Stakeholder Management of Japanese Companies: The View from Russia

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Abstract

Modern companies engage with various local and international stakeholders and have to manage sophisticated relationships with them. In this paper the specificity and features of stakeholder management in Japan are examined, including the way companies address social issues. The management concept of a soft edge by R. Karlgaard was enhanced with a stakeholder approach. Japanese companies doing business in Russia have certain difficulties, as in many other countries, but they also enjoy great opportunities in the market, some of which are connected with Russian stakeholders providing international business development. Multiple lessons may be learned by Russian business from Japanese management practices.

Keywords: stakeholders, CSR, Japanese management, Japanese–Russian business

1. Introduction

Stakeholder management is a new field of research both in Russia and in Japan. In my country there is a certain need to amass successful experience of interactions with stakeholders from foreign companies. Japan is a country with developed corporate social responsibility (CSR) and, taking into consideration that stakeholder management was a part of CSR activity until recent years, it is interesting to see how responsible Japanese companies find their own way to communicate with local and international stakeholders now, in conditions of economic recession. In 2011 I spoke to several managers of large Japanese corporations (Sony, NEC, Mitsubishi, Honda, Mitsui, Sompo Japan, Panasonic, Japan Tobacco, and others) about their CSR activity. Then in 2015 I had a chance to continue my research and ask some of those managers and others about stakeholders’ embeddedness in their business. How do they classify stakeholders? What policy do they have towards each of them? How does the stakeholder management promote the firm’s effectiveness?

The CSR issues lay in the sphere of the interlinking of business and the ethics which may be applied to evaluate the quality of managerial decisions. Questions of business ethics are often viewed separately from business decision-making, following the trend of corporate development in the twentieth century. However it’s impossible to isolate business from the other parts of the lives of human beings and moreover R.E. Freeman argues that: “in order to create value we believe that it is better to focus on integrating business and ethics within a complex set of stakeholder relationships rather than treating ethics as a side constraint on making profits”. The ethics of stakeholder management is the hottest issue nowadays since the stakeholders who are influenced by business are spread around the world.

For instance, in the United States CSR scholars doubt the possibility that mega-brands really influence all their suppliers abroad (basically stakeholders), mostly in such countries as China, Bangladesh, Vietnam and Myanmar. In the sphere of consumer products, such as clothes, textiles, and footwear, etc., the companies with world-famous brands place their orders not with specific manufacturing companies in developing countries, but contract mega-suppliers (such
as the Chinese Li & Fung, for instance) and get the completed orders from them rapidly. The mega-suppliers have ties with thousands of factories around the world, basically sweatshops, and handling every link in the supply-chain becomes an impossible task for Western socially responsible transnational corporations. The labor conditions of local manufacturers remain the full responsibility of local governments and civil society, which are still quite weak in enforcing laws. Therefore the products which are produced locally in Japan or in Russia, or in any other country where the companies try to be socially responsible compete against cheap goods (as in “made in China”) produced in sweatshops. In these conditions reindustrialization becomes a solution for socially responsible business in Russia, for example. The labor conditions in Russia were closely monitored for decades, and recently obligatory inspections of every workplace have also been introduced. Therefore we may hope that the socially responsible way of managing businesses will become a competitive advantage for Russian industry, as it is for Japan.

Moreover, the serious problem of poor labor conditions at manufacturing sites producing goods for world brands leads to the conclusion that SMEs are on average more socially responsible at their level than huge corporations which cannot guarantee that their orders in developing countries are fulfilled in a socially responsible way. SMEs can easily control their short supply chains and choose suppliers directly, and therefore the stakeholder management of SMEs requires less resources and produces greater efficiency.

