

Advances in Japanese Business and Economics

Volume 17

Editor in Chief

RYUZO SATO

C.V. Starr Professor Emeritus of Economics, Stern School of Business,
New York University

Senior Editor

KAZUO MINO

Professor Emeritus, Kyoto University

Managing Editors

HAJIME HORI

Professor Emeritus, Tohoku University

HIROSHI YOSHIKAWA

Professor, Risscho University; Professor Emeritus, The University of Tokyo

KUNIO ITO

Professor Emeritus, Hitotsubashi University

Editorial Board Members

TAKAHIRO FUJIMOTO

Professor, The University of Tokyo

YUZO HONDA

Professor Emeritus, Osaka University; Professor, Kansai University

TOSHIHIRO IHORI

Professor Emeritus, The University of Tokyo; Professor, National Graduate Institute for Policy Studies (GRIPS)

TAKENORI INOKI

Professor Emeritus, Osaka University; Special University Professor, Aoyama Gakuin University

JOTA ISHIKAWA

Professor, Hitotsubashi University

KATSUHITO IWAI

Professor Emeritus, The University of Tokyo; Visiting Professor, International Christian University

MASAHIRO MATSUSHITA

Professor Emeritus, Aoyama Gakuin University

TAKASHI NEGISHI

Professor Emeritus, The University of Tokyo; Fellow, The Japan Academy

KIYOHICO NISHIMURA

Professor, The University of Tokyo

TETSUJI OKAZAKI

Professor, The University of Tokyo

YOSHIYASU ONO

Professor, Osaka University

JUNJIRO SHINTAKU

Professor, The University of Tokyo

KOTARO SUZUMURA

Professor Emeritus, Hitotsubashi University; Fellow, The Japan Academy

Advances in Japanese Business and Economics showcases the research of Japanese scholars. Published in English, the series highlights for a global readership the unique perspectives of Japan's most distinguished and emerging scholars of business and economics. It covers research of either theoretical or empirical nature, in both authored and edited volumes, regardless of the sub-discipline or geographical coverage, including, but not limited to, such topics as macroeconomics, microeconomics, industrial relations, innovation, regional development, entrepreneurship, international trade, globalization, financial markets, technology management, and business strategy. At the same time, as a series of volumes written by Japanese scholars, it includes research on the issues of the Japanese economy, industry, management practice and policy, such as the economic policies and business innovations before and after the Japanese "bubble" burst in the 1990s.

Overseen by a panel of renowned scholars led by Editor-in-Chief Professor Ryuzo Sato, the series endeavors to overcome a historical deficit in the dissemination of Japanese economic theory, research methodology, and analysis. The volumes in the series contribute not only to a deeper understanding of Japanese business and economics but to revealing underlying universal principles.

More information about this series at <http://www.springer.com/series/11682>

Megumi Suto · Hitoshi Takehara

Corporate Social Responsibility and Corporate Finance in Japan

 Springer

Megumi Suto
Waseda University
Tokyo
Japan

Hitoshi Takehara
Waseda University
Tokyo
Japan

ISSN 2197-8859 ISSN 2197-8867 (electronic)
Advances in Japanese Business and Economics
ISBN 978-981-10-8985-5 ISBN 978-981-10-8986-2 (eBook)
<https://doi.org/10.1007/978-981-10-8986-2>

Library of Congress Control Number: 2018937344

© Springer Nature Singapore Pte Ltd. 2018

This work is subject to copyright. All rights are reserved by the Publisher, whether the whole or part of the material is concerned, specifically the rights of translation, reprinting, reuse of illustrations, recitation, broadcasting, reproduction on microfilms or in any other physical way, and transmission or information storage and retrieval, electronic adaptation, computer software, or by similar or dissimilar methodology now known or hereafter developed.

The use of general descriptive names, registered names, trademarks, service marks, etc. in this publication does not imply, even in the absence of a specific statement, that such names are exempt from the relevant protective laws and regulations and therefore free for general use.

The publisher, the authors and the editors are safe to assume that the advice and information in this book are believed to be true and accurate at the date of publication. Neither the publisher nor the authors or the editors give a warranty, express or implied, with respect to the material contained herein or for any errors or omissions that may have been made. The publisher remains neutral with regard to jurisdictional claims in published maps and institutional affiliations.

