Corporate Social Disclosure in Japan

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Abstract

Firms provide information to their stakeholders with regard to financial, social and environmental activities and performance through a means called corporate social disclosure (CSD). CSD is common in many countries, particularly in developed countries of the West, however, corporate social responsibility (CSR) reporting is only beginning to receive attention in Asia in current research.

CSD in Japan is highly developed in practice, however, it differs in CSD in the West in that significant voluntary disclosure does not occur in the annual report, but in a separate report (Yamagami and Kokubu 1991). In this exploratory study, we assessed how Japanese companies' financial performance and size impact the company's corporate social disclosure using annual reports from 54 Japanese firms. We also note the extent of disclosure in separate reporting for the Japanese firms.

Corporate social responsibility (in short, CSR) refers to those activities undertaken by an organization that's further the interest of society beyond what is either in the interest of the firm or required by law (McWilliams and Siegel, 2001).Although many firms spend millions of dollars and CSR activities, much has been written in the recent past that indicates firms often view this expense not as a cost of doing business but as a strategic investment which ultimately will a boost performance (Guarnieri and Kao, 2008). Strategically, this investment allows firms to reach out to a variety of stakeholders, boosting their reputation and winning over not only the best customers, but also the best employees and loyal shareholders (Guarnieri and Kao, 2008).

Firms are increasingly publicizing their CSR activities in what has become known as corporate social disclosure or CSD (Unerman, 2000) and includes a variety of documents such as sustainability reports which can appear as part of the annual report or as a totally separate document (Guthrie and Mathews, 1985). Many firms, particularly in developed countries, and looking at financial, environmental and social performance in what has been termed the "triple bottom line" (Elkington, 1999; O'Donovan, 2002; Shocker and Sethi, 1973).

Most studies addressing CSR and CSD look at firms in developed countries in the West. In part, this is due to the more widespread use of CSD in both North America and Europe for a longer period of time than in other regions of the world. In the 1990s, Japanese firms showed a relatively low level of CSR reporting (Wokutch and Shepard, 1999). Lewin, Sakano, Stephens

and Victor (1995) note that although Japanese firms were very familiar with the concept of CSR, most of these companies tended to use informal processes and guiding principles to deal with CSR issues. Fukukawa and Moon (2004) and Demise (2006) note that by the beginning of the 21st Century, most Japanese companies tend to publish a great deal o CSR information. In fact, both Miller (2008/9) and Noorbakhsh (2008/9) note that many Japanese firms tend to use CSR publications as part of their PR communication strategies. Tanimoto and Suzuki (2005) assert that although Japanese companies now participate widely in CSR reporting, the manner of their approach to reporting remains significantly different from that in the West.

Theoretical Foundation

Garriga and Melé (2004) place CSR theories into four broad groups: instrumental, political, integrative and ethical. The idea is that CSR in corporations is designed to take into account the needs of shareholders as well as the needs of many different kinds of stakeholders, thus resulting in a multi-faceted stakeholder orientation (Ruf *et. al*. 2001). While instrumental stakeholder theory states that companies see the value of multiple stakeholder interests, and thus, undertake strategies consistent with those interests (Donaldson 1999; Freeman, 1984, 1999; Jones and Wicks, 1999), political theories of CSR focus on the idea that there is a type of social contract that results from the responsible use of social power within corporations (Donaldson and Dunfee, 1994). Integrative theories illustrate the dependency between business and society (Garriga and Melé, 2004). Since society gives legitimacy to business, management should consider societal needs as a result (Emshoff and Freeman, 1978; Sturdivant, 1979; Wartick and Rude, 1986; Wood, 1991). The final group examines ethical issues between business and society, with the idea that it is socially desirable for business to act in a morally ethical manner (Windsor, 2006). Normative stakeholder theory, which looks at what managers ought to do, would fall into this category, although perception can influence what one believes should be done (Jones and Wicks, 1999).

Although CSR theories address the activities undertaken by firms, they do not specifically address how and to what extent firms report their activities through corporate social disclosure. The above stakeholder theories do suggest, however, that firms need the support of shareholders and stakeholders in order to continue their existence, and as a result, it is in the best interest of the firm to promote those activities that would maintain approval from their constituencies (Clarkson, 1995; deVilliers and vanStaden 2006; Grey *et al*. 1995a; Mitchell *et al*. 1997; O'Donovan, 2002). Alternatively, legitimacy theory holds that companies will do whatever needs to be done in order to maintain and protect their image and reputation as a legitimate entity (Deegan, 2002; Deegan *et al*., 2002; deVilliers and van Staden 2006; Milne and Patten, 2002; O'Donovan, 2002). Finally, RBV or the resource-based view of the firm, would propose that companies seek to boost their image and reputation by engaging in activities that build these intangible resources, and hence, competitive advantage (Barney, 1991; Grant, 1996; Prahalad and Hamel 1990).

