

Articles

Changes in Business Ethics during “Lost Two Decades” and Prospects for the Future in Japan: From a View Point of Business Ethics, Compliance, Corporate Governance, and Global CSR

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Abstract

Together with the collapse of the “Bubble” economy, the 1990s saw the occurrence of numerous scandals related to business ethics that shook Japanese society. This period has been called the “lost two decades”.

Over the roughly 20-year period from then to the current era, described as the age of global CSR, Japanese corporations have addressed business ethics in order to realize sustainable growth while facing a number of trials. The concept of business ethics has fulfilled an important responsibility from a management strategy perspective as it has grown to encompass the perspectives of compliance, corporate governance, and CSR. In addition, the environments in which corporations operate have undergone striking changes, and these issues have been addressed through legal amendments and improvements to systems in order to enable safe and secure economic activities in Japanese society.

Reviewing a single era in light of these considerations can generate a spirit of self-examination and prospects for the future, in the sense of learning from history. In this paper, I will attempt to review the progress of business ethics in Japan over 20 years together with offering opinions on the ideal form for business ethics in the future in order to develop an ethical economic society through the demonstration of self-governance functions by corporations.

1. Introduction

Changes in the concept of business ethics can be seen in the history of research on corporate social responsibility (CSR) and business ethics in the United States. These changes had an effect on similar studies in Japan as well.

For example, Hoffman describes the difference between the two concepts as follows: “Corporate business ethics programs often try to prevent harm, with historical roots in legal compliance. Corporate social responsibility, on the other hand, concentrates on doing good, with a foundation in corporate citizenship (Hoffman, 2001, p. 7).”¹ For this reason, while it is employees who mainly carry out the activities involved in both of these concepts, their subjects differ, in that the subject of corporate ethics is the internal organization as a whole or employees within the organization, while the subject of CSR is not just internal but extends to society at large, including the external environment and local communities (Ferrell & Fraedrich, 1997, p. 7).

This difference can be linked to the interpretation of business ethics. Narrowly defined, business ethics can be interpreted as prevention of harm, while broadly defined it can be interpreted expansively to comprise social responsibility, including doing good. In this paper, I will offer opinions on the ideal form for business ethics in Japan through reviewing the history of the “lost two decades”, using a broad definition of business ethics in Japan reflecting the history of business ethics and CSR in the United States.

1 However, Hoffman too concludes that business ethics and corporate social responsibility need to be linked to each other and combined organically as a whole rather than considered separately from each other.

2. Previous studies of business ethics and historical considerations

2.1. Previous studies in the US

First, I will look at an overview of previous studies on business ethics and CSR, from discussion of these concepts in the United States.

Sheldon, in a work published in the 1920s, is credited with being the first to have used the term “social responsibility” and argued for its necessity (Sheldon, 1965, p. 99)². However, Petit had argued that there was the principle of trusteeship of wealth already in the 1890s as the first of the six phrases in the evolution of the doctrine of social responsibility (Petit, 1967, p. 64). Later, from the 1920s through the 1930s, industrialists discussed among themselves the subjects of corporate management philosophy and social responsibility (Nakamura, 1977, p. 54), with the rise of the school of institutional economics, such as Veblen, and Barley and Means’ massive survey and analysis of 200 US corporations. Turning to the perspective of business ethics as narrowly defined, already in 1924 a handbook of business ethics rules had been published in US industry (Miyasaka, 1995, p. 161), and also during this period, in 1928, ethics rules had been formulated for the advertising industry as well (Murphy & Laczniak, 1981, p. 251)³.

In this period, the Harvard Business School, considered to be on the vanguard of US management, also established a semester-long course in business ethics. Dean Edwin F. Gay concluded in 1917 that ethics education

2 This is the 4th edition, and the 1st edition of this book was published in 1924. According to Takada (1970, p. 104), Sheldon’s *The Philosophy of Management* was the first management book to include a general statement of this concept, and it can be considered a valuable book in this sense as well. Morimoto (1994, p. 6) views it in a similar way.

3 Later, in 1931 ethical topics were covered in an advertising and marketing textbook.

should be incorporated specifically in the required Business Policy Course (Piper & Gentile & Parks, 1993, p. 151)⁴.

Also it is worth noting that in 1938 Barnard pointed out the importance of the ethical values of leaders (Barnard, 1938, p. 283). Later, beginning in the 1950s Friedman (Friedman, 1962, pp. 133–134) and Hayek (Hayek, 1960, pp. 166–167) deployed negative arguments on corporate social responsibility, backed by the argument of maximization of shareholder returns. On the other hand, Freeman, backed by stakeholder theory, deployed a positive argument on social responsibility, arguing that corporations should contribute actively to society (Freeman, 1994, pp. 409–410)⁵. Furthermore, Ansoff brought forward theories of management strategy in corporate management, including pursuit of its own long-term growth objectives by enlightened self-interest (Ansoff, 1965, p. 64)⁶.

In the period, from the 1970s through the 1980s, business ethics came to be considered an important issue in response to a succession of corporate scandals, spurred by issues such as public-private collusion and corruption, including the Watergate and Lockheed bribery scandals. As pointed out by Mizutani, in the 1970s business ethics research and scholarship was a research field reborn (Mizutani, 1994, p. 23)⁷.

Donaldson argued that there was a relationship between corporate and moral issues, stating that “ethics are a matter of moral philosophy . . . in sum, business ethics is the systematic study of the various moral (ethical) issues

4 p. 8 Also they argue that the belief that business education should include discussion of leadership, ethics, and corporate responsibility has long been common among those responsible for shaping a business school curriculum.

5 In one of his previous works, 1984’s *Strategic Management*, he argued for stakeholder theory and presented an argument for an active approach to social responsibility.

6 This was argued as one social responsibility.

7 At first this was considered a field of applied ethics.

related to businesses, industries, or other related activities, systems, or methods and beliefs” (Donaldson, 1989, pp. 4–5). Also, Nash discussed the need for morals in business, arguing, “business ethics is the study of how personal morals norms apply to the activities and goals of commercial enterprise. It is not a separate moral standard, but the study of how the business context poses its own unique problems for the moral person who acts as an agent of this system” (Nash 1990, p. 5).

In addition, Andrews considers business ethics to be a part of management strategy, above and beyond the category of ethics, arguing that it should not be limited just to simple monetary issues such as theft and corruption but should incorporate, as important concepts, decision-making in management strategy across all aspects of corporate strategy, including environmental issues, globalization, marketing policies, and mergers and acquisitions (Andrews, 1989, pp. 257–266).

Since the 1990s, environmental problems such as those pointed out at the Rio Summit in Brazil, along with a variety of scandals both inside and outside corporations, such as those concerning human rights and corruption as multinational corporations have advanced overseas, have come to be included as important topics in business ethics, while at the same time the importance has been pointed out of proactive efforts by corporations to carry out ethical activities, such as contribution to society and interaction with the community.