Printed on acid-free paper

This Springer imprint is published by the registered company Springer Nature Singapore Pte Ltd. part of Springer Nature
The registered company address is: 152 Beach Road, #21-01/04 Gateway East, Singapore 189721, Singapore

*This book is dedicated to Nobuhiko Suto and
Kazuko Takehara for their ongoing moral
support.*

Preface

Good relationships with society are a long-standing theme of the survival of business professionals in continuously changing societal and environmental surroundings. With rapid financial globalization since the late 1980s, academic researchers have broadly engaged in debates on corporate social responsibility (CSR) to ensure the long-term success of business as well as sustainable social development and have been increasingly concerned with the role of finance in motivating corporate managers to formulate sustainable management practices.

The global financial crisis in the late 2000s was a warning to financial institutions, investors, and businesses not to prioritize short-sighted economic success over social and environmental issues faced by global society and communities. With the erosion of business ethics and trust through myopia, we understand anew that alignment of business with social norms requires positioning business models and direct corporate management towards sustainable business. Alignment of business strategy with CSR is an urgent issue for corporate governance as well as the long-term success of corporate strategies. CSR awareness and practices of companies are deeply rooted in the societal and cultural background of an economy and are influenced by changes in a society's cultural circumstances. From a global perspective, the relationship of CSR awareness and practices to corporate financing and governance varies by country and region.

This book is based on our joint research investigating how multifaceted CSR practices have aligned with business and finance, and how they have influenced the corporate governance structure of Japanese companies since the 2000s. The conventional view of Japanese business is characterized as relationship oriented, with dependency on relationship banking and trading credits, cooperation between management and employees owing to long-term employment and career paths, and harmonization of businesses with the benefits they bring to the communities in which they operate. This uniquely Japanese business model, which is based on close relationships with lenders, employees, business partners, and communities, is sometimes called an insider-oriented system, compared to an outsider-oriented system, which prioritizes benefits for outside shareholders. With increasing economic and financial globalization since the 1990s, the conventional view of

Japanese corporate governance and corporate finance has become too narrow to understand this field in Japan since the late 2000s. The Japanese financial system has been shifting from a relationship-based system to a more market-oriented system, while retaining some features of the traditional Japanese system. In the process, the agents in companies' corporate governance and CSR awareness and practices have been changing.

This book aims to explore the linkages between CSR and corporate financing and governance in general, and changing corporate finance and governance of Japanese firms in particular. Financial globalization has gradually eroded the Japanese style of business and corporate governance based on relationships, in addition to influencing the awareness and practices of CSR in Japan. Although research on Japanese business and governance in transition has accumulated since the 1980s, few studies clarify the link between CSR and corporate finance and governance in Japan. We intend for this book to act as a stepping stone in research on the linkages between business and society and to provide empirical evidence on changes in Japanese corporate finance and governance.

The publication of this book was made possible by the cooperation of many people. First, we thank Ryuzo Sato, Editor-in-Chief of *Advances of Japanese Business and Economics*, who gave us an opportunity to add this book to the series. We also thank Rosita Chang, Keiichi Kubota, S. Ghon Rhee, and Akinobu Shuto for their valuable comments and discussions.

We acknowledge financial support from the Ministry of Education, Culture, Sports, Science and Technology under a Grant-in-Aid for Scientific Research ((C) 20380481 and (C) 15K03690) and the Health Labour Sciences Research Grant from the Ministry of Health, Labour and Welfare of Japan. We appreciate the Japan Sustainable Investment Forum, Nomura Securities Co., Ltd, and Kudo & Associates for making their data available.

To our editor, Juno Kawakami of Springer Nature, we are grateful for her excellent assistance in getting the book published.

