelines and initiatives on corporate social responsibility (CSR) reporting in Japan. It begins with a brief overview of past and present reporting trends and also explains Japan's government-business relationship. Findings from interviews and surveys conducted with Japanese business professionals and CSR reporting companies are presented, as well as observations from forty Japanese CSR reports currently following the Global Reporting Initiative's (GRI) G3 reporting guidelines. Current challenges facing materiality and assurance were identified and possible solutions were explored. A cost and benefit analysis of Japan's mandatory environmental reporting law was also conducted. Lastly, this paper summarizes the pros and cons of implementing a CSR reporting requirement in Japan. Results from the studies described above demonstrate that government initiatives have a strong influence on Japanese reporting trends and that the Government of Japan should maintain an active role in shaping the future of reporting.

## INTRODUCTION

Since the 1970s there has been a significant change in attitude towards information disclosure by businesses in Japan and the rest of the world. With the shift from a business community that only reports financial information to one where businesses actively disclose economic, environmental and social information, the *Triple Bottom Line (TBL)*, Japan has emerged as a world leader in *Sustainability or Corporate Social Responsibility (CSR) Reporting*. In the past decade Japan has demonstrated a substantial increase in the percentage of companies reporting on non-financial information. A large portion of Japan's success has been credited to government guidelines and initiatives.

Regardless of overall reporting figures continuously rising, there are still mixed opinions from businesses and professionals about the effectiveness of the government's role on CSR reporting. Japanese companies are consistently criticized on the same aspects of reporting and significant challenges have been presented. Nonetheless, the recognition of a nation that excels in environmental reporting and accounting exists. Although there are evidently multiple factors influencing reporting, this paper will focus on evaluating the influence the Japanese government has on CSR (primarily environmental and social) reporting and evaluate costs and benefits of mandatory reporting in Japan.

## 1. METHODOLOGY

The study was carried out during Fall 2010 (September - November) while participating in an international exchange with Akita International University (AIU) in Japan. In addition to analyzing information found in secondary sources, primary data was collected through personal interviews and surveys, and reviewing published CSR reports in Japan. The objective was to gather information from

different sources and arrive at a supported conclusion on the influence the Japanese government has on CSR reporting. Findings from the study have been analyzed and presented throughout this paper.

### 1.1 PERSONAL INTERVIEWS

During November 2010, personal interviews and discussions were held with two well-experienced Japanese businessmen. The first was a former executive for *Nippon Keidanren*, Japan's most influential business organization, who currently serves as the Program Director for the Global Business program at AIU. The second individual previously served as the Vice President and a board member of *Hitachi Chemical co., Ltd.* These personal communications provided me with a better understanding of government-business relationships in Japan.

### 1.2 SURVEYS

Thirty-six Japanese companies committed to the GRI G3 reporting guidelines were contacted to fill out a survey about their CSR reporting practices. The survey comprised ten multiple choice and rating scale questions. It experienced a response rate of 16.7% with six companies completing the survey. The purpose was to gather companies' opinions on CSR reporting and influences affecting reporting practices.

With an objective of gathering professional insights and thoughts on current trends, challenges, and possible solutions, a short questionnaire was sent to the *Big Four* audit firms (Deloitte Touche Tohmatsu, Ernst & Young, KPMG and PWC) in Japan. Two professionals representing the firms responded - one was a *Consultant* and the other was a *CSR Professional*.

In both studies, participants were not asked to personally identify themselves or which company they represented. Survey confidentiality was emphasized in hopes of yielding the most honest and accurate responses.

### 1.3 REVIEWING PUBLISHED CSR REPORTS IN JAPAN

A random sample of forty CSR reports published by Japanese companies following the GRI G3 guidelines (as of November 8, 2010) were reviewed to determine the usage of government guidelines and find any relationship between the guidelines used and the contents reported. Each report was searched for keywords and variations of keywords to identify whether or not specific guidelines were referenced or mentioned.

## 2. AN OVERVIEW OF JAPANESE GOVERNMENT-BUSINESS RELATIONSHIPS

Japan has a very unique business environment that most foreigners and many of Japan's own citizens do not understand. During industrialization after World War II, the world witnessed an "economic miracle" as Japan continuously "posted annual growth rates exceeding 10 percent in the 1960s" (Kohama, 2007, p. 1). Since then Japan has transformed from a third-world country to a developed country with one of the world's best economies.

Until the late 1980s Japan's business community gathered a substantial amount of global attention from its government's unusually close relationship with the business community. This relationship where the government and businesses acted as if they are one company was coined "Japan Incorporated" in the mid 1960s by James C. Abegglen (2001). However, due to international efforts and criticism the Government of Japan ended this relationship in the late 1980s. Today, the 1990s is known as the "lost

decade,” as massive legal and corporate governance change took place and economic growth slowed (Blomström & La Croix, 2006, p. 114). Since 2000, Japan has managed to rebuild some of its government-business relationships through economic organizations such as Nippon Keidanren, which is comprised of 1,281 companies, 129 industrial associations, and 47 regional economic organizations (Nippon Keidanren, 2010). Although the relationship is not as close as before, meetings with top executives and government officials are still held to discuss business practices and regulations.

