NipponEthics Stakeholder Model-
Understanding How Japanese Companies Manage Key Stakeholders

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Abstract
Business concept is gradually changing on a global level, shifting from a chiefly profit focused viewpoint to a more stakeholder focused perspective. As the number of social enterprises increase and business enterprises become more socially conscious, leaders worldwide face the challenge to accommodate this shifting trend from stockholder interest to stakeholder interest. Japanese companies have long proven to be successful, using a unique stakeholder management approach. This paper focuses on Japanese companies, analysing the importance and management style of five key stakeholders - customers, employees, suppliers, shareholders and the environment. Taking Aristotle's virtue approach, this study conducts an in-depth analysis of business practices, social values and corporate culture, subsequently developing the NipponEthics Stakeholder Model, which shows a unique balancing mechanism practised in Japanese society; the position and role of all five stakeholders are explained using this visual aid. The paper investigates a complex scenario and provides a simple, practical model, so that businesses outside Japan can understand the structure of this symbiotic ecosystem based on a platform of respect. Additionally, the model can be utilized domestically on Japanese business failure scenarios, aiding the assessment of imbalance and analysing the reasons for such decline.

Keywords: Stakeholder Theory, Social Business, Japan, Customer, Employee, Supplier, Shareholder, Environment

1. Introduction

Business philosophy is gradually evolving on a global level, moving away from a purely profit focused perspective to a more stakeholder focused approach. Social enterprises and socially conscious businesses are on the rise as there is a shift in trend from stockholder interest to include other stakeholders' interests (Deloitte Insights, 2018). While Adam Smith's invisible hand (guided by self-interest) had been the mantra for many traditional businesses, especially in the west, commonly recurring business scandals, such as the sweatshop crisis, environmental degradation, principal / agent deception, have raised concerns regarding companies managed chiefly in the interest of stockholders. Imbalanced corporate strategy creates vulnerable parties, where the persistent focus on one theme is often achieved through the expense of another (Zona, Minoja & Coda, 2013). The need for balance or moderation is an age-old idea and an Aristotelian theme that came long before capitalism. Furthermore, research indicates that companies with stakeholder focus have a long term view, providing them with competitive advantage, marked by better earnings, revenue, investment and job growth (McKinsey & Company, 2020).

Japan, being an isolated country for some 250 years, has developed a unique stakeholder management approach, proving to be successful without pursuing self-interest. Amartya Sen describes Japan as "the most successful capitalist nation in the world (that) flourishes economically with a motivation structure that departs firmly - and often explicitly - from the pursuit of self-interest, which is meant to be the bedrock of capitalism" (Sen, 1993: 50). While researchers have analysed areas of stakeholder perspective in Japan (Tanimoto, 2017; Allen, Carletti & Marquez, 2007; Maitland & Umezu, 2006; Wu & Wokutch, 2015; Allen & Zhou, 2007; Jackson & Moerke, 2005), a comprehensive model is yet to be developed for practical use, focusing on stakeholder importance and management technique. Taking Aristotle's virtue approach, we investigate Japan's social values, corporate culture and business practices to develop the NipponEthics Stakeholder Model. The purpose of this paper is to create an accessible model that illustrates how Japanese companies manage relationships with five key stakeholders - customers, employees, suppliers, shareholders, and the environment - to understand the unique balancing mechanism that led to their success.

