

# The Gap between Japanese Multinational Enterprises and Global Reporting Initiative based on their Corporate Social Responsibility Reports

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**ABSTRACT:** It is explored how Japanese manufacturing multinational enterprises (MNEs) comply with Global Reporting Initiative (GRI) guideline and publish Corporate Social Responsibility (CSR) reports in this article. It is analyzed that the CSR reports of ten Japanese MNEs that follow the guideline, the global guideline for preparing CSR reports, and identified the common features and trends among these reports. From the results, I discussed the reasons behind the observed trends and provided future recommendations for the Japanese MNEs. This article contributes to the emerging literature focusing on MNEs' decisions to comply with global CSR standards and guidelines.

Key words: Management of global Corporate Social Responsibility, GRI guideline, global standard, compliance

## 1. INTRODUCTION

Recently, the scope of activities of multinational enterprises (MNEs) has expanded, thereby complicating their operational and supply chain activities globally. As a result, Corporate Social Responsibility (CSR) activities have also become important globally. In the early 1990s, some MNEs, for example, Nike was criticized for their global activities related to labor and human rights in developing countries<sup>1</sup>. It faced severe criticism globally and its brand image suffered in developed countries (Vogel, 2005)<sup>2</sup>. This case triggered the global discussion on CSR in MNEs.

Stewart (1996) raised the following question about these problems: “Does the firm be reproached and should the firm be held responsible for the factories' environment, labor, and society when

their activities had met host countries regulations and law?”<sup>3</sup>

MNEs, including Japanese MNEs, are prone to experiencing such serious problems. Most MNEs are based in developed countries, which follow rigid environmental and safety regulations. Therefore, they are bound to face fewer problems if they just adhere to the specified guidelines in these countries. However, all countries do not have specific regulations and the concept of CSR varies greatly depending on the country under question. One of the greatest advantages that MNEs enjoy is the ability to utilize the differences among regulations, social systems, and cultures in different countries; however, it also often results in accidents, particularly in the management of global CSR activities.

Not only have the regulations bound firms' activities. They cannot operate solely according to their own discretion even in the host countries that

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do not enforce rigid regulations. One of the reasons for this is because many international NGOs (Non-Governmental Organization) and public organizations monitor the global activities of firms, and the stakeholders in home countries react sensitively in case any issues arise.

Therefore, firms are going to comply with global standards on CSR as one of the way of react for them and their stakeholders. Currently, there are many global standards and guidelines on CSR. To our surprise, even though CSR is an important agenda for MNEs, some of the global CSR standards and guidelines are developed by people who are a not part of MNEs. Some stakeholders and citizens formulated global standards or guidelines to express their expectations to firms. Hence, because of the request from the society and the need to take a decision regarding global CSR, many MNEs have now started complying with the global standards and guidelines. Japanese MNEs are also in the same situation without exception.

Therefore, the objective of this study is to explore the effectiveness of the global CSR guidelines by focusing on Japanese manufacturing MNEs and their use of CSR reports, prepared as per GRI guidelines, which are used among firms globally. The results obtained from the study of CSR reports will help shed light on some problems regarding these issues.

## 2. LITERATURE REVIEW

Stewart suggests three ways of decision making as an answer to the management of business ethics' decision issue in the question above.

First, a firm is only responsible for complying with the established standards in the host country. Second, a firm is only responsible for complying

with the standards established in the home country. Third, the standard in between those established in the host country and the home country, is the objective standard that extends beyond specific countries cultures<sup>4</sup>.

According to the first thought, the firms need to comply with the standards established in the host country. This also suggests that since the regulations and customs are different across countries, the MNEs should adopt the host countries' standards to make decisions on ethics. However, this would also mean that even if a particular country has lower standards or lacks sufficient social infrastructure as compared to the home country, those standards will be applicable for firms operating in host countries (for example, even if the use of a drug that are not permitted in home countries, the medical firms can deal in the host countries that have loose safety standards). This is the reason that occasionally events like those faced by Nike occur. Undoubtedly, if MNEs would not comply with local standards, it would be difficult to manage operations in the host countries. Hence, MNEs also need to follow the third standard.