In any case, it is certain that engagement with stakeholders will cost a company some resources. M. Porter and M. Kramer explain: “Managers without a strategic understanding of CSR are prone to postpone these costs, which can lead to far greater costs when the company is later judged to have violated its social obligation”. Therefore the experience of dealing with stakeholders will make companies sure that their investments in stakeholder management will pay off in the future. At the same time, a tendency to restrict the influence on stakeholders by palliative measures which do not really solve social problems leads to a waste of a firm’s resources: “A firm that views CSR as a way to placate pressure groups often finds that its approach devolves into a series of short-term defensive reactions: a never-ending public relations palliative with minimal value to society and no strategic benefit for the business. Finally, the reputation argument seeks that strategic benefit but rarely finds it”.

It is important to define who business stakeholders are. In Japan companies use the definition of stakeholders which is valid around the world: during this research which was done in Japan by the author in 2015 no difference in the definition was found. Naturally, in international literature there are numerous definitions for business stakeholders. For example, K. Foley writes: “Stakeholders are those entities and/or issues, which a business identifies from the universe of all who are interested in and/or affected by the activities of existence of that business, and are capable of causing the enterprise to fail, or could cause unacceptable levels of damage, if their needs are not met”. He also explains that: “Society, or the wider community, is not a stakeholder, as that term is used here, but rather a description of the universe of interested/affected parties that defines the context of business”. In my opinion, the stakeholders must have a clear interest in the company and have the means to influence the company’s decisions and management practices. I agree with K. Foley that a business itself identifies its own stakeholders: it picks them up from the universe around and inside the firm.

The choice of stakeholders is connected with social issues which a company decides to address by its own activities. No business can solve all of society’s problems or bear the cost of doing so. Instead, wise companies usually select issues that intersect with their particular
business and which they can successfully address. Other social agendas are best left to those companies in other industries, NGOs, or government institutions that are better positioned to address them.  

2. Prioritizing the Social Issues

Categorizing and ranking social issues is just the means to an end, which is to create an explicit and affirmative corporate social agenda. A corporate social agenda looks beyond community expectations to opportunities to achieve social and economic benefits simultaneously. It moves from mitigating harm to finding ways to reinforce corporate strategy by advancing the social conditions of multiple stakeholders. The progress in solving social problems is usually documented in the non-financial reports of companies, and such publications may be called social reports or sustainability reports.

“93% of the world’s largest 250 corporations report on their sustainability performance.” Every year the CSR departments of those corporations start digging out the information for their social/sustainability reports and then process it and squeeze it into the framework of the reports. The recent trend is to describe CSR activities from the stakeholders’ point of view. Now CSR obtains “a stakeholders’ accent” and auditors of the reports look on them from the stakeholders angle: “PwC in Sweden, which audits and reviews CSRs, says that as part of integrating G4 [Global Reporting Initiative new regulations which come in force starting from 31 December 2015], PwC is advising clients to do a thorough materiality analysis and identify their key issues. Furthermore, they need to ensure that their key issues are approved or rejected by their stakeholders”, [so says a representative of PricewaterhouseCoopers]. In assessing G4 reports, “we will have more focus on our client’s materiality and their stakeholder engagement, to ensure that they have a good process in place to identify their key issues and activities”. In Japan confirming the materiality of social issues now follows societal change. At Sompo Japan Nipponkoa Insurance Inc. I was told that now for instance human rights issues are rising in Japan and this insurance company knows that every tenth couple (matrimonial partnership) in the country is a same-sex couple. So such statistics push the insurance company to develop a product (insurance policy) which would be available for same-sex partners in a similar way to traditional wives and husbands.

3. Stakeholders on the Horizon of Management in General

Stakeholder management within management science interacts with many concepts which have been developed recently. For instance, the directions of strategic planning and competitive advantage include many concerns of internal and external stakeholders, but only a few stakeholders are really engaged with the company in pursuing the achievement of its strategic goals. The stakeholders are not named and classified, and they are left out of the core interest of the company, unless some of them bring their money directly to the business as customers. Finnish scholar J. Kettunen applied the stakeholder approach together with a balanced scorecard method to the sphere of higher education. Rich Karlgaard has proposed a schema of the main drivers for achieving the lasting success
of an innovative company. It is in the form of a triangle, with the three sides representing the strategic base, the material competitive advantage (hard edge) and the non-material competitive advantage (soft edge). The key task for managers is to find a balance of the three. And each side has a core pillar which provides strength to the edges.\(^{12}\)