In an interview, the former Vice President of Hitachi explained that without this close relationship the economy would never have seen such growth (G. Sato, Personal Communication, November 17, 2010). It was also clarified that this collaboration naturally resulted in more consensus and the identification of common goals between businesses and the government (H. Ichikawa, Personal Communication, November 11, 2010). For these reasons government initiatives and regulations have been very influential in bringing about change in businesses; although this relationship has been partially dissolved, the business community and the government’s strong history and mutual understanding continues to play a role in Japanese business.

### **3. THE DISCLOSURE OF NON-FINANCIAL INFORMATION BY JAPANESE BUSINESSES**

#### **3.1 A BRIEF HISTORY OF ENVIRONMENTAL REPORTING (1950-1999)**

Japan’s disclosure of non-financial information can be linked back to the mid 1960s to mid 1970s when the country was facing massive protest and international pressures to re-evaluate its environmental policies. Following the *Big Four Pollution Diseases* of Japan in the 1950s to mid 1960s (post-war industrialization) caused by little environmental restrictions and businesses paying no attention to ecological problems, businesses began to be pressed to release environmental information and take responsibility for the negative externalities created by their operations. Originally in a state confronted by corporate denial (Desai, 2002), the gradual advancements towards the availability of environmental data was making progress as Japan experienced tremendous policy reforms.

Although Japan became a leader in comprehensive environmental legislation by the 1970s (Desai, 2002), the nation experienced scepticism and negative attitudes towards releasing non-financial information (Bennett & James, 1999). Coupled with a Japanese government that was reluctant to participate in global affairs addressing environmental problems until the late 1980s, it appeared environmental protection had become less of a priority in Japan. As a result, because the country faced considerable international criticism for its passive role, Japan eventually adopted a refreshed position towards environmentalism and increased its participation as a global player in the 1990s. Though economic growth slowed during the last decade, government and third party environmental initiatives that encouraged transparency and prompted environmental reporting were materializing.

During the 1990s environmental disclosure trends were beginning to emerge, as observed in surveys conducted in 1992 and 1997 by the Valdez Society (founded by the Coalition for Environmentally Responsible Economies) analyzing environmental disclosure in Japan. Despite being a new practice, information could be found in published action plans, annual reports, and in the latter half of the decade, formal environmental reports. With attitudes varying from industry to industry, companies with products closer to the end consumer had more positive attitudes towards reporting. There was also the tendency for the manufacturing industry to publish more environmental reports than the service industry (Bennett & James, 1999). Nearing the late 1990s the electricity generating and utility industry demonstrated great enthusiasm and began publishing annual environmental reports. By the end of the decade, reports demonstrated greater emphasis on quantitative and realistic targets (Ibid). At this point Japanese companies predominately addressed environmental issues but began to report on some basic

social issues (Contreras, 2004). In 1999, thirty-seven and a half percent of Japanese companies listed on the *Global Fortune 250* released Corporate Environmental (predominately) or Health, Safety and Environment (HSE) reports (KPMG, 1999).

### 3.2 CSR REPORTING IN THE PAST DECADE (2000-2010)

After the Japanese government published reporting guidelines and established new regulations in the early 2000s, Japan experienced a large influx in the number of companies reporting on CSR. Companies demonstrated increasingly positive attitudes towards disclosing information as the percentage of the *Top 100* companies in Japan publishing stand-alone CSR reports increased from 72% to 80% to 88% in 2002, 2005, and 2008 respectively (KPMG, 2005; 2008). Moreover, witnessing “99 percent of its [Top] 100 companies reporting on corporate responsibility issues” in 2008, Japan has now become a world leader in CSR reporting (KPMG, 2008, p. 86). As of November 2010 Japan has the highest number of companies in the world registered under and following the *GRI G3 Reporting Guidelines* (GRI, 2010).

