

Stakeholder Management of Japanese Big Corporations: Unethical Structure of Japanese Stakeholder Relation and Its Current Changes for the Worse

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In Japan, corporate social responsibility is booming and most major companies are appealing their responsibility. In fact, environmental systems of Japanese firms can be seen as one of the most advanced. However, it seems that Japanese corporate social responsibility is greened and unethical treatments over stakeholders are ignored. Despite Japanese weak ethics over some groups of stakeholders, Japanese firms are long time free from resistance by stakeholders. It assumed that Japanese management achieved significant controls over stakeholder and stakeholder voices are undermined. By examining each stakeholder, this paper explored how Japanese traditional business managed their stakeholders and what problems can be identified in terms of Japanese business ethics. In addition, it analysed ongoing changes of Japanese business-stakeholder relation.

1 Introduction

Stakeholder management or interaction is increasingly being important for modern corporations because globalisation firstly empower corporations and secondly stakeholders (Werther & Chandler). In fact, past two decades, many stakeholder activisms to resist corporate activities appeared and some

achieved significant victory over firms. However, in Japan few resistances to firms by stakeholder could be seen although significant corporate scandals were reported in Japan. It would be because of cultural differences but also would be management differences as Japan achieved huge economic success and miraculous recovery from the world war two by so-call Japanese management. In other words, Japanese management would include excellent stakeholder management or strong stakeholder control system. Indeed, Japan has very different business-stakeholder relation and it would be a tool of successful Japanese economy. However, whether Japanese firms treated their stakeholder with responsible and ethical manner is different matter. It assumes that Japanese big corporations formulated dominant relation over stakeholder and control them with irresponsible manner rather than good relation with their stakeholders and treat them with responsible manner. In addition, another assumption is Japanese stakeholder relation is likely to make unethical decision.

1.1 Aim of Research and Methodology

Clear aims of this paper is to identify problems of stakeholder model of Japanese big corporations in terms of corporate social responsibility (CSR) and to explore what changes are required to adopt socially responsible stakeholder model. Firstly, it will explain traditional Japanese management system and corporate culture. Secondly, it will see Japanese traditional stakeholder relation by analysing typical stakeholders of big corporation. Here, it will explore how each stakeholder was treated by traditional Japanese management, whether this treatment was socially responsible and whether this relation increase likeliness of unethical decisions. Finally, it will see changing Japanese management and stakeholder relation after economic recession in Japan.

2 Theory of Japanese Management and Culture

2.1 Components of Japanese Management

So-called Japanese management system has contributed to significant Japanese economic growth and making stability of labour market, which once has been prised and studied as an excellent management system from outside. Thus, here, it will see brief explanation of Japanese management in general.

Abegglen (1958) focused on the unique industrial relation and proposed “seniority based wages”; “lifetime employment”; and “enterprise-based unions” are three pillars of Japanese management. Seniority based wage, which is wage system not based on their professions or abilities but years of working within the same firm, guarantees stable increases of salaries. Lifetime employment, which means employees spend their entire career in one company, provides significant job security. Enterprise-based unions, which are the trade union not based on occupation but company, created cooperative and interdependent relationship between firm and its trade union. To maintain those systems, Japanese firms developed unique human resource management (HRM) including “graduate recruitment”, “non-occupational recruitment”, “inhouse training”, “flexible internal labour market” and “internal career ladder”. In other word, through the process of recruiting young non-professionals, by training corporate specific skills and experience different occupations and making careers within company, Japanese employees are enhanced their senses of loyalty, harmony and dependence.

Another unique aspect of Japanese management is corporate group famously known as *keiretsu*. This corporate group has formulated Japanese unique fundraising structure. Japanese firms are mainly funded by two systems: one is debts from main bank, and another is cross-shareholding within corporate group. Those typical Japanese management systems allowed management to develop long-term policies because those groups are benefited from long-term relationship with firms. Generally, board of directors of firm are elected within firm, corporate group and main bank in Japan. In fact, more than 30 % of Japanese firms have adapted to have outside directors but about 70% of outside directors came from partner companies, other companies in

the same *keiretsu*, a parent company and main bank, and even some corporate giants such as Toyota still does not have any outside directors (Economist 2007a). This interdependent structure within conglomerate group and with main bank is uniqueness of Japanese management and was one of the secrets of Japanese economic miracle.

However, strong relationship is not only with employees and corporate group but also with the government. In Japan, the government consists of mainly two different functions: politics and bureaucracy. Unlikely in other developed countries, Japanese diet has been nearly continuously dominated by one party, the Liberal Democratic Party (LDP) since end of the World War 2. The bureaucracy had a role as “think tank” of the LDP (Curtis 1999 cited by Hirata 2002), and furthermore, many politicians of the LDP are former bureaucrats (Hirata 2002). In other words, there are significant intentions of bureaucrats behind Japanese policies. In addition, each Japanese minister, communicate closely with Japanese companies whose operations are relevant on the process of policy making (Hirata 2002). This informal coordination between the LDP, bureaucracy and business called the “Iron Triangular” is strong power on policy making in Japan (Economist 2005).

Focusing on Japanese markets, it is far from international open markets, despite Japanese huge economic scale. Indeed, many Japanese multinationals are famously known, but with a few exceptions, most of firms focus significantly on the Japanese market. It is because highly regulated Japanese market has high threshold for new entries, especially for foreign firm, and Japanese firms have been enjoying dominating this huge market without strong competition from outsiders. Hence, Japanese market can be described as large but closed, regulated and non-internationalised market.