If we try to apply a stakeholder approach to the proposed model, we would find that R. Karlgaard has focused on the key stakeholders for a given business and left out some external actors who are actually involved in decision-making processes. Generally he has done an important job of drawing the attention of business to the drivers of long-term success using simple language and visibility. Let’s try to outline another interpretation of the triangle by pointing out the stakeholders with whom an innovative company will engage in order to build each pillar (see Figure 1).

**Figure 1: Triangle of Stakeholder Engagement to Provide Long-Term Company Success**

(based on R. Karlgaard’s model)

![Figure 1: Triangle of Stakeholder Engagement to Provide Long-Term Company Success](image)

By circling the pillars and attaching to each of the groups a name of a stakeholder we demonstrate that pursuing the pillars has to be done with specific stakeholders engaged and the engagement always has a clear purpose: achieving the strategic goals of the company (lasting success). “Market” and “customers” signify that controlling these fields is deeply dependent on the engagement with customers as stakeholders. In Figure 1 we can also see that some of the important stakeholders have been missed by Karlgaard. For Japanese companies, for instance, among NGOs very important stakeholders would be business associations, such as Nippon Keidanren or Keizai Doyukai. For a Russian company the state would play a significant role. For any innovative company, which Karlgaard has written about, cooperation with universities would
Therefore the stakeholder management approach allows a revealing of the key responsible parties for every driver towards the company’s goal and explains how motivation for the stakeholders can effectively be found for them to engage with the company.

From the experience of communication and sharing ideas with the stakeholder management for Russian and Japanese SMEs, we can state that the perception of this concept by entrepreneurs is very cautious. Businesspeople cannot imagine that some stakeholders will participate in the management of the company and influence the decisions made inside the firm. SMEs can in fact be socially responsible, but they engage only with a limited number of stakeholders and try to control the influence which the external entities have on the business. On the other hand, in large corporations management is more open towards the ideas of stakeholder management and has experience of communicating with the stakeholders through supervisory boards and CSR departments. Therefore we consider that stakeholder management will develop in two connected but different ways: in small businesses and in big corporations.

Theoretically speaking, if we talk about the stakeholder management of a company, we talk about everything which concerns that company. Therefore it is not practical for businesses. I think that the most promising direction for stakeholder management development is finding the intersecting interests of the key stakeholders of a firm and serving them better than their competitors. Also it is important to ensure that the interests of other stakeholders are not harmed.

4. Stakeholders of Japanese Companies

D. Lehmberf, C. Dhanaraj and A. Funai wrote the following in 2013 about the third largest economy in the world: “While much about Japan seems familiar, many of our beliefs about the country remain frozen in the early 1990s, when Japanese management was a hot topic and Japanese businesses appeared invincible. Japan has changed much since then, however, and deserves an updated understanding”. The way that Japanese companies communicate with stakeholders is constantly under construction and in this paper we hope to shed some light on the unique abilities of stakeholder engagement which managers in Japan possess.

From theory we know that the Japanese model of a firm, at least in the understanding of Professor M. Aoki, contrasts with a so-called institutional agency model of a firm which became the mainstream theory of organization from the middle of the twentieth century: “Clear differences are evident when they [the characteristics of the agency model] are compared with the three duality principles for the J-model [a Japanese firm model by M. Aoki].” Aoki suggests that “Despite the increasing globalization of markets, the fact that we have been observing a relatively similar coordination mode within each economy, but relatively dissimilar patterns in the West and Japan, may have to do with historical, cultural, and regulation factors.” Moreover, of course, the cultural/religious roots to corporate governance in Japan also include Shinto, Buddhism and Confucianism, which has led the “societies to choreograph economic relations and life more broadly as a communitarian ballet, a performance art where the forms, ceremonies and rituals of economic activities are essential, often more important than the direct utilitarian benefits of material consumption and wealth accumulation themselves.” In other words, balancing the interests of numerous groups engaged with business enterprises is the everyday business of managers in Japan. This is in contrast to US firms in the 1980s and 1990s where “gone
was the idea of balancing stakeholder interests."