2. How Japanese Companies Manage Key Stakeholders

2.1 Customers

Modern Japan is renowned for excellent customer service; *kyakusama wa kamisama* directly translates to 'customer is god' and this perception is emphasized in companies' policy and customer management. The concept of customer as god instead of customer as king originates from hospitality culture and bushido code (Al-alsheikh, 2014). Hattori (2008), as cited by Al-alsheikh (2014), explains how guests in olden days were considered to be gods bringing good fortune to homes, imbuing a hospitality culture. Additionally, the samurai bushido code stressed politeness as an essential part to uphold harmony, which till this day remains ingrained in the nation and its culture. Hannon and Sano's 1994 paper examined 19 Japanese companies of differing sizes from diverse industries in search of customer-driven policies and practices; they found that from employee recruitment to training and retainment, the notion of 'customer comes first' is stressed repeatedly to employees. A few key examples from Hannon and Sano's 1994 paper are listed here. ANA Hotel pamphlets highlight customers come before employees and the hotel itself - an introductory document provided during the employment application process. Prince Hotels use customer role plays during the interview process. JAL's president's speech to new recruits reiterates two main themes - safety and customer service. Dai Ichi Kangyo Bank's orientation program includes extensive group and independent study of proper business behaviour and customer expectation. Nippon Express assigns new university graduates to two to three years of field training, interacting closely with the customers. Sumitomo Bank uses video recordings of customer-employee relationships for training and improvement purposes. Daiei's staff work in sales twice a year to remind them about the core of the business - their customers.

Face-to-face personal contact is highly valued in Japanese customer service and various cultural practices such as seasonal gift giving, introduction (*aisatsu)* of new staff, allow for more personal visits with business clients. While it may be unusual in many countries to see a current supplier visiting just to say hello, in Japan this type of personal touch, which requires more effort than an email or a phone call, is much appreciated as it shows how each customer is valuable. Business to business relationships also require a clear point of contact so any problem can be discussed with one key contact, who has background information and understanding of the unique requirements of the client. Khan, Naumann, Bateman & Haverila (2009) conducted a cross-cultural study of 700 senior managers in Japan and over 700 senior manager in the US; they found that in contrast to the US, Japanese companies placed greater importance on the performance of account representatives and technicians when determining their level of satisfaction with the service. Long term relationships with suppliers further deepen this personal customer-supplier relationship and instill the sense of 'it's not just business, it's very personal'.

2.2 Shareholders

As Japan practices stakeholder capitalism, the companies are not run primarily in the interest of shareholders, but with a broader view that includes the interests of other stakeholders. Yoshimori's 1995 survey of senior managers, as cited by Allen & Zhao (2007), shows that an overwhelming 97% feel the company belongs to all stakeholders, and not just shareholders; similarly 97% think job security is more important than dividends, starkly contrasting the views of US and UK managers participating in the same survey. This popular consensus, along with the structure of corporate governance, allows Japanese companies to focus on long-term gains, instead of short-term profits (Jackson & Moerke, 2005). Shareholders, who hold the sole voting power, choose the board of directors by majority vote, and the board in turn chooses management from members within the board. While shareholders are the owners and retain the rights to change management and in extreme cases of conflicting interest, inside shareholders (cross-shareholding partners, including the main bank) may compel management to give priority to their interest (something that is sparingly exercised only with long term decline in stock prices and consistent losses). In some ways, Shishido (1999:30) claims that employees may be the "(quasi-)owners of the firms", a thought that is seconded by Ahmadjian and Robbins (2005). It is common practice in Japan for inside shareholders, including major shareholders, to leave the management decisions to the board members and core employees. Outside shareholders have no voice in corporate governance (only recognized in the financial market), regardless of how much stock they own, and can only monitor by exit. Hence, external monitoring such as hostile takeovers (forceful acquisition of a company by directly going to the company's shareholders), although common in the US and UK, are inconceivable in Japan.

Although Japanese companies are not run chiefly in the interest of the shareholders, in many ways they have more rights and protection compared to their US counterparts (Shishido, 1999; Allen & Zhao, 2007). Japanese shareholders can directly nominate and elect directors, and determine dividends and management remuneration through shareholder meetings. Japanese corporate law not only protects shareholders from possible abuse from company management, but also allows them the right of inspection of company accounting books and other related documents, and the right to make proposals to be considered in shareholder meetings. Furthermore, any wronged shareholder can file a lawsuit against directors of the company with a minimal flat fee. (Shishido, 1999)

While there is increasing pressure for Japanese companies to change and give more rights to shareholders, especially given the increasing number of foreign investors, Japanese companies continue their status quo. Gotoh (2019) argues that this decision is costing the economy by increasing the number of non-regular employees, thereby reducing the Japanese average household income. Japanese CEOs are also among the lowest paid in the world and unlike other countries, a significantly smaller portion of their compensation is tied to stock options (Pan & Zhou, 2018). This indicates a different set of corporate governance mechanisms are practised to align shareholder-management incentives (commonly referred to as the principal-agent problem or the agency problem), with factors such as long-term employee development and seniority based promotion playing significant roles in mitigating / removing opportunistic behaviour.