2.2 Japanese Organisational Culture

Japanese are often pointed its unique corporate culture. As Enron case showed, organisational culture influence on unethical decision despite strong system of ethics. Business or individual ethics is important part of stakeholder theory. It would be beneficial to see Japanese major corporate culture and its influence to its stakeholders.

2.2.1 Harmony of organisation

Abegglen (1958) described harmony is central value of Japanese firms. Importance of respecting harmony in the Japanese organisation can be formulated by unique long term employment system (and perhaps Japanese education). Japanese employment system provided stable life and work. In return, employees expressed their strong loyalty and affection toward their companies, which would be one factor of fostering harmony. In addition, Japanese HRM policies such as graduate non-occupational recruitment and inhouse training developed the sameness of members and enhanced harmony of organisation. However, organisational harmony often undermines Individual values, beliefs and interests, so senses of self-sacrifice or obedience are sometimes required in Japanese organisation. For example, one of the most important harmonies in Japanese organisation is seniority-based hierarchy. In sum, juniors are required obedience to their seniors, whatever request from senior, whether it is unreasonable or against his/her personal value, junior is expected to follow this request. If he/she resists, it would be considered as violation of harmony. Moreover, those who violate organisational harmony by refusing orders from seniors or taking actions have to take risks to be excluded. In fact, exclusion from firm was huge risk in Japan because high job security realised by lifetime employment led to absent of skilled labour market. In other words, once they left company, opportunities of reemployment were few. In addition, although they could find new jobs, they normally have to accept lower salary because seniority-based wage is dependent on years of work. That is, when employees faced ethical dilemma between organisational harmony and ethical value, they are likely to choose harmony or even do not aware of ethical dilemma. Indeed, according to the survey in 1976 in the USA by Brenner and Molander (1877 cited by Nakano 1997) and survey conducted with same methodology in 1994 in Japan by Nakano (1997), while nearly 60% of American managers answered they had experience of facing ethical dilemma between corporate interests and personal value, less than 30% of Japanese managers had same experience.

Harmony-oriented organisation would have higher risks of associating with violation of ethical decisions.

2.2.2 Ambiguous Responsibility

Second important point would be ambiguousness of responsibility. As Japanese non-occupational recruitment shows, Japanese firms require generalist rather than specialist to fulfil multi-tasks. The responsibility of each worker in Japanese non-occupation-based work system is not clear, while occupation-based work which most economies adapt is clear what each employee is responsible for. This unspecified responsibility means responsibility varies by situation they stand. In some case, one is expected to take responsibility of other. Thus, each worker is required to have flexibility to deal with various sorts of tasks although some tasks were not expected to be done. In Japanese organisation, member of organisation strongly feel her/his duties to be responsible for whatever tasks organisation expect (Kosaka 2007). Again, sense of obedience is important. Thus, there is risk of which workers implemented by top-down order even they know it is antisocial activities (Kosaka 2007).

2.2.3 Insider and Outsider

The last point is sense of insider. As it saw, lifetime employment achieved strong loyalty of employees. As well as loyalty, Japanese equip strong sense of belonging. Moreover, Japanese organisation traditionally tend to associate with social life of employees by drinking culture, company-based sports and community clubs, family events or company trips. In addition, Japanese long working hour could tie employees to organisation and separate them from community. In other word, Japanese firms do not only mean work place but also community as Abegglen (1958) pointed Japanese characteristics of social organisation. This characteristic of virtual community strongly connected with harmony and loyalty (Kosaka 2007). In the virtual community, members are reinforced concerns for the organisation. This extraordinarily strong concern for organisation led to indifference to the society (Iwata 1977 cited by Kosaka 2007). This clear separation between in and out means would formulate

organisational culture of which interests of organisation are prioritised rather than anything else. Thus, there would again be risks of violation of ethics.

2.2.4 Japanese Corporate Culture and Unethical Decisions

In sum, Japanese organisational is likely to formulate culture to promote unethical decisions to their stakeholders. Goto (2006 cited by Kosaka 2007) defined typology of causes of corporate scandals in Japan: profit fundamentalism oriented culture by top management initiative: self interests and self protection of the top manager: routines and attitudes to hide problems: improper dependence with antisocial organisation: self interests of employees: employee's act "for firms": and problems of corporate governance. It indicate that Japanese corporate scandals often associate with Japanese corporate culture which had explained above.

3 Stakeholder Management in Japanese Corporation

As Japanese management were developed differently, Japanese business and stakeholders have unique relationships. This part will analyse six typical groups of stakeholders of Japanese major corporations to lead answers of following questions. First question is how Japanese major firms achieved great control of stakeholder influences. Second question is whether they have ethical and responsible manner for their stakeholder interaction. Last question is if there are any systematically embedded problems of ethical decision making on stakeholders.

3.1 Shareholders and Creditors

The word "stakeholder" is often used as the counter term of shareholder. Clearly, major goal of corporations is to maximise shareholder value, while stakeholder theory claims it is not single purpose. As owners of firms, shareholders have legal rights to claim on firms such as right to vote board of directors, right to propose shareholder resolution and right to be redistributed firm's profits. As an agent of shareholders, management was delegated to operate business mainly for shareholder maximisation. Hence, shareholders

have strong power and legitimacy over corporation. In general, shareholders are the most important and influential stakeholder of firms.