For management purposes we would also highlight that the whole family of agents would not sum up all the stakeholders of any given firm because the firm does not have contracts with every stakeholder. So the contract model gives way to the stakeholder management approach in terms of the inclusivity of the important actors in decision-making. Moreover, engagement with the stakeholders is effective when based not only on their interests and those of the firm, but also on the values of both sides. Screening the values and cooperation for the growth of shared value is an important part of stakeholder management.

The modern Austrian economic school argues that regarding the introduction of institutions it is important to distinguish between those which are exogenous and endogenous and some foreign introduced exogenous institutions cannot be easily adopted in other countries due to the specifics of culture. The stickiness of market institutions may vary significantly from country to country, and efforts to introduce them sometimes harm the economic environment; therefore in order to understand the behaviour of firms it is not enough just to look at them as institutions among others (the state, NGOs, etc.). In our opinion, this fact highlights another weak side of neo-institutional theory and provides room for a stakeholder approach to management. If we consider firms as centers of stakeholder relations, rather than as institutions, making the object of research, such an angle would give us a better tool for making management decisions.

Unfortunately, Aoki’s findings also do not cover the full range of efficiency problems because his J-firm model represents only dually controlled firms in Japan while in fact more than two stakeholders influence and “control” any company. “Theoretically speaking, the dually controlled firm may be viewed as a mixture of the conventional neoclassical model (the N-model) of the stockholder-controlled firm, and the model of the worker-controlled firm…” However, the mixture in Aoki’s model only gives an introduction to a multi-stakeholder approach which takes into consideration more than two “controlling” firm decision-makers. Although S.M. Jacoby writes that “In the past, Japan distinguished itself for having, in addition to its high levels of coordination between business and government, a mode of corporate governance whereby the interests of different stakeholders - shareholders, customers, banks, and employees - were balanced”, Aoki explains that except for employees and shareholders Japanese companies usually do not share their profits with other stakeholders and therefore calls the J-firm model a “dually controlled” one.

Explaining the specificity of Japanese corporate governance we have to stress that misunderstanding is possible here. “The communality of Japanese market activities is often misunderstood. Many equate it with continental European corporatism where professional and business groups collaborate to promote their individual material interests. Some even confuse it with welfare states mis-portraying the Japanese government as the guardian of the disadvantaged providing arms-length aid to the poor. But the Japanese are not primarily concerned with using groups to promote personal advancement, or the state as an agent for the needy. They are more interested in protecting and preserving their community and national culture. This can be seen most clearly in the Japanese propensity to hire employees for life, instead of accepting cyclical involuntary unemployment and cushioning it with unemployment relief. Japanese communalism requires that members’ problems be addressed directly; not delegated anonymously to ‘society’, or advocacy groups. Consequently, employees consider themselves team players”. In my opinion, the aspiration of retaining and nurturing national culture is shared by both Japan and Russia alike, and draws our two countries closer to each other in terms of mentality, in stark
contrast to the fundamental differences in the cultural respect between Japan and the United States. The examples of systematic work undertaken in Japan to safeguard the designated and not designated, local and national, visible and intangible cultural heritage, and engaging with many stakeholders, are given by Voltaire Garces Cang.22

Professor Rosefielde also suggests that “Japanese don’t maximize profit in the competitive sense … because communal obligation deters individual proprietors and corporations from placing personal utility seeking ahead of group welfare”.23 So perhaps Japanese stakeholders, including the shareholders, prefer to get “cultural dividends” even if such dividends (like living in a peaceful and harmonious traditional environment, enjoying stability of income, etc.) arise from the decrease of monetary benefits?