This antagonism and contradiction actually appeared in the global CSR standards and the implementation of CSR. Fortanier, Kolk, and Pinkse (2011) noted, "many studies on CSR and environmental and sustainability reporting find remarkably strong 'country-of-origin effect', which reflects how the debate on corporate accountability has had divergent ramifications in different countries, in line with the specific domestic constellation of legislative and social concern. The global standards, however, create an international institutional context as well, in addition to the domestic ones."<sup>5</sup>

Furthermore, global standard also presents a contradiction in itself. Post J.E. (2002) noted that “an agreement among people who are in different society isn’t prevented from culture difference” and he exemplified the Charter of Fundamental Rights of EU<sup>6</sup>. In a limited area like EU, cultural differences may not act as a deterrent for firms to enter into an agreement. In fact, GRI is headquartered in Amsterdam, Netherland and its roots lie within the US non-profit organization, the Coalition for Environmentally Responsible Economies (Ceres). Some standards and guidelines have originated in Japan; however, these have not spread globally. Fukukawa and Teramoto (2009) noted, “... nevertheless, despite CSR’s apparent all-pervasiveness, the underlying definition and development of the concept has arguably been based upon a predominantly Western-led discourse.”<sup>7</sup> Thus, nationalistic influence cannot be eliminated even from the global standards.

Therefore, to abide by global standards, Japanese MNEs have to adopt Western-led standards and guidelines because most of these standards were developed in advanced Western countries. This raises the following questions: How can Japanese MNEs follow and act on the CSR standards and guidelines that were developed in the context of Western countries?

However, the emerging literature lacks information on the CSR of Japanese MNEs, particularly on CSR reporting. The CSR reporting of some firms in the Fortune’s Global 500 list, including a few Japanese MNEs, have been analyzed<sup>8</sup>. Two Japanese MNEs were also studied as a part of the analysis of the sporting industry that triggered the discussion on international CSR<sup>9</sup>.

In particular, Japanese firms present some interesting facts on CSR reporting. Currently, both

Japan and the UK report near-unanimous adherence of CSR reports; although reports published by Japan report an adherence of 99 percent (compared to 93 percent in 2008), those published by firms in the UK report an adherence of 100 percent (compared to 91 percent in 2008)<sup>10</sup>. Besides CSR being an important responsibility of the management, they are also cast with the responsibility of publishing CSR reports. Most of the Japanese MNEs prepare CSR reports annually without any rigid regulations.

Even though there are several studies on GRI guidelines, very few have analyzed the effectiveness of these guidelines on the basis of the actual CSR reports of firms<sup>11</sup>.

In order to shed light on these issues, this article explores how Japanese MNEs use GRI guidelines in their CSR reports.

### 3. METHODOLOGICAL APPROACH

A total of 68 Japanese MNEs belong to the Fortune’s Global 500 list in Fortune 2012.

This research targets automobile and electric industry. Because the manufacturing MNEs have a more powerful influence on the society.

The automobile firms that were considered include Toyota Motor, Nissan Motor, Honda Motor, Suzuki Motor, Mazda Motor, and Mitsubishi Motors. All the MNEs mentioned in this research published a CSR report for the year 2012.

Nissan, Honda, Suzuki, and Mazda follow the GRI guideline in their CSR reports, whereas Toyota and Mitsubishi do not. Although the CSR reports of Honda and Suzuki are said to conform to GRI guidelines, the chart of GRI indicators does not represent the same to the general public. Therefore, the charts of the two firms, Nissan and Mazda, can

be studied to analyze how Japanese MNEs use Western-led CSR guidelines in the automobile industry.

The electric firms that were considered include Hitachi, Panasonic, Sony, Toshiba, Fujitsu, Mitsubishi Electric, NEC, and Sharp. All the firms publish the reports and charts to general public.

The tables are in the form of a checklist. If the firm mentions an indicator in its report, it checks the blank or enters the page number on the side of the specified indicator in the chart (Refer to Tables 1–6). The tables show the each fields' indicators under six of all firms mentioned.

#### 4. RESULTS

The indicators section of the GRI guidelines is organized into two parts. The first part refers to the firms' profile, element of reporting, and governance. The second part is related to the management approach and performance, which includes many indicators of economic, environment, society, labor practice and decent work, human right, society, and product responsibility.

Most of the indicators in the first part of the GRI guidelines were mentioned accurately by the firms from both the industries under study. However, the second part of the CSR reports presents some remarkable features. A trend was observed in case of indicators that were not mentioned by the firms, depending on the field of CSR.

I observed that some of these indicators were not considered by at least one or all the firms. There could be two possible explanations for this observation. One reason could be that the firm has nothing to report on the specified indicators. The other reason for leaving an indicator blank could be that the firms did not want to report anything

related to the indicator. These two reasons for the “not mentioned” indicators are further examined in the discussion below.