However, the situation in Japan is completely different. Long time, most Japanese had identified corporations not for shareholder but for employees or society. According to the survey of the Japanese Ministry of Finance, Policy Research Institute (2003) for "important stakeholder" (choose maximum two most important) in 1999, shareholders was fourth chosen stakeholder (25.5%), and raised its position to third (31.3%) in the same survey in 2002. However, following the recent shareholder movement, the market deregulation such as "triangular mergers" in which a foreign firm uses its own shares, via a Japanese subsidiary, to buy a Japanese firm' (Economist 2007a), the internet research conducted by Intage and Yahoo Japan in 2005, the most number of respondents answered shareholders as owners of enterprise but its percentage is still not significant (31.6%). For the defence, Japanese firms again increased cross-shareholding from 2006 to 2007 (Economist 2008a), and the government seems to again close Japanese market after the strong initiative of the Koizumi government and the fail of the Abe government. Recent protections of Haneda airport and J-power from Australian and British investors in 2008 show the situation of Japanese regulated market. Clearly, Japanese market is standing turning point: more shareholder value or not (not necessarily stakeholder value), globalisation or protectionism.

As Japanese firms are mainly funded by debts from main bank and cross-shareholding within corporate group, most of shareholders have close relation and share certain values with firm. In this sense, they are insiders rather than outsiders. Moreover, cross-shareholding, which basically means firm has shares of its shareholder, foster the sense of sustainable relationship, so they focus on harmony of group. Therefore, although legally shareholder's rights are guaranteed, shareholder activism such as shareholder resolution, request to increase dividends according to profit growth and mergers and acquisitions (M&A) is not favourites in Japan.

As a result, board of directors are dominated by insider. Big corporations whose more than one third of board of directors are independent are only 6% in Japan comparing 90% in the US (United States) (EIRIS 2007). In this structure, voices of outsider over firm, especially claims on financial return,

which is the major interest of shareholders, are undermined, as Japanese firm's average return on equity is suppressed around 9% comparing with 14-17% those of United States (US) and Europe (Economist 2007a).

In sum, Japanese companies have been achieving to control power of shareholders through relation within corporate group mainly by cross-shareholding. By clearly separated insiders and outsiders, Japanese management took cooperative strategy for insiders and defensive strategy against outsiders which could oppose to their management policies. It would be true that it is one of the greatest secrets of Japanese economic success not only because Japanese firms is free from shareholders but also because Japanese firms need lower costs of financial returns for investors than those of foreign competitors. In the managerial term, Japan has the great stakeholder management on shareholder. However, it is control rather than interaction.

3.2 Government

Japan has close government-business relationship, and it is often ironically called "Japan, Inc." by foreigners. The government took a strong initiative for Japanese economic development by supporting and protecting firms. Japanese firms are significantly benefited from this structure. Although, in general, the government works for benefits of the country, Japanese case lean to industries. Questions are why Japanese government strongly supports business and how the government is benefited from this structure.

Within the "iron triangular", Japanese government means bureaucracy and the LDP. First, it will see the business-bureaucracy relations. The main initiatives of bureaucracy here are two economic ministries: the Ministry of Economic, Trade and Industry (METI) and the Ministry of Finance. In addition, the relation between industry and its competent ministry are important. For instance, the Ministry of Finance is responsible for financial industry, and the Ministry of Land, Infrastructure and Transport (MLIT) is responsible for all transport industries. One driver of this close relation is *dango*, which is the collusion between bidder and public authority in the public procurement by bidding. Although *dango* obviously is illegal operations, *dango* is implemented both in local and national authorities in Japan, and thus, in many

case authorities pay much more than competitive price (Saijo et al, 1996). This corruption system would be one of the drivers. However, main driver is *amakudari* (descent from heaven) system. *Amakudari* was defined as "personnel retirement paths linking the central bureaucracy to its wider environment, identifying the domain of operation for the ministry of origin, establishing the boundaries of its territory, and attempting to secure its own legitimacy" (Colignon and Usui 2003 p29). In other word, *amakudari* is the system which the ministry contribution to the business or industry using its authority and legitimacy. In return, industries provide future senior positions, which are guaranteed huge retirement money, for government officers. In general, government officials retire their 50s and practice *amakudari* in the industries where they used to responsible for. Staying several years in the director's post with high salary without significant work (their primary work would be influencing on the government as former senior officer), they obtain retirement money and some move to another senior positions. It can be seen as a corruption system but in most case, it is legal in accordance of freedom to choose occupation guaranteed by the constitution. In fact, *amakudari* is the biggest bureaucratic problem because government officers tend to work for increasing *amakudari* positions for their own ministry. In other word, activities of each ministry are not for Japanese citizens but for specific groups; the ministry itself and its relevant industries. In fact, conditions of *amakudari* were highlighted in the situation of which the second party, the Democratic party, is being empowered. However, the bill of restricting *amakudari* was undermined by the politicians in the LDP who represent interests of each ministry and its relevant industries. As a result, within 2 years after leaving bureaucracy, in principal, *amakudari* was forbidden but this rule was eliminated.

There is an interesting example of *amakudari* surveyed by Teikoku Data Bank (2004) with 122 banks. It categorised three types of banks: majors (11 banks), primary locals (63 banks) and secondary locals (48 banks). According to this survey, total number of *amakudari* directors between 2002 and 2003 financial year was 110 including 42 executive directors and two third of *amakudari* directors was from the Ministry of Finance and the Bank of Japan, both of which are responsible for financial industry. Interestingly, no major

bank has *amakudari* director, while primary and secondary locals respectively hired 49 and 61 *amakudari* directors (more than half of primary locals and nearly 70% of secondary locals). It would indicate that banks whose powers are fragile tend to rely on the government by accepting *amakudari* directors. In Addition, *Asahi Shimbun* (2006 cited by zei.assetsuse.com 2006) and *Yomiuri Shimbun* (2006 cited by trade-k.com 2006) respectively reported 23 former officials of the Ministry of Finance and 5 former officials of the Bank of Japan practiced *amakudari* into major consumer finance firms. Japanese consumer finance is financial lender for people who have low financial credibility and is often claimed their operations because of its cruel collections of debts with high interest rates. They often required grey zone interests (29.2%), which is the interests between legal and illegal, and thus have big risk of restrictions. Their motivation of accepting *amakudari* would be to prevent from introducing stricter regulations. In other word, accepting *amakudari* is their defensive strategy. However, the change of the competent authority from the Ministry of Finance to the Financial Service Agency would weaken the influence of *amakudari*. In 2006, grey zone interests were abolished and campaign of suspension of business was implemented over some major consumer finance corporations. Those cases are clear implementations of stakeholder management by Japanese company.