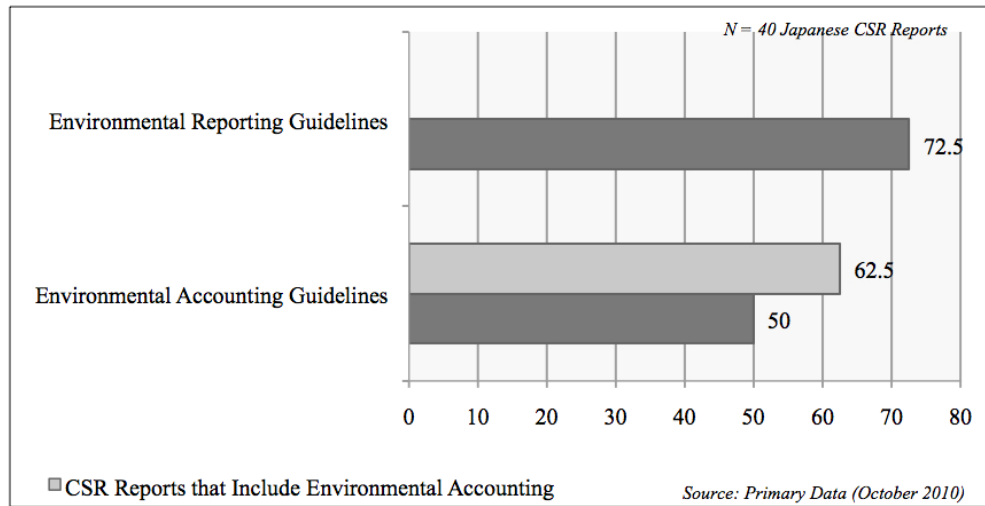
The contents covered by CSR reports in Japan have expanded in the last ten years to include a wider scope of topics on environmental, social, and economic issues. However, as environmental issues forms the core of most CSR departments in Japan (Contreras, 2004), environmental reporting has continued to receive the most attention. Among some of the topics that have been integrated into many CSR reports is supply chain risk, the financial values of corporate responsibility, and social issues such as employee satisfaction. The inclusion of third party comments and assurance has also developed throughout the years, but has recently been criticized by industry professionals. Nonetheless, the aforementioned topics are included in most other developed nations reports. In fact, when compared to Europe and the United States, Japan has struggled to broaden its reports to cover social issues (Kolk, 2005).

## 4. GOVERNMENT REPORTING GUIDELINES AND INITIATIVES

The Ministry of Environment (MOE) has taken on a proactive role in encouraging reporting. Since 2001 it has published and revised documents on environmental performance indicators, reporting, and accounting. It has also set an objective of having 50% of corporations listed on the stock market and 30% of corporations employing 500+ people not listed on the stock market publish environmental reporting (Ministry of Environment, 2004). Many academics and experts agree that the publication of these guidelines have a significant role in stimulating CSR and other related reports. This argument can be supported by an observation found by Ans Kolk (2009) who noticed that there was 22% increase in the number of Japanese Global Fortune 250 companies publishing CSR reports from 1999 to 2002, following the publication of the environmental reporting guidelines in 2001. Although there are other factors influencing reporting in Japan, this section will further demonstrate that the Japanese government is an important one.

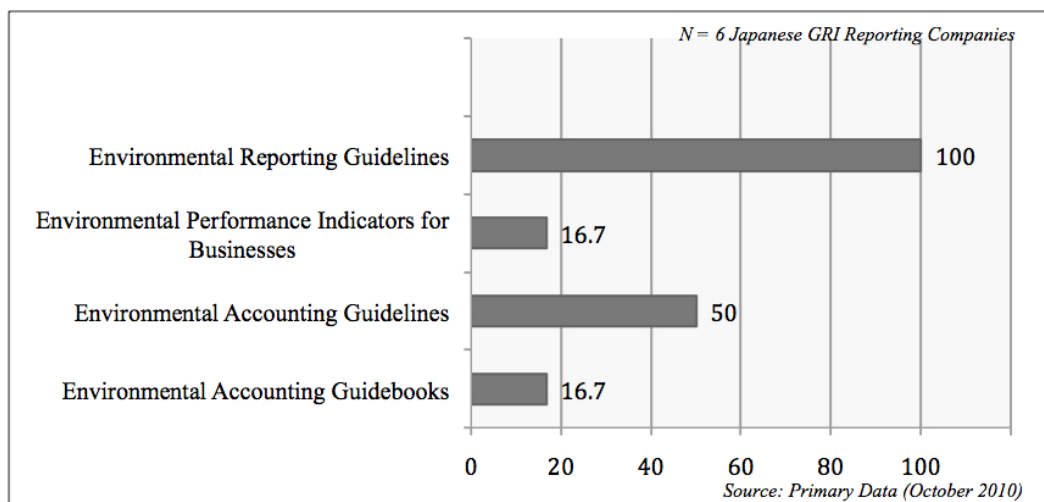
After analyzing the forty CSR reports published by Japanese companies registered under the GRI G3, there appears to be a positive relationship between the use of government guidelines and the preparation of CSR reports. Seventy-two and a half percent of companies explicitly referenced the MOE’s Environmental Reporting Guidelines in their reports (Figure 1). Furthermore, all respondents of the CSR survey sent to Japanese companies acknowledged using or referring to the same guide when writing CSR reports (Figure 2). Based on these results it is evident that the guideline is widely being used across reporting businesses in Japan.