Table 1

The number of the indicators mentioned by the firms: Economics

Indicators' number	the number of the mentioned firms
EC3	3
EC4	0
EC5	1
EC7	3
EC9	3

Table 2

The number of the indicators mentioned by the firms: Environment

Indicators' number	the number of the mentioned firms
EN9	2
EN11	3
EN15	1
EN23	5
EN24	0
EN25	1

Table 3

The number of the indicators mentioned by the firms: Labor Practice and Decent Work

Indicators' number	the number of the mentioned firms
LA2	2
LA3	1
LA4	5
LA5	1
LA6	3
LA9	4
LA10	4
LA12	5
LA13	6

Table 4  
The number of the indicators mentioned by the firms: Human Rights

Indicators' number	the number of the mentioned firms
HR1	1
HR2	6
HR3	6
HR4	0
HR5	5
HR8	1
HR9	0

Table 5  
The number of the indicators mentioned by the firms: Society

Indicators' number	the number of the mentioned firms
SO1	6
SO2	6
SO4	4
SO5	4
SO6	0
SO7	1
SO8	2

Table 6  
The number of the indicators mentioned by the firms: Product Responsibility

Indicators' number	the number of the mentioned firms
PR2	6
PR3	5
PR4	2
PR7	2
PR8	0
PR9	1

All from CSR report of each firm

The results elucidate some striking features and trends. The Economic field (Table 1) includes nine indicators, of which five indicators, which are related to benefits and local hiring, are not mentioned by the firms. The Environment field

(Table 2) includes 30 indicators and six indicators from the list are not mentioned. However, most of the indicators that were missed are additional indicators and there is a possibility that firms did not fall under these indicator categories. There are 14 indicators listed in the Labor Practice and Decent Work field (Table 3), of which nine indicators, which are related to employees, their benefits, and trade unions, are not mentioned by the firms. Further, the firms did not report seven out of nine indicators in the Human Rights (Table 4) field including the four core indicators. Similarly, seven indicators, including the four core indicators, were consistently missed in the Society (Table 5) field. Although there is a possibility that the firms may not have to follow the indicators SO 4, 7, and 8 in the Table 5 like the additional indicators in the EN field, firms must definitely have information on SO 1, 2, 5, and 6 indicators. The Product Responsibility field (Table 6) has nine indicators, of which six indicators are not mentioned. Thus, the proportion of indicators that are not mentioned exceed the proportion of those that are mentioned. However, at this stage, I cannot confirm whether the trends observed are a result of non-compliance by the firms in reporting the required indicators or that of genuinely not reporting the inapplicable indicators.

## 5. DISCUSSION

The results highlight several features of CSR reporting in Japanese MNEs. The first feature is that most indicators mentioned by the Japanese manufacturing firms are related to the environment.

There are three reasons for this observation. The first reason is that both the manufacturing industries have common keywords, sustainable or environmental, and are involved in similar activities.

The second reason is the regulations and agreements. The Japanese firms have adopted the Western environment standards in order to be achieved in these countries' market; e.g. California is famous for rigid environmental regulations. The third reason is that most Japanese firms had been publishing environmental reports even before they started publishing CSR reports.

The second feature observed from the review of CSR reports is that it is clear that firms do not tend to report indicators related to "human" factors like employees, trade unions, and their benefits and wages, as indicated in EC, LA, and HR fields.

Many other features were observed in not only the "human" field of CSR reports but in the human management, depending on the country. Therefore, not all "not mentioned" indicators are because of non-compliance. The firms need to cover the country of origin factor in this case and provide appropriate reasons for not mentioning the indicator.

On the other hand, nevertheless not all missing indicators are related to cultural differences, in most cases, especially in the field related to "Labor", firms follow the indicators only partially and use only those indicators that they want to report.

Although Morhardt, Baird et al.(2002) and Moneva, Archel et al. (2006) evaluated GRI guideline the first or second version, various industries and companies, differing from this paper using GRI guideline the third version, there was already the gap between companies and GRI and stakeholders in the first version of it. They suggest that there is considerable room for improvement both in environmental and sustainability reporting<sup>12</sup>. After the first version were published, GRI guideline have been revised and enlarged. However the sustainability reporting with the guidelines still

has gap between companies and GRI at least within the Japanese manufacturing companies.