It is also very instructive as to how Japanese companies care about their customers as important stakeholders: “the idea of segmenting existing customers by profitability and discouraging customers who are not currently profitable, while common practice in many Western firms, is one that Japanese find repugnant.”24 Most companies in Japan care about every customer independently from the current profitability of trading with him/her and you never know what profit those customers who seem poor now would bring in the future. In addition the famous “Japanese service” includes a perfect attitude to all clients.

To a question about the priority of stakeholders in my research Hitachi Corporation’s representatives replied: “The main purpose of stakeholder engagement is to improve our business with various opinions of stakeholders”. Therefore we may see a quite pragmatic approach to stakeholder management, which can be compared with Sheldon Leader’s25 position.

Nobody would argue that the importance of employee relations in Japanese firms may be proven by the significance of the HR department in every Japanese corporation. On the board of directors Japanese managers usually have a career history in marketing and HR departments, while “none of the HR managers of US firms serves on their company’s board”.26 In Russia HR senior executives very rarely play a significant role in running the company. But the question is whether the same importance as in Japan of HR managers would be found in Japanese–Russian joint-ventures. In the conditions where even more attention should be put into relations with employees as key stakeholders of the company when the company comes to another market and hire personnel with a different mentality, do the joint-ventures assign the difficult job of finding and teaching employees to be authoritative managers of local HR departments or do they prefer to choose an out-sourcing of the labor force in Russia? We hope to get the answers to these questions in further research in St. Petersburg, Russia, and also whether we will be able to overcome the problem of a certain “closeness” of Japanese companies in Russia (as well as in other countries – even in the United States) which has been observed in recent years by Russian scholars. Julia Stonogina, for instance, writes about the difficulties which Japanese managers feel in communicating with the external world outside of their own company (the “uchi–soto” dichotomy in business-communication).27

The important thing that S.M. Jacoby has noticed in Japanese companies during his research is that “Corporate-governance reforms are undercutting the stakeholder approach by giving more weight to shareholders and to finance-driven decision”28 which leads to the shearing of the J-model of the firm towards the US model. During my interviews with big corporations in Tokyo I also was told that now (for several years already) in Japan managers are focusing on making higher profits for shareholders rather than serving employees, providing them life-long employment in corporations. More general trends of CSR development in Japan may be found in
Regarding the instruments providing the loyalty of stakeholders we first would like to draw the attention to the basic principle of cooperation: trust. As Karlgaard writes, “trust may seem like a blurry concept in terms of ROI. But research and market results have proven that deep trust creates measurable real-world returns. Trust underlies effective working relationships. It improves group effectiveness and organizational performance. Maybe most important, trust underpins innovation by facilitating learning and experimentation”.\(^{30}\) And for Japanese companies trust will spread out not only to their Japanese partners but to their overseas ones in order to maintain competitiveness globally.

In 2015 the author had a chance to hold several interviews with managers of famous Japanese corporations and ask them about the practices of stakeholder management in Japan. I also spoke to one SME in Niigata which has business with Russia and considers this business direction to have prospects for further development in the near future.

My first conclusion is that stakeholder management in large and small business must be studied separately because SMEs do not have significant resources to establish special departments to deal with stakeholders, and they just focus on the key stakeholders doing their core business: usually employees, suppliers and customers. And usually SMEs do not even use the term “stakeholder” in everyday business communication. For SME stakeholder management in Japan further research is needed in my opinion. On the other hand, large businesses develop detailed strategies to engage with stakeholders and have a wide range of those stakeholders, including NGOs and the governments of different countries where they work. ISO26000 and other CSR and stakeholder engagement standards, which were implemented in Japan, require companies to arrange regular dialogues with stakeholders locally and internationally.