A variety of arguments have been deployed in these areas. For example, Hoffman and Frederick argue that ethics may be defined as the study of what is good or right for human beings. It asks what goals people ought to pursue and what actions they ought to perform. Business ethics is a branch of applied ethics; it studies the relationship of what is good and right for business (Hoffman & Frederick, 1995, p. 1)⁸, while Carroll posits four corporate social responsibilities that are economics, legal, ethical and voluntary/discretionary responsibilities (Carroll, 1996, pp. 35–41). Donaldson and Dunfee argue that business ethics is an activity based on duties and responsibili-

ties contracted between the corporation and society (Donaldson & Dunfee, 1999, p. 25), while DeGeorge argues that ethics confers natural rights and duties through the thinking and behavior of individuals and organizations (DeGeorge, 1999, p. 101). Also he argues “business ethics is not a contradiction in terms, not a myth, and not merely a body of theory. Ethics and morality can be a part of business. When they are built into its structure, when business lives up to its new moral mandate, it will deserve the public respect it will once again enjoy.” (DeGeorge, 1999, p. 615)

2.2. Previous studies in Japan

In Japan, for many years there has been an argument for public ethics from a moral perspective on the part of public officials, based on the concepts of ruler and subjects and of civil relations in the *Seventeen-Article Constitution* of Prince Shotoku (Fukudome, Tanaka, 2001, p. 22). Ishida Baigan’s Shingaku (“heart learning”) movement argued for a spirit of coexistence and co-prosperity, and in the Meiji Period the *zaibatsu* such as Mitsubishi, Sumitomo, and Mitsui employed thinking that can be understood in terms of the business ethics of today, as their family precepts (Fukudome, Tanaka, 2001, p. 10).

However, the first period of full-fledged discussion of corporate social responsibility in Japan began with Yamashiro’s “*Keiei no shakaiteki sekininron*” (“Social responsibility of management”) in 1949, at the start of Japan’s post-war recovery (Yamashiro, 1966, p. 34)⁹. Within the social-responsibility the-

8 Also, they argue “Business is an economic institution. But like our economy as a whole, it has a moral foundation. The free market system reflects our convictions about the nature of the good life and the good society, about the fair distribution of goods and services, and about what kinds of goods and services to distribute.”

9 Yamashiro made an argument in Japan based on a discussion conducted at a Harvard alumni association meeting in the US, grounded in Yamashiro (1949).

ory that first arose in response to corporations’ speculative buying of commodities and withholding of goods around the time of the first oil crisis in 1973, Takada discusses whether a corporation’s social responsibility should be interpreted as its obligation or its ability, arguing in support of the former (Takada, 1974, pp. 8–11)¹⁰. Also, Obu sees social responsibility to be responsibility to the corporation’s group of stakeholders (Obu, 1977, p. 6), while Tsuchiya points out the importance of social responsibility through “Campaign GM” (Tsuchiya, 1980, pp. 108–126).

Later, in 1991 the Keidanren announced its Charter of Corporate Behavior in response to a series of scandals, and full-fledged discussion of the importance of business ethics began in Japan in response to matters such as the numerous cases of collusion by banks, the securities industry, and other businesses with antisocial forces that were uncovered in 1996 and 1997 (referred to at the time as the *sokaiya* cases). Morimoto argues for reordering Carroll’s four responsibilities, switching the places of the legal and economic responsibilities so that legal responsibility is at the foundation (Morimoto, 1994, pp. 317–320)¹¹. As expressed by the statement “the law is the foundation of ethics,” Morimoto makes a similar argument.

In Japan, ethics, broadly defined, is considered at root to refer to the duties of human beings, the principles serving as actual moral norms, or morality. The duties of human beings can be interpreted as the path they should take as part of humanity. Mizutani employs this broad definition, arguing that “business ethics should be a broad concept that sees as important the internal thinking and values of human beings as industrialists, rather than a concept that starts and ends with simple social or systemic duties” (Mizutani,

10 He argued that it was an obligation by citing theories including those of Koontz, O’Donnell, and Hicks.

11 He argues that the content of each responsibility further diversifies in stages, according not just to Maslow’s multidimensional approach but to his hierarchy of needs as well.

1995, pp. 7–10)¹².

Viewing the corporation as an organizational personality, I see business ethics as “the principles and morals serving as norms for the corporation or organization, and the path that the corporation or organization should take.” Employing this broad definition in order to treat as one unit the domain of existence that the corporation aims for in society and the sound growth of society itself, the author considers business ethics to be divided into the following two domains (Mizuo, 2003, p. 14)¹³:

The first can be identified as the domain of Proactive Ethics intended to protect the objectives mentioned above. This is the domain of activities to protect society from various risks, by preventing unethical behavior that would have a negative meaning for society, or the occurrence of what are referred to generally as scandals. The second domain of business ethics is that of Positive Ethics, to actively encourage the welfare and sound growth of society. This refers to activities to provide positive support for achieving the objective mentioned above to “treat as one unit the domain of existence that the corporation aims for in society and the sound growth of society itself.”

Based on these considerations, in this paper I consider business ethics comprehensively and broadly defined, as a concept that includes recognizing the importance of the safety and security of society, achieved through prevention of scandals, as well as human rights and humanity, including labor, along with global CSR activities from an international frame of reference.

I also consider the scope subject to business ethics as broadly defined to include a wide range of organizations such as hospitals, universities, and public agencies in addition to corporations (corporate ethics), since these various types of organizations all require management.

Whatever the case, it can be said that business ethics in Japanese corpora-

12 He argues that business ethics is a broad concept that also includes human-centered and humanist thinking.

13 This concept builds on Mizuo (1999, pp. 15–27) and Mizuo (2000, pp. 11–12).

tions began with Shiseido’s efforts in 1997, and that since then Japanese corporations have started sincere efforts in the area of business ethics. However, these efforts came along nearly 30 years later than in the United States.

3. Tracing the past 20 years of business ethics

I have searched newspaper stories on the subjects of business ethics, compliance, corporate governance, and global CSR from the four *Nikkei* newspapers to count the numbers of uses of each of the terms “business ethics,”

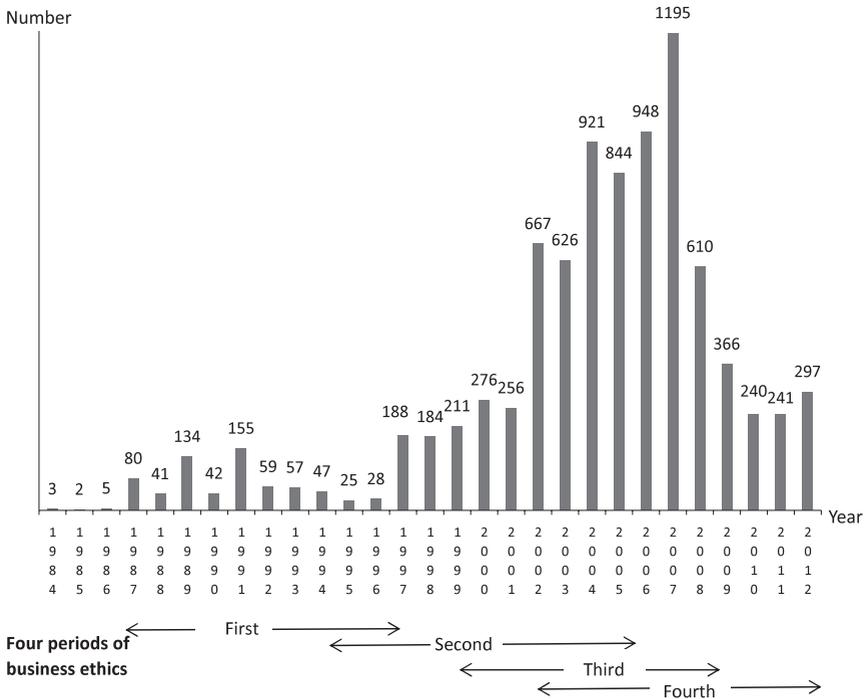


Fig. 1: Uses of the terms “business ethics,” “corporate ethics,” and “compliance”
 Note: Appointments, obituaries, and articles consisting of numerical figures only were omitted.