2.3 Employees

Japanese companies typically hire university graduates, many of whom stay with the company till the age of retirement. While long term employment is not uncommon in other nations, Japan is unique in that it has one of the highest proportion of employees with 20+ years of tenure among the OECD countries, with companies encouraging internal promotion of long standing employees (Ono, 2007). Although lifetime employment is not contractually stated, hence harder to measure, it provided job security to 38.9 percent of male employees employed by large companies and 23.8 percent of male employees employed by all companies in 2016 (Jones and Seitani, 2019). Japanese employees often refer to their companies as *uchi no kaisha,* which literally translates to ‘our home’s company’, showing linguistic embodiment of lifetime employment and devotion of the employees. While the structure of the Japanese labour market is evolving in recent years to include more contractual workers and thereby reducing lifetime employment - an issue that media continues to highlight - Kuriyama (2017) states companies’ continued effort to provide employment security has helped keep the country’s unemployment rate low (2.8% in 2020, according to the World Bank).

Once employed, workers experience various lateral moves within the organization, learning different aspects of the business through job rotation, and after they have accumulated 10-15 years of experience within the company, they are considered for promotions (Itoh, 1991). White-collar workers and blue collar workers are both promoted based on experience within the company and personal merit ratings. Ono & Shiraishi’s 1993 survey as cited by Ono (2007), shows that Japanese executives give more importance to employment length or nativity (employees who have worked in the same company from the start of their employment lifetime) than American companies, showing Japanese companies’ emphasis on employees’ loyalty and accumulated knowledge of the organization. Given internal promotion requirements and an external environment, that is generally not conducive to job mobility from company to company, employees have low incentive to change companies. Another key distinguishing factor of Japanese employee management is their lack of pay for performance or immediate reward system; instead we see that the employee's reward is spread over the length of their service, following a seniority based promotion and pay structure, which again reconfirms an outlook of long term security for employees over short-term immediate gains sharing.

Japanese companies are much like a community, looking after and protecting the interest of their employees. Ahmadjian and Robbins (2005) echo this by highlighting stakeholder capitalism in Japan, arguing that companies in Japan are run in the interest of employees rather than the interest of shareholders. For example, Keidanren (Japanese Business Federation), consisting of 1,444 Japanese companies, is currently working on work style reforms, focusing on reduction of employee working hours and encouraging employees to take leave (Keidanren Annual Report, 2020). This reform can help improve the work-life imbalance of Japanese employees and reduce workaholism and related problems in the country.

2.4 Suppliers

In order to solve the quintessential supplier-related problems of over-pricing, poor quality products and long lead time, Japanese corporations have chosen the route of implicit long-term contracts and cooperative relationships with suppliers. This starkly contrasts the general American approach based on short-term supplier contracts and aggressive bidding among the suppliers. While short-term contracts may solve the problem of over-pricing and long lead time, these suppliers typically do not invest in expensive relationship-specific assets that could enhance the quality of the products, given the ephemeral nature of the contracts (Hills, Jones & Schilling, 2014). Long-term supplier commitment and cooperative relationship with suppliers have been linked to enhanced supplier performance as a source of competitive advantage (Lee, 2004; Helper & Sako, 1995; Clark, 1989).

The Toyota Group, sometimes referred to as a *keiretsu* (core manufacturing firm and its network of suppliers within its value chain), has a hands-on approach with its suppliers, providing them with training and resources, while keeping a strict scorecard system that clarifies expectations. The suppliers are given rigorous targets for quality, cost, delivery and technological capabilities (Toyota Supplier's Guide, 2021) and encouraged to work together to bring about improvements. Supplier associations are formed which facilitate self-learning (*jishuken)*; additionally Toyota provides assistance to its suppliers by sending experts to suppliers' factories for training and process improvement as part of its Supplier Support System. For instance, Toyota Motors Thailand established The Toyota Cooperation Club (TCC) as an initiative to improve local suppliers' effectiveness; TCC provided lectures and activities-based training on various aspects of quality management, as well as providing a platform for its 92 first tier suppliers to network with one another (UNCTAD, 2001).