Secondly, business relation with politicians, particularly the LDP, is important. It has stated, many politicians of the LDP represent interests of ministries and those politicians often resist against changes which influence on their represent agency. For example, when the former Prime Minister Junichiro Koizumi privatised the National Post, the post group in the LDP strongly resisted. It can be guessed that those lobbyist-politicians of specific group would benefit from group itself and behind this group. In fact, what politicians desire to have is collective power industries have because, as politicians, primary concern of most politicians is election. By winning elections and representing interests of those industries, they can obtain financial supports. In fact, political donation from firm or other organisations to individual politician is restricted now. Thus, again collective power is important because in this system small donations by many individuals are more important than huge donation by one big firm. "Iron triangular" is made with those relations.

However, many major corporations seem not to participate in this system. According to the survey conducted by the Japan Small Business Research Institute (JSBRI) (2007) 99.7% of companies in Japan are SMEs. In other words, major enterprises have less collective power. The role of major enterprises in this system is different. Generally, voices of major corporations are expressed by the Japan Business Federation so-call *Keidanren*, which representative of 120 major industrial associations and leading 970 enterprises. It influences on the decision making of the government through formal recommendation, general meeting, publication, and directly donating to the LDP (Yoshimatsu 1998). According to the Associate Press (AP) (2006), member corporations of Keidanren donated 2.53 billion yen to the LDP in 2006.

In sum, Japanese companies have been achieving to control power of government through accepting *amakudari* or donating to the LDP. Both SMEs and major corporations take cooperative strategy to manage government power although conflict is emerging between majors and SMEs. In fact, potential power of the government over firms is still high, but probability of exercise power against firms, especially against major firms, is low. In the managerial term, again Japanese majors have the great stakeholder management on the government. By interacting with the government, Japanese firms maximise interests of themselves and the government. However, this cooperate system exclude non-participants such as shareholders, employees and society and their voices and interests were undermined.

3.3 Employees and trade unions

Employees are important internal stakeholder, and in many case, employees are affected by corporate decisions rather than affect them. However, they are guaranteed freedom of association and they can claim violation of contract by lawsuit in most developed countries. In other word, their power is dependent on those other agencies. That is, employees would not have strong power but they could have power through trade union or other agencies.

If a customer asks you, 'What does your company make?' tell them that 'Matsushita Electric makes people. We also make electric appliances, but first we make people' (cited by Mak 2000 p542)

Those people centric policies can often be found from management philosophy or corporate vision of Japanese firms. Kuwahara (2004 p287) described "[t]he corporate structure of large Japanese companies may be closer to a model of 'employee-managed firms'". In addition, long time many people have considered employees as owner of corporations, although now is the second chosen answer (25.1%) following shareholders (31.6%) in the internet research of who is the owner of firms conducted by Intage and Yahoo Japan (2005). Moreover, by the main components of Japanese management; seniority-based wage and lifetime employment, employees were guaranteed high job security and stable lives. However, if employees are really treated as important stakeholder is in doubt.

Japanese long working hours are famously known, and those annual working hours, 1780 hours, by official statement are slightly shorter than those of US but "free overtime", which means overtime without pay, is not counted in this number (Economist 2007b). In reality, many workers are not given pay for overwork, whose situation is worsening recent years, although it is illegal in Japan (Takahashi, 2006). The Ministry of Health, Labour and Welfare (MHLW) (2006) reported 1524 firms were pointed unpaid overworks and unpaid amount was estimated about 23.3 billions yen for 167958 workers from April 2005 to March 2006. The same report announced corrected firms were 5161, exploited employees were 666917, and the overall damage was 85.2 billions yen within 5 years between April 2001 and May 2006 and the highest damage per one firm was about 2.3 billions yen. Those data show significant of Japanese unpaid overwork. This free overwork has long time been routine of Japanese firms and until recently it was not guided by the government. Japanese are often considered as workaholic, but who willingly work long time without pay.

In addition, although Japanese firms are increasingly appealing importance of equal opportunity and diversity of employees mainly in their social reports, job opportunities and work condition of women and foreigners are significantly

lower than those of Japanese male workers. Thanks to the Equal Opportunity Employment Law in 1999, work condition of female workers is improved. However, as the data only 47.3 % of female workers were employed as full-time workers in 2006 while 82.2 % male workers are full-time (Gender Equality Bureau Cabinet Office, 2007) showed, there are huge differences on job opportunity between female and male workers. Moreover, most Japanese female workers are still expected to leave their time of maternity and excluded from career ladder. In fact, only 10% of managerial posts were dominated by female workers (International Labour organisation cited by Fackler 2007) According to EIRIS (2007), Japanese companies which have women in the board are less than 1%. Harmony is an essential aspect of traditional Japanese work place, as it stated, and this harmony brought by sameness; Japanese male workers.