Sources: Prepared by Mizuo from a Nikkei Major Articles search of four Nikkei newspapers (Mar. 15, 2013).

“corporate ethics,” and “compliance.” As seen in Fig. 1, repeated scandals took place beginning in this period, starting to appear frequently in the second half of the 1980s. Examination of matters such as the details of incidents involved and the responses taken, as seen in Table 2 below, shows that this trend can be split into four main periods.

However, changes in the values of society are not differentiated clearly by fiscal years, and new values form over time, overlapping with preexisting values. In addition, other processes such as development of legal systems accompany this process.

For this reason, since the years of these four periods overlapped in the process of transitioning from one period to the next, I will describe the history of business ethics over 20 years and the process of its changes.

3.1. The first period, characterized by a succession of negative legacies, cover-ups, and public- and private-sector scandals: early—mid-1990s

(1) Offers of illegal profits, compensation for losses, and collusion with *sokaiya* racketeers in the securities and banking industries

The first period began with the period of settlement for the excesses of the “Bubble” economy. The term “business ethics” began to see use in the newspapers earlier, around the second half of the 1980s when scandals arose such as Toshiba’s violation of the Coordinating Committee for Multilateral Export Controls (CoCom) rules in 1987 and the Recruit scandal in 1988, while the Bubble economy still was booming. While society’s values underwent massive changes with the collapse of the Bubble economy, as seen in Table 2 a number of corporate scandals occurred as industry was forced to deal with that period’s negative legacies.

Incidents such as securities scandals involving offers of illegal profits and compensation for losses at four major securities corporations including Nomura, discovered in 1991, and the improper lending by Tokai Bank and Fuji Bank and manipulation of profits by Mitsubishi Trust and Banking Corp. and Mitsui Trust & Banking in that same year shook the business

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Table 2: 20 years of business ethics, compliance, corporate governance, and CSR

Year	Systems, laws, organizations, conferences, etc.	Matters of note (incidents, scandals, etc.)
Through 1990	Federation of Pharmaceutical Manufacturers' Associations of Japan establishes Ethics Code (1976) and Ethics Guidelines for Pharmaceutical Firms (1984)	HIV contracted from contaminated blood products (70s-80s)
	Valdez Principles (Sept. 1989)	Toshiba violates rules of the Coordinating Committee for Multilateral Export Controls (CoCom) (March 1987), Recruit scandal (June 1988)
1991	April: Keidanren Global Environment Charter established	Jan: improper lending by Tokai Bank; July: improper lending by Fuji Bank
	Sept.: Keidanren Charter of Corporate Behavior established	March: Collapse of “Bubble” economy
	Dec.: Keieirinri wo Kangaeru Kai (“Business ethics consideration committee”) established	June: Offers of illegal profits and compensation for losses at four securities firms
		Sept.: Manipulation of profits by Mitsubishi Trust and Banking Corp. and Mitsui Trust & Banking
1992	March: Organized Crime Group Countermeasures Law enacted	Feb.: Stock-shuffling by Daiwa Securities; April: stock-shuffling by Yamatane Securities
	June: United Nations Conference on Environment and Development (UNCED) (“Rio de Janeiro Summit”) held	Feb.: Collusive sealed bidding by four printing companies
		May: Saitama collusion case involving six major construction companies
		Oct.: Offer of illegal profit by Ito-Yokado to <i>sokaiya</i> racketeers
		Oct.: Tokyo Sagawa Kyubin scandal (inappropriate political contributions)
1993	April: Japan Society for Business Ethics Study established	March —: Corruption cases involving construction companies Hazama, Kajima, Tobishima, and Shimizu

	Oct.: Systems of outside auditors and class-action lawsuits on behalf of shareholders introduced through amendment of the Commercial Code	Aug.: Offer of illegal profit by Kirin Brewery to <i>sokaiya</i> racketeers
	Nov.: Basic Environment Act takes effect	Oct.: Daishowa Paper Manufacturing corruption case
1994	March: National General Contractors Association of Japan establishes Charter of Behavior for Construction Companies (Organizations)	April —: Corruption cases involving Sumitomo Heavy Industries, Obayashi Corp., and Taisei Corp.
	Dec.: Caux Round Table—Japan establishes Corporate Conduct Guidelines	June: Nippon Shoji insider trading case
1995	July: Product Liability Act enacted	Feb.: Shimizu, Marubeni insider trading cases
		July: Political contributions by Obayashi Corp., Kansai Electric Power Co., and Osaka Gas
		Sept.: Massive losses by Daiwa Bank's New York branch
1996	Sept.: National Association of Commercial Broadcasters in Japan establishes Broadcasting Standards	Feb.: Compensation for losses by Chiyoda Securities
	Dec.: Keidanren Charter of Corporate Behavior amended	April: Sexual harassment scandal at Mitsubishi Motor Manufacturing of America
		June: Offer of illegal profit by Takashimaya to <i>sokaiya</i> racketeers
		June: Sumitomo Corp. suffers massive losses in improper copper trading
1997	June: Equal Employment Opportunity Act for Men and Women amended (previous version enacted 1985)	Feb.: Offer of illegal profit by Ajinomoto to <i>sokaiya</i> racketeers discovered. This was followed by a succession of discoveries of offers of illegal profit to <i>sokaiya</i> racketeers, including those by four major securities firms and Dai-Ichi Kangyo Bank in May, by Matsuzakaya and Mitsubishi Motor in Oct., and by Mitsubishi Electric, Toshiba, Hitachi, Ltd., and Mitsubishi Estate in Nov.