Tokyo, Japan

Megumi Suto
Hitoshi Takehara

Contents

1	Introduction: Corporate Social Responsibility and Japanese Corporations	1
1.1	Focus and Contributions	2
1.2	Corporate Responsibility and Japanese Business	5
1.3	CSR Awareness of Japanese Companies Since the 2000s	7
1.4	CSR Awareness of Investors and SRI Market in Japan	8
1.5	CSP and CFP	8
1.6	Ownership Structure and Market Perceptions of CSR	9
1.7	Corporate Governance Reform and CSR	11
	References	12
2	Corporate Social Responsibility Awareness and Practices of Japanese Corporations	15
2.1	Conceptualization of CSR	15
2.2	CSR Theories and Strategic CSR	17
2.3	Stakeholder Management and Corporate Value	19
2.3.1	Resource-Based View	19
2.3.2	Risk Management Perspective	20
2.3.3	Information Advantage Perspective	21
2.4	Corporate Governance and CSR	23
2.5	CSR and Stakeholder Management in the Japanese Business Model	24
2.6	CSR Initiatives in the Early 2000s in Japan	24
2.6.1	Interpretation of CSR	26
2.6.2	Trends of CSR	26
2.7	CSR Awareness and Practices Since the Late 2000s	27
2.8	CSR Reporting and Corporate Governance Reform	30
2.9	Conclusion	33
	References	33

3	Responsible Investment and Institutional Investors	37
3.1	Corporate Finance and Asset Management in Japan	38
3.2	Behavioral Bias of Institutional Investors in the 2000s	43
3.3	SRI Market in Japan	45
3.4	Corporate Governance Reform and Responsible Investment	48
3.5	Conclusion	50
	References	51
4	Corporate Social Performance and Corporate Financial Performance	53
4.1	Introduction	53
4.2	CSP and Stakeholder Management	54
	4.2.1 Channels to Link CSP and CFP	54
	4.2.2 Competitive Advantage and Risk Management	58
4.3	How to Measure CSP and CFP	59
	4.3.1 Measures of CSP	59
	4.3.2 Profitability and Risk Measures	61
4.4	Samples and Methodology	63
	4.4.1 Samples	63
	4.4.2 Correlations Between CSP and CFP	63
	4.4.3 Differences in Financial Performance: High and Low CSP Portfolios	67
4.5	Regression Analyses	67
	4.5.1 Regression Model	67
	4.5.2 Regression Results for 2008–2016	69
	4.5.3 Regression Results for Sub-periods	73
	4.5.4 CSR Awareness of Japanese Firms: An Additional Fact	78
4.6	Conclusion	80
	References	83
5	Corporate Social Performance and Ownership Structure	87
5.1	Ownership Structure and Investor Behavior	88
	5.1.1 Institutional Investors and CSR	88
	5.1.2 Corporate Ownership and Institutional Investors in Japan	90
5.2	Foreign Ownership and CSP	94
	5.2.1 Preference of Foreign Investors	94
	5.2.2 CSP and Ownership Structure: Hypothesis Development	96

5.3	Data and Variables	98
5.3.1	Categorization of Ownership	98
5.3.2	Firm Characteristics	99
5.3.3	Descriptive Statistics: CSP and Stock Ownership Structure	99
5.3.4	Correlations	104
5.4	Regression Analyses	106
5.4.1	Effects of Ownership on CSP	106
5.4.2	Impact of Changes in Ownership on Changes in CSP	107
5.5	Summary Results and Concluding Remarks	113
	References	116
6	Market Perceptions of Corporate Social Responsibility and Cost of Capital	119
6.1	Corporate Financing and Risk Premium	120
6.1.1	CSR and Cost of Capital	120
6.1.2	CSR and Capital Market Perception	121
6.1.3	CSR and Ownership Structure	123
6.1.4	CSR and Bank Borrowing	124
6.1.5	CSR and Financial Constraints	125
6.2	Hypothesis Development	125
6.3	Empirical Analyses	128
6.3.1	Estimated Cost of Capital	128
6.3.2	Firm Data and Control Variables	129
6.3.3	Correlations	132
6.3.4	Regressions for Full Observation Period	135
6.3.5	Regressions for the Sub-periods	139
6.4	Fama–French Cost of Capital and CSR: A Robustness Test	142
6.4.1	Regression Results for Full Observation Period	142
6.5	Conclusion	149
	References	151
7	Corporate Social Responsibility Awareness and Management Forecast Bias	155
7.1	Management Forecast Disclosure in Japan	156
7.2	Prior Research and Basic Concepts	158
7.2.1	CSR and Risk Premium	158
7.2.2	Management Forecast and Internal Rate of Return	159
7.2.3	Implied Cost of Equity and Internal Rate of Return	161
7.3	Hypothesis Development	162
7.3.1	CSR Awareness and Management Forecast Bias	162
7.3.2	Hypotheses	163