Employees are expected to respect harmony and take unlimited responsibility in Japanese firms. Thus, even excessive works without pay, employees are expected and strongly feel duty to accept it. In the situation, many would unwillingly accept it, instead that they take risks of exclusion. Most company would say they do not force overwork, employees voluntarily and willingly involved in overwork (although free overwork is unconditionally excluding only managerial post). Overworking may not be forced in Japan. However, it is questionable whether employees have freedom not to overwork. The Japan Institute for Labour Policy and Training (JILPT) (2005) asked the multiple-choice question of 'why do you overwork?', which can be chosen maximum 3 in 13 answers to the candidates who answered they have overwork frequently (45.1%) or sometimes (30.5%). The most chosen answer in this survey was 'more works than they can finish within normal working hours from the start' (61.3%), the second was 'to finish my own work properly' (38.9%), the third was 'lack of people because of recent downsizing' (33.7%), the fourth was 'works which can only be done in overtime working hours' (30.4%), and fifth was 'have to meet deadline because of customer relations' (19.5%). This survey would well describe Japanese corporate culture. In the Japanese corporate culture, Japanese employees are expected to take whatever responsibility firm require, and if they do not, it affect on organisational

harmony and eventually their careers. In other words, overwork in Japan can be seen as substantial forced work.

In fact, overwork is just a part of difficulties employees are facing. There are huge problems regarding employees in Japanese organisation such as right of women employed, sexual, physical and mental harassment, discrimination, and working conditions. However, voices of individual workers are controlled by this Japanese corporate system and culture.

Generally, trade union should formulate collective voices to improve those conditions. However, system of Japanese trade union has significant problems. First problem is lack of independence of trade union. Indeed, enterprise-based trade unions may officially independent from firms but substantially belong to firms. Often, leaders of enterprise-based union are guaranteed their positions in the firms, and thus some do not seriously involve in union activities because those would damage their interests when they will be in the senior positions in the company. That is, Japanese enterprise-based unions are rather cooperative for firms. Secondly, quality of Japanese union members is questioned because all regular employees automatically become members of single enterprise-based union when they start to work in most big firms. In other word, Japanese workers do not have freedom to choose trade union. In this sense, there are many union members who unconsciously belong to unions and do not have any interests in union activities. In most case, Japanese trade unions are substantially internalised into firms and they do not express labour interests. In addition, Japanese enterprise-based union only represent regular workers. Few enterprise unions accept temporary workers and few non-enterprise-based unions exist. Thus, increasing temporary workers do not have any collective power. In addition, majority of members of enterprise-based union are Japanese male workers. Thus, they do not normally express rights of women and foreigners. Firms achieved control of collective voice by giving certain power to solely one union which represent opinion of single group.

This control of employees was the greatest achievement of Japanese management although management would not have conscious of control and employees would not have conscious of being controlled. Cooperative attitude of employees toward management and lack of union influence would

restrain salary of employees. Japanese firms always advocate “employees are most important stakeholder” or “people are the most important resource”. However, reality is different. Employees are not treated with ethical manner as an important stakeholder.

3.4 Customers

One of the most influential Edo period (1600-1867) merchant, scholar and philosopher of merchant ethics Baigan Ishida (1685-1744) said “the true merchant thinks first of the customer’s position, and then of his own.” Although it would be to exaggerate to adapt this philosophy to modern Japanese firms, their focuses are strongly on customers, as Japanese business proverb of “customer as a god for business” shows. In this environment, customer satisfaction is of greatest importance and essential value of Japanese business. For example, famous Japanese quality circle or quality control to seek product and service would be developed to realise high customer satisfaction. Indeed, it would contribute to create high quality, innovative, wide range, and low costs products and service. On the other hand, it would formulate unreasonably strong customer demands. Customers would demand higher quality but lower prices products or 365 days 24 hours services. This extreme customer-oriented style make customers behave as kings, and difficult to control. Despite often lacking collective actions from customers, Japanese customers have strong power over firms. It seems that many Japanese firms failed to control customer voice. However, victims of those unreasonable requests from customers often are not firms but their employees and suppliers. As a consequence, customers victimised themselves by their own behaviours as a situation of which most of the customers are employees. In addition, those unreasonable requests are likely to encourage firms to commit unethical decisions such as exploitation of employees and suppliers and disclosure of false information. Indeed, those issues are most appeared and embedded corporate scandals or problems in Japan, and even some management openly justified those unethical decisions to operate business in Japanese high demand market.

3.5 Suppliers

In Japan, suppliers are often integrated into *keiretsu*. As a result, suppliers could expect to have long term relation with firms and supply for one company or several companies within the group. In other word, normally they rely on the work of *keiretsu* which can constantly be expected. Structure is similar to employees. Company gives stability and supplier responds by loyalty. Supplier is expected to and often tends to accept tight deadline and low prices when company needs. Thus, it was seen as great systems. However, to much dependent on one company would have risk to lose all jobs when the company decided to move other suppliers. In fact, many suppliers would not have channel to find alternatives because most of them are SMEs. On the other hand, *keiretsu* companies of supplier, especially major one, would have several suppliers and resources and channels to find other suppliers. Normally, traditional Japanese firms respect harmony not only in the organisation but also within *keiretsu*. Hence, if they do not face urgent necessity, they tend to keep good relationship with suppliers. However, suppliers potentially have huge risks to lose significant part of business by corporate decisions, as it stated that suppliers are likely to be victims of customer satisfaction.

3.6 Communities and NGOs

Communities are fragile stakeholder and are often influenced by corporate operations positively and negatively as well as by the government. Here, civil society such as non-governmental organisations (NGOs) plays important roles. In most advanced countries civil society has developed to resist against power and to express interests of specific group of people. In fact, NGO is key player of corporate social responsibility and some NGOs achieved great influence on firms by activism and communication.

However, Japan is very different case.