Japanese companies, regardless of their sizes, tend to engage in long term commitments with their suppliers and this is considered the societal norm (Kuriyama, 2017; Kato, Nunes & Dey, 2016; McGuire & Dow, 2009). Long term engagements allow companies to understand one another's requirements and unique ways of doing business, enabling companies to create an infrastructure for a long lasting relationship with advanced coordination. The supportive nature of their engagement creates additional goodwill and parties are willing to invest in the relationship, which further strengthens performance. Japanese suppliers place a high level of trust on their customers; according to Sako & Helper's 1996 survey of over 1000 suppliers, cooperative supplier-customer relationship based on information exchange, technical cooperation and long term commitment, are some of the key elements that helped build trust and reduce opportunism.

2.5 The Environment

The Japanese way of life has a strong reverence for nature and this can be seen in various aspects of day to day life. From a young age, children in Japan are taught the concept of *mottainai* (wastefulness) in school and at home, learning the importance of preservation of energy and recycling (Yolin, 2015). Households separate recycling products into different categories - glass bottles, PET bottles, plastic, papers - following clear material marks provided on the packaging, thereby actively contributing to the initial sorting process. Shintoism, the major religion of Japan (69% Shinto, according to the World Factbook), often associated with the Japanese way of life, is based on the belief in *kami* in all things, placing high respect on nature. Buddhism, the second major religion of Japan (66.7% according to the World Factbook), teaches inter-relatedness of all things in nature and *karma*, inspiring peaceful coexistence between mankind and nature. Although most people in Japan are not religious (according to Japan Social Survey (JGSS) 2015 cited by JGSS Research Center (2017), 68.6% do not follow a religion), and it is common to see syncretism of *kami* and buddhas, as shown by the previously cited overlapping percentages of religion (Robertson, 1987; Reader, 1991), religion and culture are interlinked into a way of life that encourages living together with nature. *Hanami*, a celebration to enjoy sakura flowers, is an event which embodies the concept of *kami* in nature. These cultural, societal and individual experiences - some long-standing, others more recently institutionalized - may affect the way CEOs, managers and consequently, companies approach environmental issues.[1]

Large companies in Japan perform well in terms of management of carbon emission and waste disposal; they are generally regarded as being ahead of North American counterparts, and on a similar level to European companies (Cremers, Grundin, Yamada, Goerg, & Nuttall, 2021). As of 2019, 18,026 Japanese companies were ISO14001 certified, ranking Japan second in the world in terms of ISO14001 certification (ISO, 2019). Eco Action 21, a Japanese environmental management system for SMEs, registered 5,600 companies as of 2010 (UNEP, 2013). Kyoto Environmental Management System Standard website (KES), which is a similar environmental certification for SMEs, also reports certification of over 4,000 businesses. Japanese companies tend to analyse their supply chain, checking the environmental friendliness of business partners, often giving preference to environmentally friendly goods or services, especially after the Act on Promoting Green Purchasing in 2001. Bigger companies sometimes require their suppliers to have environmental management systems in an effort to 'green' their supply chain. Additionally, a large percentage of big firms publish environmental reports (more than 80%, according to Japan's Ministry of Environment 2012 report), although the percentage is lower for SMEs with sales below 100

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[1] At a business conference in Bangladesh, a CEO of an established business publicly announced his disdain for environmental rules as he could not understand why businesses should care about spending money to treat industrial waste. The Japanese company representatives, present in the same meeting, shook their heads in disbelief at this callous remark. While this may be an act of transgression in Japan, it is not an unusual perspective in Bangladesh, where environmental concepts are fairly new. In Bangladesh, it is a common sight to see untreated waste being dumped in the rivers, people throwing bags of household trash from the rooftops of their high-rise buildings to empty plots next door, individuals littering without a second thought. As a Bangladeshi-Japanese growing up in Bangladesh, I could see how his accumulated experiences might have influenced his comments, and how unbelievable it must have seemed to a Japanese person with contrasting experiences in Japan.

billion yen, presumably due to lack of funds and knowledge of environmental initiatives. Environmental reporting provides transparency for the public, facilitating clear communication about environmental initiatives undertaken by the companies.