7.4	Empirical Analyses	164
7.4.1	Data and Variables	164
7.4.2	CSR-Ranked Portfolios and Awareness	168
7.4.3	Regression Model and Results	169
7.4.4	Regressions by Firm Size Groups	171
7.4.5	Forecast Optimism and Conservatism	173
7.5	Concluding Remarks	175
	References	176
8	Effects of Corporate Social Performance on Default Risk: Structural Model-Based Analysis on Japanese Firms	179
8.1	CSP and Expected Default Probability	179
8.2	Literature Review and Hypothesis Development	180
8.2.1	CSP and Credit Risk	180
8.2.2	Hypothesis Development	181
8.3	Results from the Portfolio Formation Approach	184
8.3.1	CSP Measure, Parameter Estimates, and Control Variables	184
8.3.2	Portfolio Formation to Check Linearity	186
8.3.3	Relationship Between CSP and Probability of Default	188
8.4	Results from Regression Analyses	189
8.4.1	Regression Models	189
8.4.2	Findings from Regression Analyses	193
8.5	Effects of CSP on Recovery Rate and Credit Spreads	195
8.6	Conclusion	198
	References	198
9	Relationship Between Technological Innovation, Corporate Social Performance, and Corporate Financial Performance	201
9.1	CSR Activities as a Mediator to Manage Firms' Risk	201
9.2	Literature Review and Research Hypothesis	202
9.3	Methodology and Data	204
9.4	Characteristics of Constructed Portfolios	208
9.5	Results of Regression Analysis	211
9.6	Conclusions and Implications	214
	References	215
10	Conclusion—The Future of Corporate Social Responsibility and Corporate Finance in Japan	217
10.1	Research Questions and Findings	217
10.2	Integration of Internal and External Disciplines for Responsible Business	221

10.3	Information Advantage of CSR in Japan's Financial Market . . .	222
10.4	Long-Term Competitiveness and Sustainability	223
Epilogue	225
Index	227

About the Authors

Megumi Suto is an Emeritus Professor of Waseda University. She was a Professor of Graduate School of Business and Finance, Waseda University, for April 2016–March 2018, a Professor of the Graduate School of Finance, Accounting and Law, Waseda University, for April 2004–March 2016, and a Professor of Faculty of Economics, Chuo University for April 1993–March 2004. She had positions of Visiting Professor of Hitotsubashi University and Osaka University and Visiting Researcher of Oxford University and University of Stirling. She received her Ph.D. in Economics at Keio University. She was a Board Member of Japan Society for Economic Studies of Securities for 1997–2009, a board member of Japan Society of Monetary Economics for 2004–2011, and an editorial member of *Japan Securities Analyst Journal* for 1997–2015. Her main interest is in corporate governance and functions of financial system, and she has conducted research on corporate social responsibility and corporate governance in the context of Japanese financial system.

Prof. Hitoshi Takehara received his Ph.D. in Management Science and Engineering from the University of Tsukuba. After working at the MTB Investment Technology Institute (currently, Mitsubishi UFJ Trust Investment Technology Institute) as a researcher, he started his academic career as an assistant professor at the Institute of Socio-Economic Planning, University of Tsukuba. Since 2006, he has been a Professor at Waseda University Graduate School of Business and Finance. His main research interest is in asset pricing models and portfolio management. He had been a President of Nippon Finance Association from 2010 to 2013.

List of Figures

Fig. 3.1	Household assets in Japan (1985–2015). <i>Source</i> Bank of Japan, time series statistics	39
Fig. 3.2	Corporate surplus and borrowings (1985–2015). <i>Source</i> Bank of Japan, time series statistics	41
Fig. 3.3	Trends of SRI investment trust funds (1999 October–2015 September). <i>Source</i> Japan Sustainable Investment Forum. <i>Note</i> Including hybrid type of SRI	47
Fig. 4.1	Stakeholder management.	56
Fig. 4.2	Construction of CSP indexes	60
Fig. 5.1	Ownership Structure of Listed Companies (1985–2016)	93
Fig. 5.2	Regression model to test the relationship between ΔOWN and ΔCSP . (Sample period 2008–2011)	109
Fig. 7.1	Definition of variables.	166
Fig. 7.2	Implied cost of equity of 25 portfolios	170
Fig. 8.1	Volatility of 25 size-CSP ranked portfolios.	191
Fig. 8.2	Drift term of total asset (μ_A) of 25 size-CSP ranked portfolios.	191
Fig. 8.3	Market value to total assets ($\ln VA/D$) of 25 size-CSP ranked portfolios.	192
Fig. 8.4	Distance to default of 25 size-CSP ranked portfolios	192
Fig. 9.1	Relationship between innovation, CSP and CFP.	203