**Figure 1. Government guidelines referenced in CSR reports by GRI reporting companies in Japan. (Percentages)**



Currently among the documents mentioned in Figure 1, the MOE’s Environmental Reporting Guidelines are the most frequently used; however, through further analysis it appears that insufficient guidance pertaining to all TBL sections is provided. Although the environmental reporting guideline is meant to explain “social and economic aspects, or a social and environmental (CSR) [report],” the majority of the fifty-five page guideline focuses on environmental reporting with only four pages dedicated to social reporting. Economic reporting is accounted for in other publications but will not be analyzed throughout this study. This distinct imbalance in coverage can also be observed across many government reporting guidelines. This kind of discrepancy may explain why “environmental reporting and accounting have rapidly taken root in the 21<sup>st</sup> century, but where a real broadening to include social issues is much more in the initial stages” (Kolk, 2005).

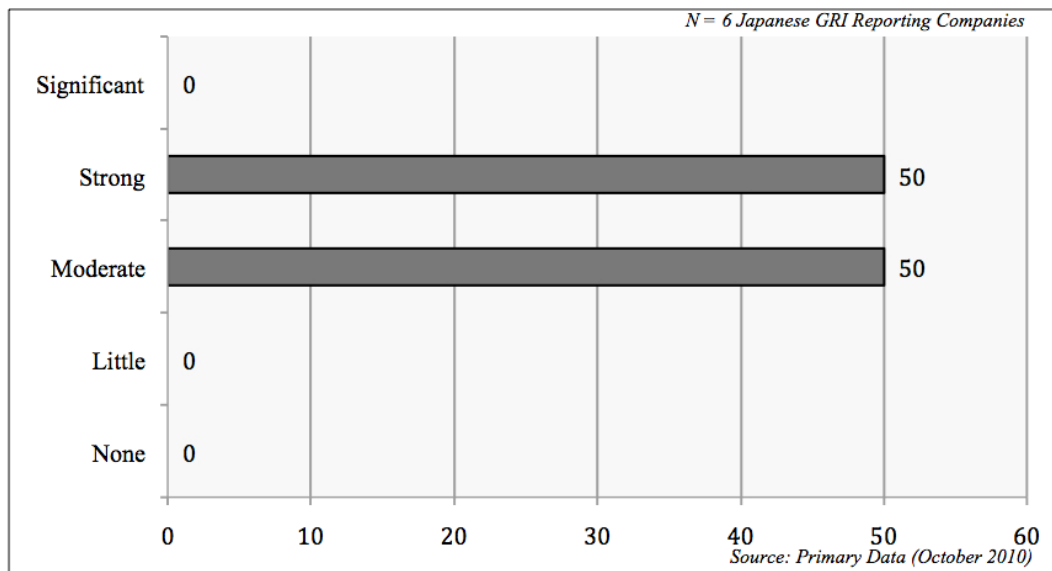
**Figure 2. Survey results for government reporting guidelines and documents used by GRI reporting companies in Japan. (Percentages)**



Although it is difficult to determine the extent to which government guidelines influence the content of CSR reports, the consistency of reporting environmental issues and inconsistency of social reporting in Japan suggests a rather strong one. Furthermore, a consultant in Japan stated in a questionnaire that he believes these guidelines significantly affect the contents of CSR reports in Japan (Consultant, Personal Questionnaire, November 2010). It was also explained that businesses like to make minimal effort and report only on the details specified when the government introduces guidelines and new regulations (H. Ichikawa, Personal Communication, November 11, 2010). For this reason, the introduction of reporting guidelines may have been successful in stimulating the practice of CSR reporting, but may have also heavily influenced the current reporting trends.

Additional results from the CSR survey also suggest that the contents of reports are influenced by government guidelines. All respondents stated that government guidelines have either moderate or strong influence on the contents of their CSR reports (Figure 3).

**Figure 3. Survey results for GRI reporting companies in Japan's responses to the question: Please rate the influence that government documents have on the contents of your companies CSR report. (Percentages)**



Taking into consideration that companies responding to this survey are committed to following the GRI G3 Guidelines, other companies might be more influenced by government documents since they have no prior obligations to which they have to abide.

More specifically, while Kolk (2005, p. 39) noticed that in 2005 "75% of large Japanese multinationals mentioned explicit environmental accounting indicators in their reports, [when] this was just below 30% for their US and European counterparts," I found that a large portion of the sample of forty GRI reporting CSR reports referenced the *Environmental Accounting Guideline* published by the MOE. With a majority of the companies that reported environmental accounting in their CSR reports directly referencing the Environmental Accounting Guideline (Figure 1), it can be inferred that the guideline is one of the major factors influencing environmental accounting.