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	Sept.—later: Japanese Bankers Association establishes ethical charter, Federation of Pharmaceutical Manufacturers’ Associations of Japan establishes standards of behavior for pharmaceutical firms, Japan Iron and Steel Federation establishes standards of corporate behavior, Japan Society of Industrial Machinery Manufacturers establishes standards of corporate behavior	
	Fall: GRI established	
	Nov.: Business Ethics Research Center established	Nov.: Yamaichi Securities voluntarily shuts down after discovery of stock shuffling
	Nov.: Council for Practical Business Ethics established	
	Dec: Amendment of the Commercial Code makes it a crime to demand offers of illegal profit	
	Dec.: Kyoto Protocol adopted	
1998	Full-fledged efforts by companies in areas such as business ethics (standards and norms of corporate behavior) begin	Feb.: Case of corruption in entertainment received by the Ministry of Finance (<i>MOF-tan</i>)
	May: Japan Corporate Governance Forum establishes Corporate Governance Principles	Aug.: Offer of illegal profit by Japan Airlines to <i>sokaiya</i> racketeers
		Nov.: Padded-out billing by NEC to the Defense Agency
1999	May: OECD Principles of Corporate Governance established	March: Illegal cartel by three water pipe companies
	Aug.: Nikko Eco Fund, Japan’s first socially responsible investing (SRI) fund, formed	July: Window dressing of accounts at the Long-Term Credit Bank of Japan and the Nippon Credit Bank
	Nov.: National Public Service Ethics Act established (March 2000: ethics regulations)	Sept.: Criticality accident at JCO Tokaimura Nuclear Power Plant
	Nov.: Basic Law for a Gender-equal Society enacted	Oct.: Collusive bidding on fuel by Defense Agency and by Japan Highway Public Corp.

2000	April: Consumer Contract Act established	May: Collusive bidding by the government of Hokkaido
	May: Reitaku University ECS 2000 Ethics Compliance Management System Business Ethics Research Project established	June: Food poisoning at Snow Brand milk
	June: Japan Newspaper Publishers & Editors Association establishes New Newspaper Ethics Guidelines (previous version established in 1946)	July: Complaint and recall cover-up by Mitsubishi Motor
	June: Basic Act for Establishing the Recycling-based Society takes effect	
	July: UN Global Compact enacted	
	Nov.: Law Prohibiting Mediation Remuneration enacted	
2001	Individual waste and recycling laws such as the Household Appliance Recycling Act, the Food Recycling Act, and the Container and Packaging Recycling Act developed in a coordinated manner beginning around this time	Jan.: Ministry of Foreign Affairs suspected of misappropriation of secret funds
		May: Maruha Seafoods mislabels source of imported products
		Dec.: Accounting scandal at Enron (U.S.)
2002	May: Amended Commercial Code establishes system under which companies may choose a committee governance structure	Jan.: Mislabeling of beef in response to the BSE scare at Snow Brand foods
	July: U.S. enacts Sarbanes—Oxley Act (SOX)	June: Accounting scandal at WorldCom (U.S.)
	Sept.: Johannesburg Summit (Rio + 10) held	July: Mitsui & Co. suspected of improper bidding on Kunashir Island power plant and ODA bribery
	Oct.: Keidanren Charter of Corporate Behavior amended	Aug.: Cover-up of trouble by Tokyo Electric Power Company (TEPCO) at the Kashiwazaki-Kariwa Nuclear Power Plant
		Aug.: Mislabeling of beef in response to the BSE scare at Nippon Ham

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		Nov.: Offer of illegal profit by Nippon Shinpan to <i>sokaiya</i> racketeers
2003	Japan Association of Corporate Executives releases 15th Corporate White Paper, “Market Evolution and CSR Management”	June: Resona suspected of improper accounting
	May: Personal Information Protection Act enacted	Oct.: NTV suspected of improper manipulation of ratings
	July: Food Safety Commission of Japan begun	Nov.: Takefuji suspected of improper wiretapping
2004	Feb.: Keidanren announces Position Paper on Promoting Corporate Social Responsibility	Feb.: Yahoo! BB leaks information on 4.6 million customers
	June: Whistleblower Protection Act promulgated	Feb.: Asada Nosan covers up shipment of poultry suspected of exposure to avian influenza
		March: Offer of illegal profit by Seibu Railway to <i>sokaiya</i> ; Sept.: securities misrepresentation by Seibu Railway
		March: Securities misrepresentation by Kanebo
2005	May: JABES CSR Initiative Committee establishes CSR Initiative	April: Fatal accidents caused by Matsushita Electric (now Panasonic) forced-draught balanced-flue kerosene heaters become an issue
	July: New Companies Act promulgated	April: Derailment on the JR West Fukuchiyama Line
		April: Mislabeling of seismic resistance by Huser
2006	April: UN Principles for Responsible Investment (PRI) established	Jan.: Livedoor violates the Securities and Exchange Act
	June: Financial Instruments and Exchange Act (J-SOX) takes effect	June: Murakami Fund insider-trading case
	Dec.: Consumer Products Safety Act amended (former version enacted in 1973)	Aug.: Fatal accident caused by Paloma indoor tankless water heater
		Dec.: Improper accounting by Nikko Cordial Group

2007	Dec.: Japan Federation of Construction Contractors and others establish Code of Corporate Conduct 2007 (first edition: 1993)	Jan. —: Alteration of expiration dates and other information by Fujiya, Shi-roikoibito, Sembakitcho, and Akafuku
		June: Mislabeling of meat by Meat Hope
		Oct.: Golf entertainment case involving undersecretary of Defense
2008	June: JIS standard on company recall announcements established	May: Improper reuse of food products by Sembakitcho
	July: Hokkaido Toyako Summit held	June: Yamada Denki violates the Antimonopoly Act by forcing supplier employees to work at its outlets without compensation
		June: Misuse of public funds by public officials to pay for drinks and snacks in taxis
		Sept.: Economic shock follows collapse of Lehman Brothers (U.S.)
		Dec.: Improper accounting by Bic Camera
2009	April: Association of Certified Business Ethics Expert Japan (formerly Council for Practical Business Ethics) incorporated as nonprofit	March: Alteration of testing data by Mitsubishi Tanabe Pharma
	June: Act for the Establishment of the Consumer Affairs Agency and the Consumer Commission promulgated	May: Financial scandal at Incubator Bank of Japan
	Nov.: BEREC incorporated as an ordinary corporation	
2010	Feb.: FSA announces strengthening of rules on disclosure of information such as executive compensation	Feb.: Koito Industries alters records of inspection of aircraft seats
	Nov.: ISO 26000 established	June: Seven & i Holdings restricts <i>bento</i> prices
	Nov.: Criminal investigation study group established	Sept.: Alteration of evidence by Osaka district court special investigation department

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2011	March: Business continuity planning and risk management become subjects of attention	March: Great East Japan Earthquake and nuclear power plant accidents
	Oct.: Principles for Financial Action towards a Sustainable Society (Principles for Financial Action for the 21st Century) established	Sept.: Massive improper lending by the former chairperson of Daio Paper Corp.
		Nov.: Stock shuffling to cover up massive losses at Olympus
2012	Jan.: Japan Corporate Governance Network established (through merger of the Japan Independent Directors Network, the Corporate Governance Forum, and the Japan Corporate Governance Research Institute)	Jan.: Haruyama violates Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors; April: Konaka violates Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors
	March: JISZ 26000 established	Feb.: Scandal of vanishing pension assets at AIJ Investment Advisors
	June: Rio + 20 summit held	April: Rikuentai tour bus accident on Kan-Etsu Expressway
	Sept.: Draft amendments to company law finalized in the Legislative Council of the Ministry of Justice of Japan	June: Insider trading on capital increases at three securities companies: Nomura, Daiwa, and SMBC Nikko
		Dec.: Sasago Tunnel ceiling collapse on Chuo Expressway

Note: Main incidents excerpted, showing only those considered important to amendment or revision of laws or regulations or having significant overseas influence.