\section*{5. Stakeholder Management in Japanese Companies Doing Business in Russia}

Since 1987 hundreds of Japanese-Russian joint ventures and offices of Japanese firms have been established in Russia. Many of them may be called success-stories, although they have faced difficulties on the Russian market. Dr. E. Tomiyama gives the examples of Mitsui & Co.’s T.M. Baikal and Sumitomo Corporation’s STS Technowood. The first problem which Japanese companies usually have to solve in Russia is motivating local personnel. E. Tomiyama states that “introduction of a Japanese-style production management and human resource management system led workers to become more diligent and enabled them to achieve high productivity.”\(^{31}\) In principle, it is known that the Japanese model of management in its operating characteristics is transplantable to other countries.\(^{32}\)

The Japan External Trade Organization (JETRO) in 2014 for the second time undertook a survey of approximately one hundred Japanese companies that are operating in Russia. The respondents represent the companies which have had experience in Russia for approximately 10 years (45.7%), for 5 years (22.3%), for 10–15 years (17%), and more experienced ones. Most of them are quite positive about expanding business in Russia, but they worry about the impact of sanctions by Western countries.

Regarding stakeholder relations the Japanese companies do not feel any pressure from external stakeholders in Russia except perhaps from the state and competitors. Concerning internal stakeholders the problems highlighted in the survey include management localization
and labor relations. The problems start from the point that Japanese companies cannot find appropriate employees in Russia and then they also complain about the “quality” of labor. Nevertheless 43% of the companies are planning to increase the number of local employees in the nearest future.

Any multi-national company (MNC) usually faces problems in the sphere of employment issues. C. Brewster and C.V. Bennett using the example of Central and Eastern Europe (CEE) draw attention to opportunities which solving such problems may deliver: “CEE countries have successful local managers and these, in turn, can provide alternative role models to parent country attitudes and behavior amongst expatriate managers. Nevertheless, as our data indicates, their choices will be constrained by local mores and requirement of local legitimacy”. Therefore the following question arises: what about exploring Russian managerial experience in Japanese–Russian joint ventures? What would be the forms of organizational innovation transfer from Russia to Japan? Our opinion is that the influence of Russian managers on their Japanese colleagues would have a more cultural than business character: after working in Russia Japanese expatriates may have more open minds and deeper understanding of the possible variety of employment relations in a company, and different perceptions of everyday life, etc. Thus, such Russian experience would be the most useful for HR managers of MNCs.

“The unstable exchange rate and the complex revisions to the legal system were challenges cited by companies in both manufacturing and non-manufacturing industries. Multiple companies in manufacturing industries also mentioned as challenges the difficulties in local procurement of materials and parts, as well as the rising cost of goods, while companies in non-manufacturing industries expressed the opinion that investment has not advanced due to the low level of awareness and understanding of Russia and its market on the part of company head offices in Japan.”

For the purpose of our research it is important that it may be because of the poor awareness of the Russian market peculiarities witnessed by the respondents, and Japanese companies in Russia do not see all of their stakeholders and potential partners. In St. Petersburg, for example, Japanese–Russian joint ventures pursue a policy of closeness: they look like Japanese islands in a “Russian sea”. Their ties with local stakeholders are in most cases very weak and cautious. Therefore they don’t see the sources of highly qualified and motivated personnel, and don’t trust the local partners who can become a source of new ideas for innovation, for example.

A Russian scholar, Nina Yershova, has studied the obstacles and perspectives of Japanese investments in Russia and noticed the following: “in the case of investment of Japanese companies the presence of business partners in the economy of the recipient country, as well as the pre-existing trade, tourist and investment ties between a recipient country and Japan also play an important role. Firstly, it helps to decrease the transaction and information costs originating from the process of investment activity, and secondly, such ties allow a reduction of the possible risks from which a Japanese company may suffer in the conditions of an unknown business environment and market.”

The lessons from Japanese stakeholder management, which Russian companies may learn, include not only development of trust relations between business and a wide range of stakeholders, but also an effort to include a business association like the Keizai Doyukai, which started in Japan in 1946 “as an assembly of young, forward-thinking, middle-ranking managers”, in the process of creating new responsible practices in business in Russia.
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