CSR guidelines are not as concrete as laws and regulations and are partially influenced by stakeholders' thoughts, culture, and positions. Although Japanese MNEs need not comply with all the GRI indicators, they have to rethink "the blank of indicator" on the CSR report for their own development and the society's development from the global perspective.

Why do these trends appear? The major reason is that the amount of financial profit is not clear for most MNEs in the discussed fields.

GRI guideline was born from Ceres and UNEP (United Nations Environmental Programme). Ceres mobilizes a powerful network of investors, companies and public interest group to accelerate and expand the adoption of sustainable business practice and provides solutions to build a healthy global economy. In addition to working with investors in the Ceres Coalition, Ceres directs the Investor Network on Climate Risk (INCR), a network of 100 leading investors collectively managing more than \$10 trillion in assets<sup>13</sup>. Of course, it is even a part of Ceres network including some problem, but the motivation is very clear for each other.

Compared to the western countries, there are very few pressure groups in Japan. One such initiative is Social Responsibility Investment (SRI). Ceres' wide network plays this role with GRI guideline. Although many Japanese firms use the guideline, no Japanese companies are listed in Ceres' company network members. Ceres are active in mainly United States. The country is important market for the Japanese firms.

In short, the only GRI guideline, which is a part of investment network, has been imported to Japan.



GRI guideline doesn't be worked well alone and it should be a part of the framework.

Willis (2003) note that GRI sustainability reporting will increasingly become sources of information used for screening in SRI decision making. However at least those large Japanese manufacturing companies' reporting will not be good source for SRI decision making<sup>14</sup>.

Furthermore, the environment surrounding Japanese firms have been changing. Because, some organizations have discussed to create these cycles globally. For example, GRI, UN (United Nations) and ISO (International organization for Standardization) have discussed their principles and indicators to integrate to have interchangeability<sup>15</sup>. Moreover the Prince's Accounting for Sustainability Project and GRI announced the formation of the IIRC (International Integrated Reporting Committee) in August, 2010. The IIRC announced that they published version 1.0 of the International <IR>Framework in December 2013. Over 85 companies from around globe have joined the IIRC Pilot Programme Business Network since it was launched in October 2011<sup>16</sup>.

These global organizations often cooperate regarding MNE's sustainability issue. Although it is without mandatory, it has surrounded the activities of global MNEs globally. Because of integration to a global large interchangeable indicator, it'll become a large pressure for MNEs. Therefore, many companies react sensitively and join to these networks to make the guideline or standard with various stakeholders.

Japanese MNEs often criticize some of global principles and indicators are Western-led. It is partially certain that we can see the trend also like GRI guideline; not all parts are Western-led as noted above. They have chance to join the networks

to state their view. However, they tend not to join in the global network. Large global framework has embodied like IIRC actually, Japanese MNEs may leave all alone in the CSR field.

## **6. CONCLUSION AND DIRECTION FOR FUTURE RESEARCH**

This study elucidates the trends and features of the CSR guidelines by studying the adherence of CSR reports with GRI guidelines by Japanese manufacturing MNEs. This research could not only validate the trends of Japanese manufacturing MNEs' sustainable reporting with GRI guideline that called Western-led but discuss its reason.

Although the firms state they use the guideline to report their CSR, they use only the indicators they want to report. Even the global standards cannot eliminate the effect of the culture. However most of the indicators in GRI guideline they did not note are not related effect of the culture.

Some organizations which provide standard or guideline have constructed the network to integrate their indicators and principles interchangeability. Large global network including firms, NGOs and investors have embodied like IIRC. There are needs for Japanese firms to join in it and rethink what to inform in the CSR report for their stakeholders in foreign countries. It is significance of the way of use GRI guideline version 4 published May 22<sup>nd</sup> 2013.

Further research regarding these issues could examine the framework including GRI guideline. Hess (2008) suggest GRI sees its purpose as generally consistent with the sustainable development goals he set out for New Governance regulation and the guideline may be effective if it is in a cycle dialogue with stakeholders, sustainable

development and disclosure of companies performance<sup>17</sup>.

In the future, I need to conduct a study of some of theoretical argument regarding these framework including MNEs and GRI. Furthermore I also need to conduct a comparative study to analyze the compliance of global guidelines and publication of CSR reports by the MNEs in the electric and automobile industries in other countries. The results obtained would further clarify the decision-making tools for CSR and provide solutions on the compliance issues.

#### NOTE

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