Many observers of Japanese politics have emphasized the uniqueness of Japanese civil society, pointing out that its development has been severely hampered by a strong state with powerful regulatory functions unmatched in other advanced industrial states. ...Others have pointed to the passivity of the Japanese populous, and its cultural values that

mitigate against militant advocacy and opposition to authority. And it is also true that Confucianist traditions have likely slowed the growth of civil society in Japan, especially when combined with strong state intervention (Hirata 2004 p16).

Many factors weakened Japanese civil society. Strong government power led by elite officers undermined civil society. In addition, economic development would weaken concerns of Japanese citizens on social issues while those did not influence on themselves, as Hirata (2002) pointed both rise of NGOs and economic recession were started from 1990s. Indeed, many residents' campaign took place such as campaign against construction of nuclear plant and airport, redevelopment projects of town. In many case, residents face strong resistance from iron triangular because those projects often conducted by government initiative or permission. There is one expression *kansonminpi*, which means Japanese consciousness of respecting bureaucrats and state, despising private sector. This typical consciousness would make campaign focus on the state or local government rather than business because they would think only government can afford to solve. Thus, companies were not mainly targeted from those activities. It is unknown whether firms intentionally lead this situation. However, at least, they would make use of this situation.

Roughly, there are three interests; governmental interests; business interests; and societal interests. However, society is excluded from iron triangular. As it saw, Japanese corporate culture has strong sense of in and out. Society is obviously outsider for firms, which means firms and their people are indifferent for society. Therefore, societal interests are likely to be ignored.

3.7 Summery of Japanese Stakeholder Model

Traditional Japanese stakeholder management can be summarised with internalisation and externalisation. This internalisation of stakeholder would include three strategies. First strategy is informal alliance with stakeholder. Informal alliance here means strategy which makes dependent relationship with stakeholder by providing certain benefits. In return, firms expect stakeholder to be cooperative for their business. This strategy is practical to

manage powerful independent stakeholders which can not officially be internalised. This strategy is employed to manage the government and achieved to establish iron triangular system. *Keiretsu* is the second strategy of internalisation. This strategy established long term relation and interdependence by integrating business partners into corporate group. In return, firms would expect to obtain strong loyalty and to control and increase efficiency of their entire business. Suppliers and cross-shareholders are integrated into this strategy. Last is customisation strategy. This strategy aims to further internalise stakeholder who originally have high characteristic of insider. This strategy was particularly applied to employees. Employees are originally internal stakeholder and this strategy is employed for further internalisation of employees by formulating more organisation specific employees. Through Japanese HRM system, employees were equipped organisation specific thinking and skills, and Japanese enterprise-based trade union is customised as a company specific union. By keeping strong relation and by integrated union into the internal career ladder, trade union loses their proper functions. In the traditional Japanese management system, those internalisation strategies achieved to control negative impacts of stakeholder on business. On the other hand, firms other stakeholders which are not included in this strategy such as communities and NGOs are ignored. They are not regarded as stakeholders and little consideration is made for them. This is externalisation strategy. However, there is one stakeholder firms could not manage, control or ignore their power. It is customers. Japanese business is always looking at customers' face. In this sense, Japanese management can be concerned as customer-oriented management.

Although Japanese management worked as great stakeholder control system, if they interact stakeholder with decent business ethics is in doubt. In fact, they established long relationships with some stakeholder and some of them would be happy for what they are benefit by those relation. However, it does not necessarily mean those relationships are ethical. For example, iron triangular relation was managed by nearly corruption, which would be regarded as corruption in some country, and this strong relation would harm other stakeholder. The Japanese government non-interaction policy on the business-employment conflict would be developed under this strong relation

and would undermine interests of employees. For instance, in the Japanese long term employment relation, employees are substantially not able to refuse daily long overworks. As, most of the stakeholder management which were analysed here are unethical, Japanese management would lack business ethics. There would be some systematic reasons of lack of business ethics. First is strong vertical organisation structure by seniority system. This structure which require employees to unconditionally follow order would undermined opportunities of which decision-maker face counter opinions and reconsider whether decisions are ethical, and would lose opportunities of which junior employees are aware of ethical dilemma. Another would be lack of outsider. As small percentage of independent director or graduate-focus recruitment in Japanese firms show, they are not willing to accept outsiders. Outsiders, especially independent directors, are important because they can check and alarm unethical decisions of top management and firm's unethical operations which would not be seen as unethical in the sense of insider. Both reasons showed lack of checking system of unethical decision. In other words, as Japanese firms are often pointed, they lack corporate governance.

4 Emerging Changes

This paper explained traditional stakeholder relation in Japan. Yet, significant changes in Japanese economy, politics and society are emerging. This chapter see what changes have been happening in 21st Century in Japan and explaining changing stakeholder relation.

4.1 Changing Big Corporations

There was one symbolic issue of changing Japanese management in very ends of the 20th Century by a foreigner. Carlos Ghosn, who was chief executive officer (CEO) of Renault Group, would teach for Japanese two important lessons. First lesson is end of nationalist market and need of globalisation. It was informed by achieved partnership with Nissan Motors and electing as a CEO of Nissan Motors as well as Renault Group. Second lesson is end of lifetime employment. It was taught by dramatically recovered

financial situation using crucial downsizing and reduction. Both lessons were not familiar in traditional Japanese management. After nearly 20 years later, those lessons do not seem to be fully implemented in Japanese market. However, most big corporation would understand needs of changes, and many changes could be seen in this decade.