Overall the Japanese government's proactive approach to CSR reporting has been effective. Although there is room for improvement, the publication of these guidelines can be given a substantial amount of

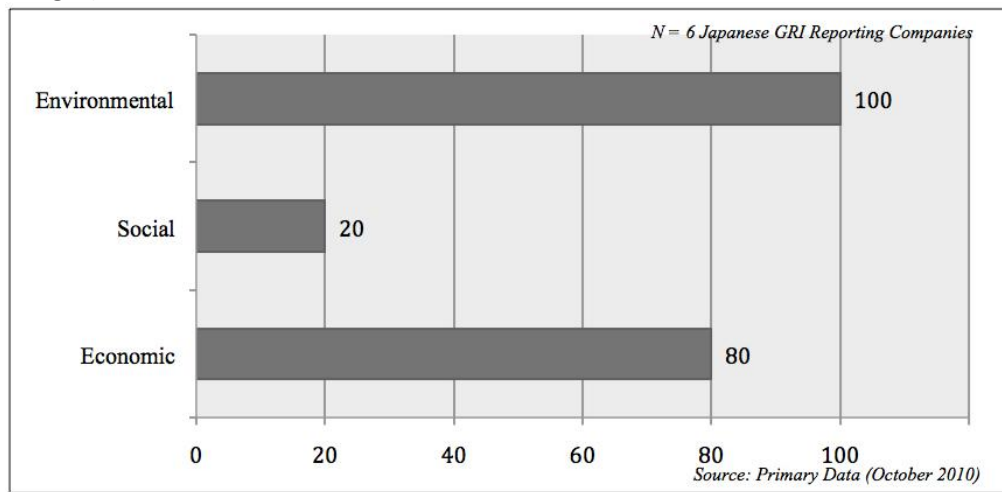
credit in enhancing CSR reporting in Japan. By realizing these areas of improvement, the Government of Japan can greatly strengthen CSR reporting practices.

**5. CURRENT CRITICISMS AND CHALLENGES FACING JAPAN**

During the past decade Japanese companies have consistently been criticized on the same aspects on CSR reporting. Although it is entirely up to individual companies to respond to these problems, they could also be addressed through government initiatives. The most prominent issue is the struggle for the Japanese to broaden the scope of reporting to include more comprehensive social issues. Recently it is observed that companies are responding to this criticism and exerting more effort towards reporting on social issues with the expansion to include community involvement, employee satisfaction and parts of the supply chain but it is still not as widely reported on as other countries (Kolk, 2005). With 100% of survey respondents selecting *social* as their weakest section of reporting, it is clear that this criticism is coming from both in and outside of Japan. Additionally, only 20% of respondents believe that the government provides sufficient guidance in social reporting (Figure 4), so a potential link between guidance provided and quality reporting is emerging.

**Figure 4. Survey results for GRI reporting companies in Japan’s responses to the question: Please select the CSR section to which you believe the Government of Japan provides sufficient guidelines and documents pertaining to reporting.**

(Percentages)



In an interview with the former executive at Nippon Keidanren, I learned that unless top executives and the business community as a whole are enlightened about the reasons of first practicing social sustainability and then reporting on it, the Japanese will continue to be Japanese and not change (H. Ichikawa, Personal Communication, November 11, 2010). For this reason, government guidance may strengthen social reporting among Japanese businesses.

Taking into consideration that companies have the tendency to follow guidelines without further expansions (Ibid), and they have demonstrated a tendency to report well on topics with sufficient guidance, the inclusion of more comprehensive social issues has the potential to tremendously benefit reporting. However, simply adding to the guideline will most likely not suffice. The government of Japan should take on a stakeholder engagement approach just as they expect businesses to do and collaboratively develop a suitable guideline. With this approach, businesses may feel more inclined to expand on a guideline that they helped develop. Such a guide may be easier to achieve in Japan given

the closeness between the government and the business community, though assistance from economic organizations such as Nippon Keidanren will most likely be required.

Another area of criticism that has emerged is verified assurance. KPMG (2008, p. 85) stated in its *International Survey of Corporate Social Reporting* that “external assurance has not yet taken a hold in a significant way” in Japan. If Japan wants to increase the credibility of its CSR reports and “improve stakeholder confidence in the information provided” this is a critical aspect that they need to address (AssureView, 2008, p. 5). Although Japan has already written a document entitled “Assurance standard on the Environmental Report (Draft)” to be used as a standard for CSR reports (JICPA, 2010), it is only in the development stages. The Japanese Institute of Certified Public Accountants (JICPA) currently offers assurance services for CSR reports; however, because there is no legal requirement related to comprehensive CSR disclosure, most companies utilize third-party comments instead (Ibid).

Third-party comments is a questionable practice that deserves more attention because they are not benchmarked on any standards and there is the possibility that individuals providing comments are still within arms’ length of a company. In this situation, a requirement to have non-financial reports assured in a manner similar to financial reporting can significantly increase the credibility of CSR reports. To face this challenge, top executives need to recognize the importance of verified assurance and be given incentives to take on an additional expense. In the questionnaire the consultant stated that Japan needs to obtain a better understanding of assurance and discuss the ambiguities of CSR reporting before establishing reporting requirements.