List of Tables

Table 2.1	CSR policies and practices	29
Table 2.2	CSR priorities	31
Table 2.3	Number of environmental reporting companies	31
Table 2.4	Non-financial reporting and ESG disclosure in Japan	32
Table 2.5	Respect for stakeholders in internal regulation of listed companies	33
Table 3.1	Financial assets of households (2017)	40
Table 3.2	Financial liabilities owed by private non-financial corporations (2017)	42
Table 3.3	Ownership structure of listed companies	42
Table 3.4	Publicly offered SRI investment trusts: net assets by fund type.	46
Table 3.5	Proportion of SRI relative to total managed assets by region	49
Table 3.6	Institutional and retail assets of SRI	49
Table 3.7	Number of PRI signatories	49
Table 4.1	Number of sample firms	64
Table 4.2	Spearman rank correlation between CFP and explanatory variables	65
Table 4.3	CFP of composite CSP ranked portfolios	68
Table 4.4	Regressing firms' profitability/risk measures onto composite CSP	71
Table 4.5	Regressing firms' profitability/risk measures onto CSP dimensional indexes	72
Table 4.6	Composite CSP and CFP: sub-period results, 2008–2011	74
Table 4.7	CSP dimensional indexes and CFP: sub-period results, 2008–2011	75
Table 4.8	Composite CSP and CFP: sub-period results, 2012–2016	76
Table 4.9	CSP dimensional indexes and CFP: sub-period results, 2012–2016	77

Table 4.10	Difference in financial variables between respondents and non-respondents	79
Table 5.1	Ownership structure of listed companies at market value.	91
Table 5.2	Number of sample firms.	98
Table 5.3	Descriptive statistics of sector-wise CSP	100
Table 5.4	Descriptive statistics of stock ownership structure of Japanese firms	101
Table 5.5	Correlation among CSP, ownership structure, and firms' characteristics.	105
Table 5.6	Effects of stock ownership structure on CSP	108
Table 5.7	Impact of changes in shareholdings on the progress of CSR, 2008–2011	111
Table 5.8	Impact of changes in shareholdings on the progress of CSR, 2013–2016	114
Table 6.1	Number of sector-year observations	130
Table 6.2	Descriptive statistics and correlation matrix	133
Table 6.3	Results of the regression analyses	136
Table 6.4	Sub-period results.	140
Table 6.5	Number of sector-year observations (Fama and French).	143
Table 6.6	Descriptive statistics and correlation matrix (Fama and French).	144
Table 6.7	Results of the regression analyses (Fama and French)	146
Table 6.8	Sub-period results (Fama and French)	148
Table 7.1	Number of observations	165
Table 7.2	Descriptive statistics.	167
Table 7.3	Correlations among variables	167
Table 7.4	Implied cost of equity of 25 portfolios.	168
Table 7.5	Results of two-stage regression analyses	171
Table 7.6	Size category-wise two-stage regression results	172
Table 7.7	Regression results of upward forecast bias and downward forecast bias	174
Table 8.1	Number of samples	185
Table 8.2	Descriptive statistics.	185
Table 8.3	Pearson and Spearman correlations among variables	187
Table 8.4	Composite CSP-ranked five portfolios	188
Table 8.5	Size and CSP-ranked 25 portfolios.	190
Table 8.6	Results of pooled regression analysis.	194
Table 8.7	Summary of year-by-year regression analysis.	195
Table 8.8	Probability of default, recovery rate, and credit spreads of 25 size-CSP ranked portfolios	197
Table 9.1	Number of firm-year observations in each industry	207
Table 9.2	Descriptive statistics.	208
Table 9.3	Pearson and Spearman rank correlation matrix.	209

Table 9.4	Technological competitiveness (<i>TC</i>) ranked quintile portfolios	210
Table 9.5	Composite CSP score (<i>CSP</i>) ranked quintile portfolios	211
Table 9.6	Technological competitiveness, CSP, and profitability	212
Table 9.7	Technological competitiveness, CSP, and risk	213