One of the biggest changes can be seen in the stance of *Keidanren*. *Keidanren* give huge political donation to the LDP. However, official political donation by *Keidanren* initiative had once terminated since 1993 (although each companies would continue to donate), but when Okuda (Chair of Toyota Motors) was the chair, it was resumed to reinforce their influence on politics and this policy was succeeded by Mitarai (Chief Executive Officer of Canon) now. One reason of resumption is because after the recession, interests of SMEs and big corporations increasingly differ. Indeed, while SMEs still tend to expect protection by the government, *Keidanren* now tends to influence on the decision of realising market liberalisation (Yoshimatsu, 1998). Recent years, its lobbying activities were enhanced, and some deregulations were achieved. Especially, *Keidanren* is keen on liberalisation of labour market. In fact, it has achieved liberalisation of temporary workers, and now desires to pass the white collar exemption law, which is often criticised as liberalise overworks.

Following changes of the stance of *Keidanren*, the second big changes would be lifetime employment. By deregulation of non-regular worker, big firms increased temporary workers. For example, percentage of non-regular workers in the production line is 70% in Canon (Economist 2007c) and more than 30 % in Toyota (Shimbun Akahata 2007). In general, non-regular workers are paid much less than regular workers and company does not need to support for their pension and national health insurance. Increasing non-regular workers and generalised downsizing means that lifetime employment has been collapsed. Recent Japanese high turnover of young workers (more than one third of university graduates leave within 3 years in 2000, the MHLW cited by Joe, 2006) would also show collapse of lifetime employment because strong loyalty would be a pay-off of long stable life.

Third change would be relation with suppliers. Miura (cited by Economist 2008b) of the SME Agency at the METI said "big firms have put pressure on

their suppliers, forcing them to cut prices and accept lower margins." Thus, Japanese suppliers are now required to compete against Chinese or other low cost countries by cost rather than by quality. In fact, in this decade, many Japanese companies shift their suppliers to overseas. According to the economist (2008b), Japanese big firms made significant part of profit by squeezing their suppliers. For example, Toyota has been implementing programmes which aimed to cut 30% of cost of supply since 2000 (Business Week 2005). Moreover, Toyota's executive vice-president Watanabe (cited by Business Week 2005) advocated, suppliers in the Keiretsu structure must try to meet their prices to the Chinese level, if they want to keep business with Toyota. It would show although most suppliers would want to keep close relationship with firms, major firms would no longer focus on relation but on costs.

In addition, under the situation of which main bank system is weakened, firms desire to have more investments from outsiders. Since the Prime Minister Koizumi, the government has tried to increase individual investors and foreign direct investment (FDI). However, it would not mean Japanese firms fully opened the door for foreign investors, as it cited two recent cases of protectionism, J-power and the Haneda airport. Firms want to increase funds from FDI but they would not expect to increase power of outside investors. In fact, they only want investment from outsider which can not influence their operations as a recent increase of cross-shareholding and counter measure of M&A. Therefore, although changes, especially legal changes, in stakeholder relations are significant, basic structure of business-shareholder relation is still substantially unchanged.

Clear trend of those changes is that major firms are shifting long term relation to lower cost providers. One reason of those changes would be economic recession in 1990s. Another reason is that the Koizumi government sought to increase Japanese global competitiveness, and with *Keidanren* advocated decreasing costs of production to survive in the global competition. It was right in some points. Many Japanese major corporations sought lower costs and enhanced their business. For example, Toyota increased their sales, and is battling to take number one car manufacturing position with General Motors. However, behind those successes, major firms victimised some

stakeholders such as employees and suppliers. Increasing Japanese employees and suppliers are financially suffering by cost cut policies of major firms. It does not only affect employees and suppliers of major firms because those suppliers also have employees and suppliers and condition of lower layer of hierarchy is worse. Indeed, wage difference between regular worker and non-regular worker is as different as 40% (Economist 2008c). According to the survey conducted by the Ministry of Internal Affairs and Communication (MIAC) (2008), number of non-regular workers exceeded 17 million (34% of all worker) and percentage of young non-regular employees who are age of 15 to 24 was nearly 50% in the average between January and March 2007. Their cruel cut off could be seen as unethical exploitation. In fact, traditional Japanese management was not ethical but certain level of positive relation was kept with their employees and suppliers. Now changes go worse.

4.2 Emerging Stakeholder Activism

It addressed Japanese stakeholder was long time quiet under the traditional Japanese management. However, some of the key factors of them have been slashed off although many other aspects are unchanged. As a result, Japan is looking widening gaps between rich and poor. In the New York Times, Friedman (1999) described:

Let's be honest: For the past 50 years Japan was just the most successful Communist country in history. It was only a matter of time before the forces that brought down the Berlin wall and the Soviet Union felled the wall around Japan as well.

In many points, it would be true. Firstly, he would pointed Japanese market protectionism as a characteristics of Communist country. More than 50 years of nearly continuous political domination by one party and strong initiative by selected elites would be sense of Communism. Secondly, achievement of significant economic equality, which all existing and existed Communist countries failed. Indeed, Japan sought all middle class society and achieved certain level. Now, high equality society has been slashed by the government and major business. Japan is on the way of shifting to the Capitalist country.

The last point of Japanese Communism aspect would be lack of civil society. Therefore, a shift to the Capitalist country would cause emergence of civil society.

Still small but some movement are emerging against business. For example, at May Day 2006, group of 100 non-regular workers demonstrate in Fukuoka and appealed situation of non-regular workers to the citizens (Ueno 2007) and this movement is now expanding. In addition, some successful cases can be seen now. For example, in the case of which a Toyota worker died because of overwork, action of his wife achieved significant change on Toyota.