Lastly, volume of reporting has been an emerging challenge during the past decade as environmental reporting has shifted to CSR reporting. For example, Mitsubishi Corporation’s reports changed from a 21-page *Environmental Report* in 1999 to a 60-page *Sustainability Report* in 2005. Although much of the expansion is due to reporting on a broader topic, industry professionals believe companies need to focus on downsizing reports (questionnaire responses). In the last few years companies have tried to address this, as Mitsubishi Corporation’s *2010 Sustainability Report* is now 36-pages, but the question of what to report still exists. Without detracting from the idea of disclosing non-financial information, companies need to ensure information provided is significant and relevant to their stakeholders. For this reason, it appears a suitable solution would be for the government to develop general guidelines covering the commonalities across all businesses and encourage companies to further expand on areas to address its stakeholders’ needs, similar to financial reporting where there are standard statements and additional notes are provided to explain relevant information. Companies are ultimately the best judges for what information is useful for their stakeholders.

## 6. MANDATORY REPORTING IN JAPAN

The establishment of a CSR reporting standard takes years to be fully integrated into any nation’s system. Every nation has unique characteristics governing its business norms, for which universal criteria cannot accommodate. Although many professionals argue that a global standard is ideal, it makes sense for countries to develop their own national standards. For these reasons, a variety of CSR practices exist around the world. Denmark and Sweden are two examples of countries that currently have mandatory CSR reporting laws. Japan has yet to establish such comprehensive requirements, but it has taken a significant step by requiring specified businesses to publish environmental reports.

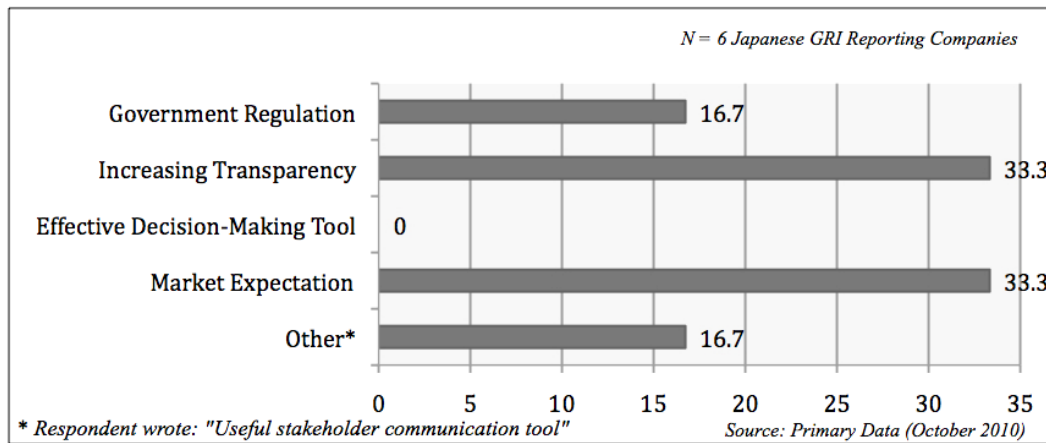
Currently Japan is at a stage where costs have emerged and benefits have developed from the role the Japanese government has chosen to take. Though there are many factors influencing reporting such as national crises, and the globalization of reporting, this section will address costs and benefits associated

with mandatory environmental reporting in Japan and explore potential pros and cons of adopting a comprehensive CSR reporting requirement.

### 6.1 MANDATORY ENVIRONMENTAL REPORTING

Upon establishing a mandatory environmental reporting law in 2004<sup>1</sup>, the percentage of Japan’s Top 100 companies that released CSR reports increased from 80% to 88% from 2005 to 2008 (KPMG, 2008). Though it is difficult to determine whether or not this was a result of the new law or the continuation of an upward trend observed before 2005, survey responses demonstrate that there are some Japanese companies whose primary reason for reporting is government regulation. With 16.7% of the respondents selecting government regulation as their primary reason for reporting (Figure 5), it can be inferred that this law has increased environmental reporting numbers in Japan. However, because the requirement was introduced when a large percentage of companies were already reporting, Japan may not have experienced as much of a change as countries where reporting is less common.

**Figure 5. Survey results for GRI reporting companies in Japan’s responses to the question: What is your primary reason for reporting on CSR? (Percentages)**



Another inherent benefit is the restructuring of companies to integrate CSR into company strategies by developing CSR departments. With an obligation to ensure proper environmental reporting, Japan experienced a large influx in the number of CSR departments in 2004 (Mullerat & Brennan, 2005). Mandatory reporting may not have been the primary reason creating these departments, but it has greatly affected how these departments and companies operate. The legal requirement forces specified companies not already reporting to increase their focus on environmental sustainability. As a result, new systems such as environmental accounting have evolved to meet criteria. Today environmental accounting is the practice that sets Japan apart in the realm of sustainability reporting. Although companies incur more costs, the potential to bring inefficiencies and areas of concern to management’s attention can result in long-run cost savings.

