Reputation Management in Japan

Evidence from Global B to B companies

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Abstract

The theory and practice of reputation management have attracted significant attention from researchers and practitioners. However, few research studies have been conducted in the Japanese context. Today's Japanese companies face dramatic changes and difficulties because of business developments in emerging countries. After the world's economic bubble burst, Japanese companies unwound cross-shareholdings, which resulted in diversifying their shareholders. Japanese companies that operate their businesses globally must consider this diversification of shareholders and must become more engaged with stakeholders in order to manage their reputations. This study explores how Japanese companies view reputation management by examining how they see their stakeholders, corporate reputations, and corporate communications. To identify these research questions, in-depth interviews were conducted in Japan.

The results of the present study's data analysis suggest a strong influence of globalization on reputation management in Japanese companies. First, Japanese companies have come to realize the need to build their organizational identity along with globalization. Recently, Japanese companies have increased their focus on communicating with their inner stakeholders. In addition to domestic stakeholders, they have increased efforts to communicate with their employees globally to share key messages regarding the organization's identity. Second, they have tried to integrate corporate communications between the countries in which they operate. Third, they place importance on investors. They have started to develop investor relations actively and globally. In sum, Japanese companies have started to realize that global reputation management is an important tool for competitive advantage.

Introduction

Japanese companies have changed their business models since the world's economic bubble burst in the 1990s, resulting in shifts in ownership structure, a shrinking domestic market, higher taxes, poor exchange rates, and deregulation. In addition, the Japanese earthquake of March 2011 severely damaged the country's northern region, and companies

have had to address electricity shortages and nuclear fallout. Japanese companies have had to consider globalization more seriously than before in order to survive and compete. Consequently, companies formerly based only in Japan have started to shift their operations overseas, especially to emerging countries, and to increase their mergers and acquisitions (M&As) worldwide to elevate their presence in the global market.

Traditionally, Japanese companies have thought of their employees, not shareholders, as the most important stakeholders. In contrast, the United States (U.S.) views the shareholders, the investors, as the most important stakeholders. In the U.S., shareholders are actively involved in companies; they express their opinions to boards of directors and exert other types of influence on company operations. In Japan, shareholders have traditionally been passive, so Japanese companies operated their businesses without pressure from external shareholders.

However, after the economic upheaval, the ownership structure of Japanese companies gradually changed as many Japanese companies or their main banks called off cross-shareholdings (Aoki, Jackson, & Miyajima, 2007), and the companies replaced the cross-held shares with new shareholders. A Tokyo Stock Exchange survey (DATE) revealed that in 1990, about 30 percent of Japanese companies' stocks were held by other Japanese companies, but this percentage fell to about 20 percent in 2009. On the other hand, in 1990, foreign shareholders held about 5 percent of Japanese company stocks, and this percentage increased to 30 percent in 2009 (Tokyo Stock Exchange Fact Book, 2011). In this way, Japanese ownership has gradually become more diversified (Aoki et al., 2007). As a result, investor relations (IR) has become an important part of corporate communications in Japan. In addition to changes in ownership structure, the holding company system was reintroduced when the Act on the Prohibition of the Private Monopolization and Maintenance of Fair Trade, in effect since World War II for reasons of anti-trust, was deregulated. This deregulation also increased Japanese companies' globalization.

Japanese companies have traditionally adopted a Board of Auditors system, the "auditor companies," as the corporate governance system under which company presidents are elected from among its board members, and the board of directors functions as both the decision maker and monitor. Most Japanese companies listed on the Tokyo Stock Exchange have adopted this system, but it has some problems. Because of the number of board members, it often takes time to make decisions, and sometimes the system creates conflicts. To make business decisions more quickly and dynamically, some Japanese companies have changed their governance systems, and both formal and voluntary changes have occurred in auditor companies. In 2005, the revised Corporate Law dictated that more than half of auditors must be external to the company, so many auditor companies have voluntarily decreased the number of board members, which helps them to make decisions more quickly. In addition, some companies have become holding companies. When several companies comprise a holding company, some of which were previously group companies, the company may find it

easy to form an organizational identity. However, companies in a holding company formed by M&A may find it difficult to form an organizational identity, especially if the companies come from different parts of the globe.

Prior Research

The theoretical and practical perspectives of reputation management have attracted significant attention from researchers and practitioners because corporate reputation is recognized as a valuable intangible asset (Rindova, Williamson, & Petkova, 2010) and a source of sustainable competitive advantage (Barney, 1991). Corporate reputation is the collective representation of a firm's past behavior and outcomes that depict its ability to render valued results to multiple stakeholders in the future (Fombrun & Rindova, 2005). This definition suggests that corporate reputation is built through multiple initiatives that influence corporate outcomes. A good reputation can benefit a company's long-term financial performance (Roberts & Dowling, 2002).