Sources: Prepared by Mizuo from newspaper reports, BERC NEWS, *Nihon keieirinrigaku kaishi 10-nenshi* (“Journal of Japan Society for Business Ethics Study 10-year history”), and other sources.

world severely.

Subsequent scandals that occurred through the mid-1990s, such as stock-shuffling by Daiwa Securities and Yamatane Securities and a number of insider-trading scandals, all were related to disguising of losses and cover-ups resulting from the collapse of the Bubble economy. Other problems included collusion with antisocial groups (at the time, suspicions of collusion with *sokaiya*, racketeers who threatened to disrupt annual general meetings of shareholders) by Ito-Yokado, Kirin Brewery, and others.

With such scandals in the background, the Japan Business Federation (Keidanren) sounded the alarm in 1991 when it established the Charter of Corporate Behavior, but still there was no end to subsequent scandals.

(2) Collusion between political and financial circles through means such as bid-rigging, bribery, and inappropriate political contributions, and the start of the Japan Society for Business Ethics Study

Beginning in 1992, scandals such as the Saitama collusion case involving six major construction companies and constant secret dealings and corruption between general contractors (such as Hazama, Kajima, Shimizu, and Obayashi) and government, as well as bidding collusion, were exposed together with the collapse of the Bubble economy. The problem of politics and money also became clear with cases of inappropriate political contributions, such as those involving the Kansai Electric Power Co. and Osaka Gas.

Improvements to the legal system advanced to prevent such scandals, as for example the Organized Crime Group Countermeasures Act was enacted in 1992, the systems of outside auditors and class-action lawsuits on behalf of companies' shareholders were introduced through amendment of the Commercial Code in 1993, and in 1997 it was made a crime to demand offers of illegal profit.

In addition, in 1993 the late Masakazu Mizutani established the Japan Society for Business Ethics Study (JABES) out of concern for the scandals that could be called negative legacies following the collapse of the Bubble economy. This was the birth of the first academic society in Japan to advance serious efforts on the subject of business ethics (Mizutani, 1995, pp. 22-23).

(3) The debate over sustainability and global environmental problems

At the same time, in March 1989 pollution of the global environment became a major topic of concern around the world when the Exxon oil tanker *Valdez* ran aground on the coast of Alaska. The Valdez (CERES) Principles were established in response to this incident, and in Japan too the Keidanren established the Global Environment Charter in 1991 and then in 1993 the Basic Environment Act took effect.

Many companies began proactive efforts to protect the global environment, such as issuing environmental statements and organizing committees on co-existence with the planet. In addition, the United Nations Conference on Environment and Development (UNCED) was held in Rio de Janeiro. Thus, progress on efforts made at a global level also was a strong point of this first period.

3.2. The second period, when organizational efforts and those involving corporate and administrative governance began: mid-1990s through mid-2000s

(1) Numerous cases of collusion between the banking and securities industry and *sokaiya* racketeers, as well as scandals involving public agencies

Despite legal amendments and development of regulatory systems as well as demands on the business community and the birth of the JABES, there still was no end to unethical acts, as the traditional focus on sales and profit as the highest priorities remained in the background.

Just as Japan was beginning attempts to achieve an economic recovery through deregulation and adoption of market principles, through 1996 and 1997 cases were discovered of companies in the banking, securities, and other industries offering illegal profits to *sokaiya* racketeers. A succession of scandals erupted not just in the private sector but among public agencies as well, as public-sector scandals exposed during this period included window dressing of accounts at the Long-Term Credit Bank of Japan and the Nippon Credit Bank, corruption in entertainment received by the Ministry of Finance (involving *MOF-tan*, or personnel at regulated corporations responsible for dealing with the MOF), and collusive bidding involving the government of Hokkaido. The establishment in 1999 of the National Public Service Ethics Act also represented an effort toward preventing the reoccurrence of such scandals.

Another characteristic of this second period was the globalization—in a negative sense—of Japanese corporate scandals. These included massive

losses incurred by Daiwa Bank's New York branch and a sexual harassment scandal at Mitsubishi Motor Manufacturing of America.

(2) The establishment of the Business Ethics Research Center and the start of efforts by industry organizations

With these numerous scandals in the background, the importance of business ethics started to be addressed in a thoroughgoing manner, and full-fledged efforts by political and financial circles toward business ethics began as the Keidanren amended its Charter of Corporate Behavior.

The Business Ethics Research Center (BERC) started up in 1997, with the aforementioned Masakazu Mizutani serving as chairman and Yoshiharu Fukuhara (now Shiseido Honorary Chairman) as managing director, to spread and raise awareness of business ethics through industry-academy cooperation, and at the same time the Council for Practical Business Ethics began as well.

Together with these developments, around 1997 full-fledged efforts by individual companies began, together with the establishment of industry-wide ethical charters and codes of conduct by organizations such as the Japanese Bankers Association (JBA) and the Federation of Pharmaceutical Manufacturers' Associations of Japan (FPMAJ). Companies began proactive deployment of ethics efforts as many Japanese corporations established documents and systems such as business ethics regulations and corporate codes of conduct, starting with Shiseido's "The Shiseido Code" corporate ethics and behavior standards, followed by others including Toyota, Matsushita (now Panasonic), Unicharm, and Omron.

In addition, many of the frequently occurring corporate scandals until that time could be said to represent the negative effect of a focus on shareholders above all, and this gave rise to discussion of corporate governance—that is, addressing the subject of to whom a company was accountable. In response to rising interest in corporate governance on a global scale, in 1999 the Organization for Economic Co-operation and Development (OECD) Principles of Corporate Governance were established, and this led that same year to Ja-

pan’s organization of the Japan Corporate Governance Forum and establishment of the Corporate Governance Principles.

- (3) Review of market economic principles and establishment of laws and regulations on internal controls

Amid these changes in society, during this period development of a regulatory environment for capital markets and review of market economic principles would accelerate further.

Overseas, the United States enacted the Sarbanes—Oxley Act (SOX) in response to the lessons from the accounting scandals at Enron and World-Com in the first half of the 2000s, marking the implementation, by law, of strict regulations on capital markets. Japan too saw frequent incidents calling into question the relation between companies and society, starting with the suspicions of improper accounting at Resona Bank in 2003 and followed by cases such as securities misrepresentations at Kanebo and Seibu Railway, Livedoor’s violation of the Securities and Exchange Act, and the Murakami Fund insider-trading case. These attracted considerable public attention.

In response to a series of incidents involving capital markets, a new Companies Act was established in 2005, and in 2006 the Financial Instruments and Exchange Act (known as J-SOX because it was based on the U.S. SOX Act) took effect.

Later, the Japanese economy suffered the effects of the global economic slowdown occasioned by issues related to subprime loans, and the economy would worsen dramatically with the shock that followed the September 15, 2008 collapse of Lehman Brothers.

3.3. The third period, characterized by calls for consumer-focused management in pursuit of a safe and secure society: early-late 2000s

- (1) Rising consumer awareness of safety and security in response to cases such as mislabeling of food products and alteration of expiration dates

Despite expectations of the arrival of a new era as the year 2000 arrived, a number of incidents shocking to consumers occurred in succession. These

started with cases such as those of food poisoning at Snow Brand milk in 2000 and mislabeling of beef in response to the BSE scare in 2002 at Nippon Ham and Snow Brand foods.