Japan’s business community has also benefited from the growth of socially responsible investing (SRI) opportunities. Since most companies required to report are listed on the Tokyo stock exchange, investors looking to practice SRI can find necessary information in published environmental or CSR reports. Furthermore, financial service companies benefit because they can analyze reports to compile SRI portfolios. Since 2005 Sampo Japan has offered a *SRI Open Fund* which had a net asset value of ¥1.12

<sup>1</sup> Law No. 77 of 2004 requires specified Corporations, in accordance with the Ministerial ordinance, must prepare and publish an environmental report each business or financial year (Article 9, Section 2).

billion in 2009 (Sompo Japan, 2010). This appears to be a win-win situation, stimulating a new field of business, providing companies with new opportunities for funding, allowing investors to support socially responsible companies.

However, in an interview, H. Ichikawa explained that SRI is not yet a dominant practice in Japan and has only gained popularity in the past decade. In order for SRI to become prominent in Japan, companies need to demonstrate that they are thinking about all aspects of the triple bottom line. SRI investors are more willing to invest in companies reporting on the environment and society because they associate this with long-term stability, therefore sustainable income (Personal Communication, November 11, 2010). The recognition of SRI opportunities is also mentioned in the MOE's Environmental Reporting Guidelines with the statement:

*It is expected that environmental reporting will play a significant role as information media for labor market and capital market such as stock market, while eco-labelling plays an important role in the market of goods and services. This is gradually becoming the reality as SRI, such as the eco-fund in Japan, is rapidly becoming popular (Page 9, Paragraph 4).*

Considering this statement, it is evident that the Japanese government is aware of the benefits environmental reporting can bring in the area of SRI.

When Japan decided to make environmental reporting mandatory, it created an imbalance in the topics covered under CSR. While this law may have stimulated better environmental reporting and practices, it has detracted necessary attention from other issues such as social reporting. As I mentioned earlier, Japan currently faces criticisms for a lack of social reporting. Japanese companies are encouraged to expand beyond the required guidelines but many experts believe that when given a set of key performance indicators, companies simply "check the boxes rather than thinking through which issues their stakeholders care about most" (BSR, 2010). A failure to sufficiently report on social issues has the potential to affect companies' images and therefore performance. This is particularly important in Japan where citizens are known to pay close attention to CSR activities and base purchasing decisions on companies' actions (Murakami, 2009). However, the Japanese also think about the environment, thus this increase in environmental reporting does serve a purpose in maintaining an *eco-friendly* company image and tailoring to a specific set of stakeholders. Ideally, companies should address both topics.

As with all new laws and regulations, there are both direct and indirect costs associated with compliance. Companies must use more resources to collect required data and compile information in accordance with government regulations. This process can be very strenuous and often requires continuous monitoring. Thus the aforementioned benefit of an increased CSR focus with the development of new departments is evidently a cost that companies may not have incurred before being required to report. There also exists the contemplation of whether or not the new process (regulation) is best for the overall business. A state-owned business in Sweden stated the following in a questionnaire reviewing the nation's new mandatory CSR reporting law:

*The sustainability reporting requirement has hindered rather than encouraged efficient activities [...] sustainability reports take too much time that could be devoted to more remedial activities instead (Borglund, 2010, 17).*

While this is a very reasonable argument, the costs associated with not reporting can also greatly affect companies' overall performance (as mentioned above). A key aspect of reporting is that the short-term costs associated with compliance usually result in long-term benefits and cost savings.

## 6.2 MANDATORY CSR REPORTING

Two years after requiring specified corporations to publish environmental reports, Japan demonstrated signs of expanding the law to encompass the entirety of CSR. JICPA prepared a proposal concerning non-financial CSR disclosure in 2006 and further explored the challenge of CSR assurance in a research study conducted with the MOE in 2007 (JICPA, 2010). Both of these documents provided detailed outlines of possible CSR reporting topics and criteria for verified assurance. This section will discuss the pros and cons of making CSR reporting mandatory in Japan and summarize effective reporting practices that can be utilized in Japan.

Denmark and Sweden are two countries that have effectively implemented comprehensive CSR reporting requirements. Demonstrating positive responses from businesses, similar regulations in Japan may help address many of the previously mentioned challenges and criticisms. First it would address the current challenge of reporting on social issues. While it is not ideal to force companies to report this may be a necessary step to encourage other companies to broaden their areas of reporting. Companies tend to follow industry trends, thus if a select group of companies are required to report, a bandwagon effect might occur. Moreover, with new legal leverage, company departments can prod top management to report a more holistic view on CSR and further integrate it into business operations (Borglund, 2010,). While many argue that new reporting requirements are costly for companies not experienced in CSR, Japan may be able to avoid some of this transition costs since CSR has already emerged as a dominant concept in most organization. In fact, Japan's CSR challenge is rather unique. Though companies struggle to formally report on the social issues in conventional ways (Davies, 2000), corporate citizenship, employee well-being, and philanthropy are well recognized and practiced by businesses in Japan (Ibid, 111).