Belkaoui and Karpik, 1989; Patten, 1991, 1992 find that larger firms, having more operations and transactions, tend to have much more CSR reporting. This makes intuitive sense because it may be more efficient for larger firms to report these activities via annual reports as they are more likely to have larger numbers of shareholders, and communication via annual reports is a good way to reach these groups. In addition, past research indicates at a positive relationship exists between profitability and CSD, most likely due to the additional funds accruing to more profitable firms which are then more likely to undertake more extensive social responsibility programs. It also may reflect either adaptive or insightful activities of management

in responding to social needs (Bansal and Clelland, 2004; Heinze, 1976; Ullman, 1985; Waddock and Graves, 1997).

Given the above, we propose the following three hypotheses:

H1: The bigger size of the company, the greater likelihood that the company will engage in corporate social disclosure (CSD).

H2: Company's financial performance will be positively related to the amount of corporate social disclosure (CSD).

H3: The number of pages in the corporate social responsibility report and the level of overall corporate social disclosure (CSD).

Methods

We searched websites that had the list of the top 200 to 500 Japanese companies. Based on this list, we examined company websites to find the most recent annual report for approximately 115 Japanese firms, ensuring that the companies belonged to different industry segments. In order to have an approximately normal distributed sample size, we also searched about 25 small size companies. After carefully reading these statements, we coded all statements relating to corporate social disclosure. The final sample consisted of 110 companies.

Dependent Variable:

Corporate Social Disclosure (CSD): We adopted the same method used with Chinese companies. We coded CSD in 2010 annual report in any sections related to this, for instance, letter from the chairman, letter to shareholders, or even statements regarding the operations of the company.

Independent Variables:

Corporate Financial Performance: Organizational performance is derived from 2010 annual reports and operationalized as the Return on Equity (ROE) and Return on Assets (ROA) of the companies being assessed. ROE is calculated as net income/shareholder's equity. ROA is calculated as net income/total assets.

Size: We dummy-code organizational size. The companies' sizes are classified according to their total market capitalization. We dummy-code company size with "Large' meaning total market capitalization is more than 10 billion Japanese Yen; "Medium" meaning total market capitalization is less than 10 billion Japanese Yen and more than 2 billion Japanese Yen "Small" meaning total market capitalization is less than 2 billion Japanese Yen.

CSR pages: Many companies have a separate report on corporate social responsibility. If we find the company does have one, we counted the number of pages that the report has.

Results

Impact of Company Size on CSD

Based on linear regression, both large and medium sizes companies are found to have a significant and positive effect on corporate disclosure (ß = 0.67, p= .00; ß = 0.52, p= .00, respectively, Table 1). Thus, Hypothesis 1 received support.

The relationship between Financial Performance and Corporate Disclosure

In this study, we did not find a significant relationship between either of the two financial indicators (Return on Equity and Return on Assets) and corporate social disclosures (ß = -0.12, p = .15; Table 2; ß = -0.12, p = .18, Table 3 respectively). Thus, Hypothesis 2 fails to receive support.

The relationship between Corporate social responsibility Statement number of pages and CSD

We find that CSR number of pages is significantly correlated with CSD (ß = 0.16; p < 0.10). This shows that those companies who have devoted more pages in writing a corporate social statement are more likely to engage in social disclosure activities.

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TABLE 1 Regression of Company Size and Environmental Coding

	Dependent Variable = Environmental Coding
Independent variables	
Large_size company	.67***
Medium_size company	.52***
R^2	0.29
Adjusted R^2	0.28
F	21.16***

N=110

Note. Standardized beta coefficients are reported, *. p < 0.10, **. p < 0.05, ***. p < 0.01

TABLE 2 Regression of Return on Equity (ROE) and Environmental Coding

	Dependent Variable = Environmental Coding
Control Variables	
Large_size company	.67***.
Medium_size company	.54***
Independent Variables	
ROE	-.13
R^2	0.32
Adjusted R^2	0.30
F	14.6***

N=110

Note. Standardized beta coefficients are reported, *. p < 0.10, **. p < 0.05, ***. p < 0.01

TABLE 3 Regression of Return on Asset (ROA) and Environmental Coding

	Dependent Variable = Environmental Coding
Control Variables	
Large_size company	0.68***
Medium_size company	0.55***
Independent Variables	
ROA	-.12
R^2	0.32
Adjusted R^2	0.30
F	14.45***

N=110

Note. Standardized beta coefficients are reported, *. p < 0.10, **. p < 0.05, ***. p < 0.01

TABLE 4 Regression of CSR pages and Environmental Coding

	Dependent Variable = Environmental Coding
Control Variables	
Large_size company	.68***
Medium_size company	.56***
Independent Variables	
CSR pages	.16*
R^2	0.34
Adjusted R^2	0.31
F	15.62***

N=110

Note. Standardized beta coefficients are reported, *. $p < 0.10$, **. $p < 0.05$, ***. $p < 0.01$