On November 30th the Nagoya District Court accepted Hiroko Uchino's claim that her husband, Kenichi, a third-generation Toyota employee, was a victim of *karoshi* when he died in 2002 at the age of 30. He collapsed at 4am at work, having put in more than 80 hours of overtime each month for six months before his death. "The moment when I am happiest is when I can sleep," Mr Uchino told his wife the week of his death. He left two children, aged one and three. (Economist 2007d)

This victory is important not only for his family but also other Japanese employees because another point of this lawsuit was voluntary unpaid overwork. Toyota insisted that this overwork was spent for out of production *Kaizen* activity, and thus, this was voluntary unpaid overwork. *Kaizen*, which means improving, is heart of the Toyota's strategy. However, Toyota saw this activity, which is the centre of Toyota production system, as a voluntary work. Admit of *karoshi* by court means that Toyota's intervention of *kaizen* as voluntary overwork was denied. His widow announced statement in the Japan Foreign Press Centre rather than Japanese media because she would be afraid of ignorance of Japanese media which are dominated by Toyota as a huge sponsor of Japanese media. Finally, Toyota promised to pay for voluntary overwork. In addition, Japan McDonalds was sued by their store manager for unpaid overwork and court ordered to pay \$75000 for his unpaid overwork (Fackler 2008). Those lawsuit of employment issues increased 45% from 1997 to 2005 (Supreme Court cited by Fackler 2008). In fact, those cases are lawsuit rather than collective action and NGO activism still seems to implement against the government. However, Japanese citizens and media are increasingly keeping their sights on irresponsible activities of corporations.

Especially, media influence, which is being enhanced recent years, would help to formulate those actions although Japanese media tend to be dominated by giant corporations.

Moreover, privilege of internet would allow Japanese to easily reach the information, even non-reported information by media, and hence, people can see darker side of corporations. More importantly, internet makes easy to formulate group of people who share value or opinions, and to call and inform implementation of collective actions. In fact, many collective actions which Japan had not had were start from internet. Those social, economic, political and technological changes would increasingly empower stakeholders.

5 Conclusion

In conclusion, structure of unethical decision making embedded in their management systems and corporate culture is one of the most significant problems in stakeholder model of major firms in Japan. Japanese traditional stakeholder model would consist of relation and hierarchy. Japanese management achieved to establish long term relation with many of their stakeholders, and those long term relations were kept by certain levels of win-win relation. Therefore, it would be seen as stakeholder management because firms met certain levels of desires of stakeholders although some means of meeting desires of stakeholders are unethical. In other words, this long term relations can rather be seen as positive (not totally) for stakeholders. On the other hands, hierarchy is used to control their stakeholders. Japanese firms strengthen hierarchy by seniority system and *keiretsu*. Seniority system made strict organisational hierarchy and *keiretsu* established strong group hierarchy. Therefore, for profits, firms are likely to make decisions to harm stakeholders which are affected by rather than affect on such as employees and suppliers. It would be correct to be called as stakeholder control rather than stakeholder management.

Hence, now situation is going worse. Japanese majors are increasingly cutting off long time relation with their stakeholders and enhancing controls. Interestingly, it seems that Japanese majors are now moving to 'business as usual', while many Western firms are considering importance of shifting from

'business as usual' to socially responsible business. In fact, Japan now experience CSR boom, and literally 2003 is named the first year of CSR in Japan (Inagami et al 2007). However, it would not be movement but just boom, and therefore, few firms would seriously consider it. Increasing unethical decision to stakeholders and corporate scandals would prove Japanese CSR is just a boom. Fujii (2005) described Japanese CSR extremely lean to environmental aspect. In fact, according to the survey conducted by International Organization for Standardization (ISO) in 2005, holders of ISO14001 environmental standard in Japan significantly exceed any other country (Japan 23466; China 12683; Spain 8620; Italy 7080; United Kingdom (UK) 6055; United States (US) 5061). On the other hand, most Japanese firms did not develop concerns on human rights (EIRIS 2007). For example, Toyota is very famous for hybrid car Prius. However, at the same time, Toyota are often criticised because of treatment on employees and suppliers. It seems that, like Toyota, motivation of environmental responsibility is solely increase their profits. In fact, it is nothing wrong with taking responsibility to increase their profits. In terms of continuous social contribution, it is rather positive. However, if it is used to hide their irresponsibility as many Japanese firms seem to do, this type of fake CSR is 'the worst form of hypocrisy' (Hilton and Gibbons 2002 p94).

Increasingly enforcing corporate irresponsible decisions is sifting toward single profitability-oriented business. Moreover, hierarchy established by seniority-based corporate culture would be the most important point, and it would enhance Japanese likeliness of unethical decision. First reason is that in the strong hierarchy system would foster unethical decisions of low layer by high pressure for making profit. Second reason is that unethical decisions of middle managers would be unchecked and unreported to the management by parishioners of those decisions. Third reason is that few people can resist unethical decisions of top management. Thus, those points should be improved.

However, it is not easy, and it would be difficult to expect firms to change by themselves. Therefore, role of stakeholder to change firms would be important. In Japan, civil society is, at last, emerging and stakeholders are increasingly taking actions. However, it would still not be enough to radically

change unethical system of Japanese firms. What Japanese society needs now would be empowering civil society and stakeholders, and as it cited, globalisation is the tool to empower them. In sum, Japanese civil society should be a part of global civil society. However, terms of global civil society seems to be the Western-led. Thus, global civil society is careful for the West and what the West doing in the West and South. 'Japan is a highly developed country, integrated into the global economy, but it is neither geographically nor culturally part of the "West"' (Hirata 2002 p1). In other words, there are no East but only the West and South in the global civil society. To empowering Japanese stakeholders and to change unethical aspects of Japanese firms, cooperation and pressure from outside, especially from the West, would be a key factor to encourage spread of genuine CSR in the country where have difficulties of changes by itself under the situation of too much interdependent relation.

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