Readily available information in the form of CSR reports can also better educate consumers, investors, employees, and other stakeholders. This can lead to better reputations, the stimulation of SRI, and a better understanding of corporate thought by employees. Many of these are noticeable effects mentioned in the mandatory environmental reporting section. However, a distinct advantage is the likelihood that companies develop better internal cohesion as they work together to discuss CSR practices for the company as a whole; this is something that was noticed by a business in Denmark (Danish Commerce & Companies Agencies, 2010).

Evidently additional costs include the use of company resources to prepare the report. During the pilot year companies can be expected to spend seven to eight times more effort on preparing the report and becoming familiar with the regulation than normal (Danish Commerce & Companies Agencies, 2010, p. 19). However, the costs associated with meeting reporting requirements will decrease in the following years as companies develop a solid base and approach to meeting requirements. Other short-term costs such as assurance, if used, and consultation fees will be outweighed by long-term benefits such as increased confidence from stakeholders and the development of more credible reports.

Costs and challenges will also emerge for the Government of Japan. The first challenge for the government is to develop suitable criteria to which reporting is evaluated. This process would include research into other reporting criteria, holding discussions with relevant entities, and introducing the criteria to companies being affected. Closely tied to this criterion is also the development of an assurance system. Although Japan has demonstrated that they do not see assurance as a necessary tool (KPMG, 2008), it is a necessary characteristic that needs to be utilized if CSR reporting is made mandatory. Without verified assurance there is no way the government can know if companies are reporting truthful information. Moreover, there is the possible occurrence of:

*a phenomenon known as de-coupling which means that the organization, consciously or unconsciously, builds up an outer façade that reflects the way the organization wishes to be perceived but not the way it actually does things (Borglund, 2010, 11).*

In other words, there is a risk that reports do not reflect the whole truth. As a result the connection between mandatory reporting and required assurance appear to complement and are necessary tools that should be utilized together.

## 7. HOW TO IMPLEMENT MANDATORY CSR REPORTING

Survey responses have yielded mixed opinions towards mandatory CSR reporting in Japan and the manner in which it should be conducted. When asked, “to what extent do you support the idea of making CSR reporting mandatory in Japan?” Our participating CSR professional selected “strongly do NOT support” whereas the consultant selected “strongly support.” Disregarding these differences in opinions, there are a few characteristics that experts in the field agree that mandatory reporting should exhibit. A list of recommended characteristics compiled from personal observations when reviewing questionnaire responses, other reporting requirements, and analyzing Japan’s current CSR reporting situation is presented in Figure 6.

**Figure 6. Characteristics that should be exhibited if Japan chooses to implement a mandatory CSR reporting regulation (Source: Borglund, 2010; Danish Commerce & Companies Agencies, 2010)**

Consider company size	Only companies with enough resources should be required to report. This usually means larger and more influential businesses. This may be particularly effective in Japan where companies tend to follow other companies in the industry.
Be flexible in formats	Flexibility allows companies to tailor reports to desired stakeholders. It also allows for personalization leading to an increased sense of ownership. If a standardized criterion is used, such as the GRI G3, allowing companies to tailor performance indicators to their companies increases the possibility for providing stakeholders with relevant information.
Negotiate requirements	Working together with participating companies can greatly improve the likelihood of the acceptance of a new regulation. Increased familiarity with the criteria may also lead to better reporting and less time spent.
Require external assurance	Assurance significantly increases the credibility of reports. This will result in more confidence from stakeholders and can also help improve reporting practices as professional review the report.
Integrate revised guidelines with examples	Including examples of reporting techniques in guidelines can significantly improve the quality of CSR reports.
Conduct a follow-up study	Important information can be discovered in the form of surveys and interviews. This data can be used to make regulations for effective.

## CONCLUSION

In the past decade there has been a noticeable shift from environmental reporting to comprehensive CSR reporting in Japan. Much of this success is credited to the Government of Japan with the publication

of various reporting guidelines. However, while the government's emphasis on environmental issues has caused Japan to excel in environmental reporting and accounting, its lack of guidance in social reporting has resulted with a struggle to broaden reporting to include social issues. A variety of studies demonstrated that these government guidelines have a strong influence on the contents of CSR reports in Japan.

In order to address current challenges, top management needs to be enlightened on the benefits of reporting social issues and including external assurance in their reports. If current criticisms are addressed, stakeholder confidence will increase, inter-departmental cohesion will be built, and identification of company inefficiencies may emerge. Although there are also short-term costs associated with CSR reporting, the long-term benefits a company can experience greatly outweigh them. Mandatory CSR reporting is a possible method to bring out change but specific considerations need to be made if this path is chosen. Before establishing any regulations, the issue of materiality needs to be addressed and further studies on CSR assurance need to be conducted. Ideally the government should take on a proactive approach and discuss the criteria with participating parties such as assurance providers, and economic organizations representing the business community. In conclusion, because government guidelines and initiatives have a strong influence on reporting in Japan, it is evident that the Government of Japan should maintain an active role in shaping the future of reporting; however further deliberation and research needs to be conducted in the areas of assurance and materiality.

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