Other studies have illustrated that organizational identity plays an important role in building reputation. Internal elements are mentioned in most corporate reputation scales (Cohen, 1963; Fombrun et al., 2000; Walsh & Beatty, 2007). Dortok (2006) focused on the internal perspective of corporate communication and found that, in terms of reputation management, the employee is an important stakeholder and decision maker—perhaps just as important as the external stakeholders are. According to Dortok (2006), the employees of top companies that emphasize internal communication exhibit stronger commitment. Believing that commitment is an antecedent of business performance, these companies realize the impact internal communications can have on corporate reputation.

To strengthen reputation, corporate communications should be developed strategically. Forman and Argenti (2005) conducted interviews with chief communications officers at leading companies in the U.S. and found that corporate communications is closely connected with implementing strategies and, in some cases, formulating and developing those strategies. Their study also showed that the CEO plays an important role in building the corporate reputation, that communications officers must attend to corporate brands and corporate reputations, and that company officers must realize the importance of internal communications to implementing strategy and building a positive corporate reputation. In their research, they pointed out that CEO commitment, corporate communications, and company strategy are all closely related and that it is important to address both internal and external stakeholders (Forman & Argenti, 2005).

Therefore, to capture the strength of corporate reputation, researchers should consider it from several perspectives. Many researchers have tried to identify constructs and develop scales for corporate reputation. For example, Fombrun, Gardberg, and Sever (2000) identified the construct of reputation as including emotional appeal, products and services, vision and

leadership, workplace environment, social and environmental responsibility, and financial performance. Walsh and Beatty (2007) identified five factors as important for reputation: customer orientation, good employer, reliability and financial strength, product and service quality, and social and environmental responsibility.

Reputation results from the judgments and impressions of the various stakeholders that surround a company (Dickinson-Delaporte et al., 2010), and the construct of reputation may differ from country to country. For example, American and European companies operate differently than do Japanese companies (Jurgens, Berthon, Papania, & Shabbir, 2010; Yoshimori, 2005), so it is reasonable to assume that corporate reputation management in Japan differs from that in other countries, particularly when considering the differences in stakeholder perceptions.

Garberg (2006) used focus groups to conduct a cross-cultural study to examine the construct equivalence of developed scales and found that the existing conceptualizations of reputation were supported, whereas potential cultural differences still exist. However, prior studies have been based on cases and events from U.S. or European companies, and few studies have been conducted on reputation management in the Japanese context. Because of the recent changes in the Japanese corporate structures, it is important to examine reputation management in Japan from a global business perspective.

The purpose of the present study is to address the following research questions to reveal how Japanese companies view reputation management:

RQ1: How do Japanese companies see their stakeholders?
RQ2: What kind of initiatives are Japanese companies implementing in order to develop effective reputation management?
RQ3: What is most important for Japanese companies' reputation management?

Methodology and Results

To answer this investigation's research questions, we conducted in-depth interviews with chief corporate communications officers in Japanese business-to-business (B-to-B) companies. We assumed that B-to-B companies h focus on different stakeholders than do business-to-consumer (B-to-C) companies and that most leading B-to-B companies have developed their businesses worldwide. Therefore, it is more appropriate to observe B-to-B companies than B-to-C companies in an attempt to understand the influence of globalization on reputation management.

Respondents were selected in terms of their businesses' globalization and sales volume. This study collected data from five companies: three were electronics companies, one was a machinery company, and one was a chemical company. Four of the companies had adopted boards of company auditors, and the other had adopted the principle of comity. In

three of the companies, more than 30 percent of the shareholders were foreign investors, while the other two companies obtained more than half of their sales from overseas.

The interview questionnaire was generated based on prior research and was checked by both an academic researcher and a practitioner to assess the accuracy. The intended flow of the interview was sent to respondents in advance. Respondents were asked about their viewpoints on their companies' reputations, stakeholders, corporate communication tools, and the effects of their globalization on their reputation management. Each interview lasted for ninety minutes, and all interviews were recorded and transcribed. Data were then placed into a qualitative data analysis software program. Text data were coded following the grounded theory, the purpose of which is not to test a theory, but to build one, to discover a general, abstract theory of a process, action, or interaction grounded in the views of the study's participants (Chamarmaz, 2006). Two coders categorized each word and phrase related to our research purposes, after which the software counted each category and code. In this study, the primary research questions focus on reputation and stakeholders.

The coded results showed that awareness is one of the greatest concerns regarding reputation (Table 1). Similar concepts were cognitive gap and presence. Because B-to-B companies do not have much presence with the public compared to B-to-C companies, so their reputation with the public tends to be limited. In some cases, especially those that run several business units and companies, even employees do not have concrete images or a reputation in mind when they think about their companies. The following comments from the interviews illustrate these concepts:

> *Our holding company was established by several companies. Each business company runs its own business individually. However, the links between the holding company and the business companies are very important for our reputation and stock price. Since the number of business companies increased, our holding company has changed in recent years so we must explain clearly to the public what we are and our corporate philosophy. There are controversial opinions about reputation in our company: One person thinks that we should try to increase our awareness because the B-to-B company naturally does not get much attention. Another thinks that it is useless to use money for communication to outsiders because we do not have many consumer products. (Representative from Company A)*

> *To make ourselves understood to the public, we focus on internal stakeholders. We have 100,000 employees all over the world. However, once each of them enters a certain business company, they do not have a chance to know what the other companies are doing. We thought that it was useless to communicate with outsiders until our employees understood our whole company. (Representative from Company B)*

In addition to employees, these companies paid attention to university students as potential internal stakeholders, as they believed that awareness in an important element of reputation so they can obtain good students as employees (see Table 2).