A succession of scandals related to food products followed, with 2007 in particular seeing numerous cases that betrayed the safety and security concerns of consumers, such as alteration of expiration dates by Fujiya, Akafuku, and others and mislabeling of origins by Meat Hope and Sembakitcho.

(2) Society's concerns for safety and security extend beyond the domain of food products

While consumers' awareness of the need for safety and security increased, problems such as these started to surface in areas other than food products as well.

While their types of accidents and other problems each differ, cases such as the complaint and recall cover-up by Mitsubishi Motor in 2000 and the 2002 cover-up of trouble at the Tokyo Electric Power Company (TEPCO) Kashiwazaki-Kariwa Nuclear Power Plant, as well as subsequent cases such as leakage of Yahoo! BB customer information, accidents caused by Panasonic (then Matsushita Electric) forced-draught balanced-flue kerosene heaters, the derailment on the JR West Fukuchiyama Line, and Huser's seismic resistance mislabeling all involved the keywords of consumer safety and security.

With these in the background, since 2000 a succession of laws was enacted or amended, including the Consumer Contract Act, the Basic Act for Establishing the Recycling-based Society, the Personal Information Protection Act, the Whistleblower Protection Act, the Consumer Products Safety Act, and the Consumer Safety Act.

(3) Consumer-focused management and risk management

In response to rising consumer awareness of the need for safety and security, the third period also was a time in which consumer-focused management attracted the attention of society. The publicity activities Panasonic conducted in its recall of forced-draught balanced-flue kerosene heaters were

regarded highly as a model of risk management, ranked together with Johnson & Johnson’s handling of the Tylenol case, and they have led to consumer-focused management in subsequent accident cases such as that at Paloma.

Incidentally, according to a survey by CM Databank Panasonic’s television commercials announcing the recall were broadcast 173 times just in the evening hours of the first day of the campaign, December 10, 2005, and 888 times over a ten-day period. This commercial was so effective that it has been described as an example of Panasonic’s thorough corporate posture of protecting not just human life but the life of society as well (CM Index 2006, pp. 22–27).

Advertising for the recall continues even today, for example using newspaper inserts at the end of May 2012. Even now this effort is regarded highly in society as an activity conducted based on Panasonic’s “super-honest” principle of finding every last unit of the affected heaters.

3.4. The embryonic stage of CSR and the fourth period of global deployment and stakeholder engagement: mid-2000s—2010s

(1) Divergence between economic growth and standards of living

The wave of economic growth that had continued since February 2002 lasted 73 months through February 2008, and it came to be known as the “Izanami Boom” because it outlasted the previous “Izanagi Boom” that continued over 57 months.

However, the real GDP growth rate was lower than that of the previous Izanagi Boom (when it had been roughly 8%) and the Bubble economy (when it had been roughly 4%), remaining low at approximately one percent. From many members of the public one heard descriptions of conditions quite removed from economic growth, such as those in NEET (“not in education, employment, or training”) status or job-hopping between part-time jobs, divergence between “winners” and “losers,” or social inequality.

One got a true sense for a reality that did not seem to be an atmosphere

in which members of the general public could count on enjoying a high standard of living through economic growth. Over time, this sense resulted in the germination among the public of new values concerning human rights and ways of working.

(2) The first year of the CSR era and the appearance of societal changes and new values

Against a background that included a true sense that people could not enjoy an improved standard of living from the Izanami Boom and furthermore new revisions to systems related to corporate society, the public's awareness of companies' social responsibility changed too, and 2003 came to be called the first year of the CSR era.

A search of articles by Mizuo in the four *Nikkei* newspapers containing the term "CSR" shows that the three letters "CSR" did not appear in the pages of the newspapers through 2001 but were first used in newspaper stories in 2002 and later. In particular, in 2003 the number of articles containing the term rose suddenly to 163, a clear reflection of the background conditions in which interest in CSR was rising worldwide along with the impetus resulting from corporate scandals relating to food products, as mentioned above.

This is a period that sees calls for contributing to the triple bottom lines of the environment, economy, and society and further strengthening of aware-

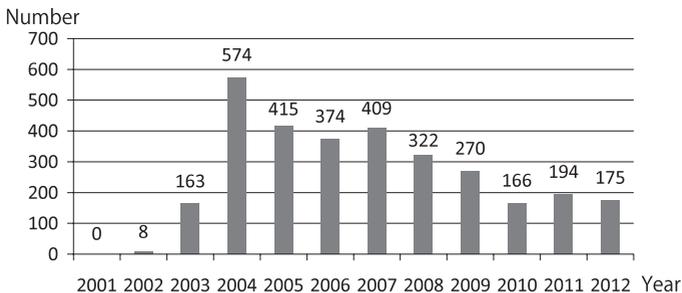


Fig. 3: Usage counts of CSR terms

Note: Restricted to uses in the sense of "corporate social responsibility".

Sources: Prepared by Mizuo from a Nikkei Major Articles search of four Nikkei newspapers (Mar. 15, 2013).

ness of CSR management encouraging a focus on and engagement with all stakeholders including consumers, employees, partner businesses, local communities, and shareholders and investors.

(3) The issuing of ISO 26000 and the advancing globalization of CSR

Rising awareness of CSR would grow at a global level. Beginning around 2001, the International Organization for Standardization (ISO) Committee on Consumer Policy started raising issues concerning CSR, and its formulation of CSR standards began in 2005. Some six years later, ISO 26000 was issued in November 2010 (Tanaka, 2005, p. 368). Together with this, Japan saw the establishment of the global standard JISZ 26000, which was announced in an official gazette.

At around the same time the ISO began formulating a standard, in 2006 the UN Principles for Responsible Investment (PRI) were established as the movement strengthened toward disclosure of environmental, social, and governance (ESG) information. In response to these developments, in 2011 Japan too established the Principles for Financial Action towards a Sustainable Society (Principles for Financial Action for the 21st Century).

Movements toward revision and consolidation of organizations related to business ethics and corporate governance also would become quite lively. In 2009 the Council for Practical Business Ethics incorporated as the nonprofit Association of Certified Business Ethics Expert (ACBEE) Japan and BERC too incorporated as an ordinary corporation. Furthermore, in 2012 the three organizations of the Japan Independent Directors Network, the Corporate Governance Forum, and the Japan Corporate Governance Research Institute merged to form the Japan Corporate Governance Network.

(4) Demands for a green economy and both corporate and social sustainability

The tide of CSR also raised interest in environmental issues, as the discussions on reducing carbon-dioxide emissions at the 2002 Johannesburg Summit and the 2008 Hokkaido Toyako Summit bring vividly to mind. One of the main themes of the 2012 Rio de Janeiro Summit in Brazil (known as Rio +

20) is a “green economy in the context of sustainable development and poverty eradication.”