Japanese companies' level of environmental commitment was influenced by a combination of law enforcement, availability of right waste management resources and support, and societal awareness of business' impact on the environment. For example, illegal dumping by waste disposal companies posed a major problem in the 1970s and the 1980s, making headlines in the media. Public skepticism towards waste disposal companies further thwarted the construction of much needed new waste disposal facilities, creating a vicious cycle of illegal dumping. The government imposed strict measures to address this crisis, introducing a penalty of up to 100 million yen (close to US$1 million) for illegal dumping, increasing accountability of major waste generating businesses, and providing support for development (UNEP, 2013; Fujikura, 2011; Ministry of Environment, 2006). Businesses which were previously using the cheapest waste disposal companies, started selecting their partners more carefully, thereby reducing the black market of illegal dumping. With the right atmosphere, combining law, resources and awareness, the number of illegal dumping cases that peaked in 1998 dropped 88% by 2015 (Ministry of Environment, 2017). As such, Keidanren (Japanese Business Federation) Voluntary Action Plan on the Environment (1997), providing clear measurable voluntary goals by companies in 36 industries, is testament to the industry's commitment to the environment. (Keidanren, 1997).

3. NipponEthics Stakeholder Model

Analysis of the five stakeholders - customers, shareholders, employees, suppliers and the environment - shows a unique balancing mechanism among them, in an intricate web based on a platform of respect. This is illustrated in Figure 1 (next page), which will henceforth be referred to as the NipponEthics Stakeholder Model.