Since we have distributed farm machinery for many years in Japan, most people may see our company as a farm machinery manufacturer, which is just one aspect of our business. We accept the fact that this happens for B-to-B companies. However, the tone and manner we develop in our corporate advertising and other communications are sometimes different from target to target. Considering recruiting or IR, we are afraid that people may have different images of what we are doing. (Representative from Company C)

We used to make consumer products. However, we sold the business to another company so we do not have consumer products anymore. Since then, the awareness of our company has declined. Though we still have corporate advertising, the contact points for the public became limited. In terms of recruiting, we realize that young people do not know our company or that they even misunderstand it. (Representative from Company D)

To a B-to-B company, recruits and employees are the major stakeholders. This is particularly true for a big company. Internal communications, such as in-house newsletters, are not enough. Because corporate communications for outsiders gets as much attention as internal communications, it is very important to develop corporate communications for outsiders that also communicate with our insiders. (Representative from Company A)

Many respondents realized that employee diversity is an important issue and felt the need to share their slogan and mission statement in order to build organizational identity at a global level. The following comments illustrate this concept.

Considering the Japanese economy, non-Japanese employees will inevitably increase in the future. I think sharing our mission with them is our continuous challenge. (Representative from Company A)

We made DVDs for the [company's] 120th anniversary in Japanese, English, and Chinese and delivered them to our group of companies worldwide. During production, we assumed that we had to share the founder's intent within the company. (Representative from Company C)

To the communications department, it is very important to appeal to our company's DNA both inside and outside the company. We acquired several overseas companies, and since then, more than half of our employees are non-Japanese. We think of the group of companies as one, and what is most important has been sharing cultural values among us. We have bound together cultural values by not putting Japanese values ahead of others, but simply by accepting other values. It took a long time, but it has paid off in recent years. To improve and promote our corporate culture, we have held global meetings for twenty years. (Representative from Company E)

To some companies, global IR has become important, and companies have tried to explain themselves with investor seminars and responses to questions from around the world.

For our holding company, investors' trends, as well as analysts' trends, are important issues. Individual investors are very important for us because we have dissolved cross-shareholding; about 20 percent of our shareholders are individual investors, and I think individual investors will increase for a while. Seminars are a chance to explain our sustainability and strategy. Even though we offer investment seminars for individual investors five or six times each year, we need more seminars for investors. (Representative from Company A)

We receive many questionnaires and assessment forms from all over the world. They were previously about environmental issues. Today, in addition to this, we are asked about compliance issues, including human rights, SRI related issues, and customer-based issues. Answering these questions is not easy, and it is a time-consuming job. However, we think it leads to improving our corporate reputation. To build and keep up our reputation, we need to answer these questions and to refine our business along with them. (Representative from Company D)

Our company used to develop investor relations worldwide to meet SEC or NYSE standards, so we had to explain our business to investors overseas earlier than other Japanese companies did. In addition to analyst seminars and online newsletters, our president explains our business at the IR seminars held overseas. (Representative from Company D)

Discussion

This study investigated reputation management within Japanese companies and the global influence of reputation management. The results of the qualitative data analysis suggest that employees and potential inner stakeholders are companies' most important stakeholders

(see Table 1) and that organizational identity is one of the most important aspects of reputation. In particular, sharing these values among both Japanese employees and non-Japanese employees is an important challenge (see Table 2). To share corporate culture and the company's mission statement, the communications officers developed corporate advertising, international meetings, and newsletters. Investors are another important stakeholder, and to become a global company, the Japanese companies must explain themselves globally. Therefore, they also hold investor seminars overseas several times a year.

This study's data revealed useful insights into reputation management in Japanese companies, but there remains room for additional study. First, this study did not include corporate communications and CSR activities. Because there are many varieties of communications, it is very difficult to code them all in one study. To understand reputation management in Japan, an organized code system should be developed. Second, the sample size may be too small to draw any general conclusions. To generalize our research results, more samples are needed. Third, to interpret our research results fully, insights from cross-cultural studies are necessary; to understand the characteristics of reputation management in Japan, the differences among global companies' approaches to reputation management must be considered and examined in more detail.

<Table 1>

Percieved reputation	
Awareness	5
Slogan	4
Mission statement	4
Product	4
Logo	3
Corporate strategy	3
CSR	3
Cognitive gap	3
Global company	3
Finacial perfomance	2
Presence	2
Sustainability	2
Group dynamics	2
Originality	2

n=5

<Table 2>

Percieved stakeholder	
Employee	5
Global group company	5
Investor&analist	4
Recruiting	4
Domestic group company	4
Competitor	3
Global community	3
Community	3
Customer	3
Employee from overseas	3
Top management	3
Consumer	2
Media	2
Domestic branch	2

n=5

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