This is a topic also addressed by the Millennium Development Goals (MDGs), which cover topics including sustainability in connection with the earth’s environment and contributing to the community along with poverty eradication. The year 2009 is called the first year of the “bottom of the pyramid” (BoP) business era as it marked the start of attention to BoP businesses aiming to create new markets through companies’ activities to resolve social issues in developing countries through means including prevention and treatment of infectious diseases and improving food supplies, targeting the BoP or people living on US \$3000 (approximately JPY 240, 000) per year in developing countries.

This symbolizes the way the domain of business ethics had expanded and global CSR, addressing corporate social responsibility on a global basis, had become an important topic of concern in management.

4. Overview of 20 years of business ethics and future prospects

4. 1. Overview of 20 years of business ethics

(1) A Japanese society in which the accumulation of lessons learned remains undeveloped

As described through now, business-ethics efforts in Japan began rapidly in the 1990s. However, as pointed out by JABES Chairman Mizutani, at the time the JABES was founded Japan was 20 years behind the U.S. in this area. As exemplified by the expression “danger past and God forgotten,” business ethics in Japan involved repeated cases of retrospection without accumulating lessons learned.

What’s more, despite attempts to contain corporate behavior through the external pressure of related laws newly established or amended each time a scandal occurred, cases of wrongdoing skillfully negotiating the gaps between laws and regulations would occur repeatedly. Tables 1 and 2 seen at the start of this paper tell this story vividly.

However, it is not the case that no efforts at all had been advanced by companies and business-related organizations. According to a survey by the Keidanren, as seen in Table 4 already 97.8% of Japanese corporations had established regulations and standards on business ethics, such as charters of behavior, and 97.1% had organized related committees or specialized sections. Figures such as these show that, numerically speaking, efforts had advanced.

(2) Four central systems to achieve permeation and adherence of business ethics

While employed at Shiseido, beginning in 1997 the author had the valuable experience of seeing the first efforts at a Japanese company to achieve the permeation and adherence of business ethics, based on Chairman Fukuhara’s strong beliefs on the subject. Since moving into the world of the university as well, through the present time I have built up research on business ethics and CSR and worked to fuse theory with practice.

As a rule of thumb developed through these experiences, I have identified the four central systems of establishment of rules on business ethics, setting

Table 4: Four central systems to achieve permeation and adherence of business ethics

Establishment of rules on business ethics, such as charters of conduct	Setting up sections to promote business ethics, such as committees or specialized units	Conducting ethics education and training	Promoting communication and awareness-raising activities*	
			Setting up contact points for consultation and whistleblowing	Communicating messages from top management
97.8%	97.1%	96.0%	96.6%	85.8%

Note: Communication and awareness-raising activities categorized by Mizuo Respondents: 593 companies; response rate: 44.4%.

Sources: Prepared by Mizuo based on survey of business ethics released February 2008 by Keidanren.

(<http://www.keidanren.or.jp/Japanese/policy/2008/006.pdf>) (accessed June 15, 2012).

up sections to promote them, ethics education and training, and communication and awareness-raising activities as important pillars essential to achieving the permeation and adherence of business ethics. Of course, corporate philosophy or corporate mission is the core for the four central systems¹⁴.

The description that “numerically speaking, efforts had advanced” in the discussion of the Keidanren survey above is based on the view that many corporations had established and largely advanced the first two of these four central systems.

However, what can be considered remaining topics to address in working toward actual permeation and adherence of business ethics are the need for unceasing repetition of ethics education and training along with that for communication and awareness-raising activities. These two systems hold the key to the future. They need to be implemented repeatedly based on the strong determination of top management. This is because in this never-ending battle failure to repeat these would mean the loss of all that has been gained.

4.2. Future prospects of business ethics in Japanese Corporations

(1) Returning to the starting point of business ethics

The year 2011 saw a succession of major events and incidents as outlined below, marking the start of an era characterized by the need to return to and reconsider the starting point of business ethics.

The first involved the effects of the March 11, 2011 Great East Japan Earthquake. This led to discussion of topics such as countermeasures against

14 Shiseido have corporate philosophy and The Shiseido Way which run its management ethically emphasizing that the management should be performed based on its founding spirit and corporate philosophy. According to Anzaki, Saito, Watanabe (2010, pp. 10–48), another good example is “Sumitomo” which has the history of 400 years as they have adhered to its founding spirit and corporate philosophy. Core of the Sumitomo Spirit is, as well known throughout the world, “Trust”.

earthquakes and tsunamis and the future of energy issues related to nuclear power as well as importance of corporate business continuity planning and risk management. Furthermore, the effects of the Great East Japan Earthquake increased interest in a variety of topics of business ethics, such as relationships to others in the form of interpersonal ties, consideration, and empathy, support for employees’ human rights and diverse ways of working, and interest in work-life balance. This can be considered an opportunity for progress toward the sustainable growth of the organization through improvement of companies’ CSR activities and analysis of their strengths and weaknesses in comparison with ISO 26000.

The second of these was the increased interest in essential discussion of business ethics and corporate governance in connection with the scandals that continue to occur repeatedly even now, 20 years after the collapse of the Bubble economy. Over the years 2011 and 2012 these included examples such as massive improper lending at Daio Paper Corp., stock shuffling at Olympus, vanishing pension assets at AIJ Investment Advisors, and insider trading on capital increases at several securities companies.

The time has come for companies to reconsider activities to prevent scandal through reinvestigation by returning to the starting point of business ethics, using these cases as useful object lessons.

(2) Leaders’ ethical values and communication encouraging intra-personal dialogue

Returning to the starting point of business ethics requires ethical values on the part of leaders and ethical dialogue with superiors, subordinates, and colleagues (including helplines and hotlines).

The former of these, leaders’ ethical values, is an idea central to the organization as argued in the following 1938 passage written by the management scholar C.I. Barnard:

“The endurance of organization depends upon the quality of leadership; and that quality derives from the breadth of the morality upon which it rests. High responsibility there must be even in the lowest, the most immoral,

organizations; but if the morality to which the responsibility relates is low, the organizations are short-lived. A low morality will not sustain leadership long, its influence quickly vanishes, it cannot produce its own succession.” (Barnard, 1938, pp. 282-283)

On the subject of the latter, ethical dialogue, one of the primary causes of the problems of sexual harassment and power harassment at many companies is an insufficient amount of this dialogue, although changing values in society are involved as well.

According to Plato, dialogue begins originally with intra-personal communication (Plato 1938, p. 216).

Once one has grasped the meaning of a subject through understanding and assent by dialoguing with oneself through asking and answering questions, one acquires the ability to persuade others as well. Plato expressed this state as “belief.” If a leader feels even a touch of bewilderment, doubt, or a dilemma about promoting business ethics, then he or she cannot bring this intra-personal dialogue into effect. Not to mention the fact that he or she would then be unable to achieve results such as inter-personal communication with subordinates, colleagues, or others.

Let’s look at the familiar example of choosing a mistaken value judgment by giving priority to profit out of blind loyalty to the company or the organization. What is required of a leader consulted with in such a case is a high ethical view. If the leader makes an unethical statement to avoid the situation, such as “Let’s just say I didn’t here that” or “I’ll leave the rest up to you, so just make sure everything turns out well,” then subordinates will learn bad practice, treating this statement as a precedent. Whatever the case, the organization clearly will be destined to collapse. A leader who can in such a situation decisively say “no” instead of leaving it to the other’s judgment (running away from the situation of himself or herself) is a true leader who has a noble ethical view.