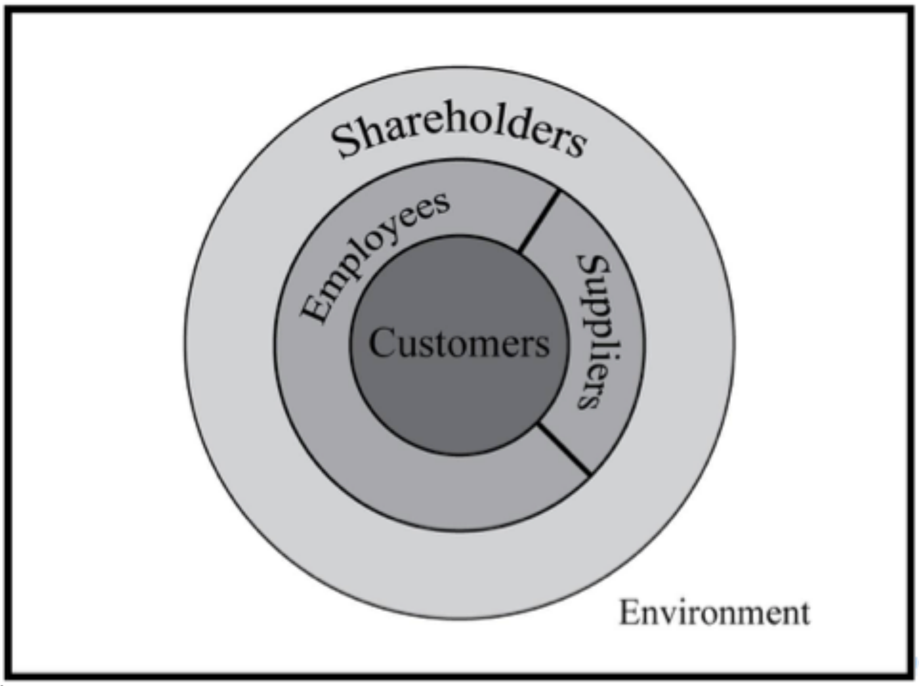

Figure 1: NipponEthics Stakeholder Model

The figure above is explained from the core outwards, summarizing the analysis in the former section of the paper. The core function of the business and the reason for its existence is the customer. The importance of customers is paramount and repeatedly emphasized in new employee training and upheld in company policies. This genuine interest in serving the customers and providing something that is useful to them is at the heart of the model, driving the mission of the business. The customers are kept at the center throughout the implementation of different policies and utmost effort is given to ensure customers' needs are gauged and met. Employees and suppliers work as partners to serve the customers' needs, taking an adjacent position to the customers in this concentric circle model. The employee-supplier relationship is a long-term one based on mutual trust and respect. Training and resources are provided for supplier growth, and suppliers are seen as an essential part of the business in a direct position to affect supply chain efficiency. While suppliers are given clear indication of their performance, this relationship remains cooperative in nature. The model places suppliers in a key position in partnership with the employees, who cover a greater surface area due to their leading role. The outside of the concentric circle consists of shareholders - the owners of the business. The owners delegate management to the employees, entrusting them with key decision making power and keeping a hands-off approach. This allows companies to focus on long-term growth, rather than short-term profits. In this ecosystem, shareholders play the role of business supporters placing trust in the employees to make the right decisions, intervening only when there are consistent long-term losses. In some ways the owners are akin to spectators, providing financial capital and believing a democratic process will carry out the optimum output. Employees' long-term association with the company, seniority-based pay structure, and compensation packages with low proportion of stock, all act as control mechanisms, discouraging opportunistic behavior (such as the principal-agent problem) and providing a focus on long-term development of the company. Employees frequently remain in the same company till the age of retirement, and companies try to provide security against recessional job losses; Hannon & Sano (1994) uses the term human resource development instead of human resource management, to depict this ongoing incubation process of company employees. Finally, the environment is placed outside the concentric circle, not because it is not a core component, but because it is a part of all the stakeholders. In essence, Japanese society places a high focus on inter-relatedness, encouraging harmonious coexistence with nature as a duty. The collectivist nature of the society provides a strong sense in individuals to uphold their duties to the community, hence all stakeholders feel they have a part to play in protecting the environment. Although 'black companies' (a Japanese term for exploitative companies) exist in Japan, and pollution spiked during the bubble economy with many illegal dumping cases (UNEP, 2013), the implementation of environmental policies and provision of appropriate resources brought a drastic decline to such incidents. It is important to note that the NipponEthics Stakeholder Model is based on general Japanese companies and these generalizations cannot be applied to 'black companies', which are far from the norm in Japan.

A recurring theme in the NipponEthics Stakeholder Model is the idea of respect and a sense of gratitude to the other stakeholders. Each of the five key stakeholders studied in this model receives and gives respect to the others in this symbiotic ecosystem, where each recognizes the importance of the role played by the other.

4. Conclusion

Japan's stakeholder management is particularly unique and maintains a delicate balance among the five stakeholders examined in the NipponEthics Stakeholder Model. Japanese companies remain profitable while acting as a community, protecting and serving the needs of others. Taka (1994) compares Japanese companies to *mura* (local community), stating how businesses have taken on many of the roles expected from the community; similarly, Akio Morita, former CEO of Sony, refers to businesses in Japan as social businesses in his 1988 interview with Upon Reflection host, Al Page. This study attempted to dissect a complex scenario to provide a practical and simplified model, especially with the hope to aid businesses outside Japan which would like to understand or pursue a model that is not chiefly profit driven. Additionally, NipponEthics Stakeholder Model could be used domestically to aid the assessment of imbalance in Japanese business failure scenarios, and analyse the reasons thereof.

As with research that tries to simplify complex scenarios, this study is not without its limitations, losing some valuable information in the process of simplification. The stakeholder analysis could, for example, include competitors, business communities, government and others that are part of the Greater Society. This study does not look into the complexities in management and contributions made by part-time employees, who are essential members of the businesses. It does not go into further analysis of individual customers, their rights and limitations. It does not explain the complexities of work culture development at the individual level, morphed by the education system and societal expectations. While these particular areas fell outside the scope of this research, they remain important areas to consider for future research.

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