Barnard argues that “the creation of organization morality is the spirit that overcomes the centrifugal forces of individual interests or motives.

Without leadership in this supreme sense the inherent difficulties often cannot be overcome even for short periods.” (Barnard, 1938, p. 283).

It can be said that the starting points leading to the ethical view of the organization are strong, unshakeable belief and leadership based on ethical values as the organization’s leader. Of course, it goes without saying that the category of leaders includes not just top management but also the section and group heads entrusted with management of organizations.

(3) Education and training to promote self-governance

The management scientist Simon argues that “the organization trains and indoctrinates its members. This might be called the ‘internalization’ of influence, because it injects into the very nervous systems of the organization members the criteria of decision that the organization wishes to employ.” (Simon, 1965, p. 103)

In other words, this refers to impacting the ethical behavior of individuals by encouraging their own internal ethical dialogue with themselves. The result will be an impact on ethical decision-making and behavior throughout the entire organization, leading to the fostering of an ethical organizational culture. When as mentioned above an organization starts to turn to unethical behavior out of blind loyalty giving priority to economic value to the company or the organization, it can be possible to stop it short of doing so if it has built up this framework of decision-making criteria.

In this way, education and training can promote the cultivation of ethical values by encouraging intra-personal dialogue throughout the entire organization rather than just for individuals alone. Shiseido created an “ethical amoeboid organization” (as Chairman Mizutani referred to it) consisting of personnel called Code Leaders. This organization owed its existence to the deep attachment that then-Chairman Fukuhara felt to “aiming for a self-governing organization.” As a result, the circle of activities to motivate individuals in annual Code Leader training grew to foster an ethical organizational culture.

However, the results of such education and training are not fostered over

a short period of time. It is important to raise awareness unceasingly through repetition and reinforcement including not only off-the-job group education and training but also on-the-job training in which leaders guide subordinates through the performance of duties in the workplace. These results lead to the “business ethics by self-governance” advocated by the author, in which individuals and the organization govern themselves (Mizuo, 2003, pp. 2-4).

(4) Awareness and promotion of self-governance through diversity

Introduction of diversity is effective for raising awareness of and promoting self-governance from the following two perspectives.

① Diversity through introduction of independent outside directors

The first type of diversity I will look at is the introduction of outside directors. At present, 945 (55.5%) of the 1703 companies listed on the First Section of the Tokyo Stock Exchange have outside directors (as of March 10, 2013)¹⁵. However, only about one-third—664 companies (39%)—have independent directors having no interest in the company, and just 282 (16.6%) companies have two or more such directors¹⁶.

It is difficult for a board of directors consisting solely of directors from inside the company to become aware of diverse values, and such a board tends toward a uniformity in which a single set of values holds sway. Introduction of knowledge from outside the organization also can prevent scandals from occurring and can lead to the discovery of scandals when they do occur, as in the recent case of Olympus. It also can lead to more strategic decision-making by contributing to the making of judgments from multifaceted angles in order to increase shareholder value.

Nevertheless, the amendments to company law in Japan now being proposed by the Legislative Council of the Ministry of Justice ultimately allow

15 According to the Tokyo Stock Exchange Corporate Governance Information Service for companies listed on the First Section.

16 *ibid.*

boards of directors to be made up solely of internal directors, making it difficult to demonstrate the governance functions of shareholders and the capital markets. When one considers the fact that the board of directors is entrusted with the duties of monitoring and supervision that properly should be performed as functions of shareholders, it goes without saying that the board of directors needs to demonstrate corporate governance functions. However, it is unlikely that governance functions will be demonstrated effectively in an organization made up entirely of directors from inside the company, or one in which even though outside directors have been appointed they lack independence because they are interested parties, such as directors of the parent company or trading partners. A synergy effect of having uninterested, independent directors—and more than just one—is improved governance abilities. Taking this concept one step further, it also would be worthwhile to consider steps such as organization of meetings to discuss information on governance, with the participation of independent outside directors and outside auditors.

② Director’s diversity

The second kind of diversity I will look at is diversity in the attributes of the directors themselves. Diversification of directors in terms such as their gender, age, nationality, and race can be expected to lead to diversity in their discussions and recommendations. For example, it is said that when the directors of consumer-goods companies or companies with retail functions consist entirely of men, their perspectives differ from those of consumers. General Motors (GM) of the US appointed its first African-American director in 1971 (Tsuchiya, 1980, p. 109)¹⁷ and appointed a woman director in the following year (Tsuchiya, 1980, p. 124).

In 2003, Norway enacted a law establishing a system of gender quotas for directors, requiring that at least 40% of a company’s directors be women.

17 The first African-American director was the Rev. Leon Sullivan, whose appointment followed the famous “Campaign GM” campaign.

Five years later, in 2008, all listed firms in Norway had achieved compliance with this “40% rule.” Spain enacted a similar law in 2007, as did France in 2010. On the other hand, in Japan less than 2% of directors of companies listed on the First Section of the Tokyo Stock Exchange are women¹⁸. Although since Japan is not a multiracial society to the same extent as the US its percentage of directors who are not Japanese nationals is even smaller, diversity will be important in the future as globalization advances among Japanese companies. Introduction of these two types of diversity will give rise to diverse values within the organization, and this will promote self-governance functions so that the organization can identify and solve problems on its own.

(5) Like the wheels of a car, balance between ethics and practice is essential

It is said that impractical ethics are empty while unethical practices are blind. This expresses the need for practices suited to a company’s own situation, based on the theory of business ethics. One is reminded of this by the words of Chairman Mizutani at the time of BERC’s founding: “We aim to be a specialized agency that conducts research useful to the practice of business ethics and promotes the spread of business ethics and raising awareness of it” (*Keieirinri 10-shunen tokubetsukinengo*, 2007, pp. 1-2).

BERC is a practical research organization with a strong consciousness of the words Chairman Mizutani spoke when it began: “Since management science and business ethics originally are practical disciplines, this Research Center should be a center for joint industry-academy research on business ethics instead of an ivory-tower facility for academic researchers only” (*Keieirinri 10-shunen tokubetsukinengo*, 2007, p. 8).

I believes that these words need to be valued at all times. This is because business ethics comes to life only when theory and practice are united into

18 Figures researched and totaled by Mizuo based on the Tokyo Stock Exchange Corporate Governance Information Service for companies listed on the First Section.

one. This requires leadership of Japanese business ethics in the right direction through theory and practice playing mutually complementary roles, as academics and practitioners discuss subjects together in the same forums, including not just the JABES and other academic societies but BEREC, ACBEE, and other research institutes as well.

None of these is superior to the other. They are in a horizontal relationship in which only their research organizations differ. If any one sticks obstinately to its own point of view or has even a bit of a superior point of view or an exclusionary group consciousness, then the organization will not be capable of sustainable growth.

They need to progress through the next 10 or 20 years by taking this concept to heart both now and into the future. I hope that they will continue doing so even 50 or 100 years into the future as well.

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