Socially Responsible Investment in Japan:
Its mechanism and drivers

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Abstract

The paper explores the emergence and development of socially responsible investment (SRI) in Japan. SRI is a recent field in Japan. It is not clear which model it will follow: the European, American or its own model. Through the analysis of the historical roots of SRI, the key actors and motivations that have contributed to its diffusion, the paper provides explorative grounds to sketch the translation mechanisms of SRI in Japan and offers insight into its future path.

Based on primary and secondary sources of information, the paper shows that although SRI in Japan holds some similarities with the U.S. and especially with the European model, it remains unique. It highlights the importance of translation and re-interpretation in adopting a practice in a new context. SRI in Japan is still in a dynamic construction process. Although we expect it to develop further, it is difficult to depict its future shape and form.

Introduction

SRI is becoming an international phenomenon (Tennant 2007) and has been diffusing amongst Asian countries, first to Australia, Hong Kong, Singapore, then to Japan, and most recently to emerging Asian countries (ASrIA). The Association for Sustainable & Responsible Investment in Asia (ASrIA) was set up in 2000 in Hong Kong as a non-for-profit, membership association to: "build momentum for SRI in the Asia Pacific region and to raise the standards of SRI practice, through fostering the creation of SRI products and services and through the provision of training and support services" (ASrIA website).

SRI is a new and developing field in Japan. The concept and practice of SRI has been recently transposed into a new and not fully predictable situation. Yet, Japan is a leading SRI nation in Asia outside of Australia, with 34 SRI mutual funds and 4 fund options for pensions with a total market value of 358 billion JPY (approx. 3 billion USD) as of 31 January 2007.[1] While some reports document the historical and recent development of SRI in Japan (Solomon et al. 2004; ASrIA 2003; Tanimoto 2003; Kawaguchi 2006) as well as its prospects for mainstreaming (Kawaguchi, 2006, Kato, 2006) and its limitations (Solomon et al. 2004; Japan Research Institute 2004, pp. 73-74), very little has been done to analyse why and how SRI developed in Japan.

SRI perceptions and practices obviously vary across different nations and cultures (Sparke 2001). It is not clear which model Japan will follow: the European, the U.S. or its own and unique model. According to Latour (1986), practices need to be adapted to fit new social contexts, which means reinterpretation or translation (Czarniawska and Joerges 1998; Czarniawska and Sevón 1996; Olson et al. 2003). Hence, one may expect SRI in Japan to find its own and specific form.

The purpose of this paper is to understand the emergence and development of SRI in Japan; its specificities in addition to commonalties with European and U.S. SRI practices. It seeks to answer to the following two questions.

- ***What are the characteristics—actors, vocabulary, strategies and historical roots-- of SRI in Japan?***
- ***What model for SRI in Japan -- US, European or its own?***

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[1] The data was provided by Japan Research Institute. The calculation does not include the asset under management for pension funds. 1euro =149 JPY. See Table 1.

The paper provides explorative ground to sketch the translation mechanisms of SRI in Japan. It investigates not only the historical roots of SRI in Japan but also the key players and motivations that have helped its proliferation and translation in this new institutional context.

The paper relies both on secondary sources of information, including SRI funds brochures and prospectus, existing surveys and studies, as well as informal discussions with practitioners and finally the authors' observations and experiences.

Japan's context for SRI development

SRI is perceived and practiced differently in different national socio-economic contexts. As Tessa Tennant, Founding Chair of ASrIA puts it: SRI is understood as screened funds and shareholder action in the US, while more of opportunities for clean energy, water and eco-efficiency in Europe. While some leading funds in Australia have chosen to invest in nuclear activities, in Japan "it is also about CSR nationally with a certain discomfort at looking at the behaviour of Japanese companies globally".[2] Japanese companies use cultural mechanisms such as philosophy and guiding principles to address CSR without formal administrative processes typical to Western companies (Lewin et al. 1995, p.95).[3] Yet, their moral obligation is confined within the "community of interest" excluding minorities and foreigners (Wokutch and Shepard 1999).

SRI was imported to Japan and introduced to Japanese companies in the late 1990s when the country was going through a period of "soul-searching" and confidence-building, following a decade of economic recession. This period can be described as confusing and paradoxical (Kim 2004). Four main factors explain this context of confidence-building.

First, largely due to salient pollution after the high-growth era (Solomon et al. 2004), there was a consensus or 'common value' since the 1970s among central and local governments, companies and the population to regulate pollution, an externality of

[2] The view was expressed in her article entitled ""Socially Responsible Investing around the World", Special 15th Anniversary Issue Summer 2007, GreenMoneyJournal.com.

[3] Nippon Keidanren adopted the Charter for Good Corporate Behavior in 1991. Solomon et al. (2004) and Kim (2004) argue that it sought to discipline the corporate sector with ethics and compliance through several revisions of the Charter in 1990s.

companies (Machii). In the late 1980s and 1990s, a wave of strengthened environmental standards were arriving from Europe especially with regard to the extended producer responsibility, recycling and take-back measures embodied in the EU's WEEE and RoHS directives. Influenced by EU developments, the Japanese Ministry of Environment requested companies to publish environmental reports in 1997, which later resulted in a burgeoning number of environmental reports as well as ISO14001 certifications (Solomon et al. 2004). Despite of their belief in good environmental track records (Keizai Doyukai 2004), Japanese companies are under more and more pressure not only from the EU but also more recently from Chinese legislation.

Second, Japan's economic success, built on the Japanese corporate governance model, lost its foundation in the economic doldrums of the 1990s. Japanese companies were criticized both from within and outside of Japan for its model of balancing the interests of various stakeholders including wider society (Kim 2004). Amid debates on a new model of Japanese governance throughout 1990s (Sakuma 2001), the Japanese government revised the Commercial Code in 2002 to allow an Anglo-Saxon way of management control through the committee system (auditing, remuneration and appointment) combined with an independent board of directors.[4] However, an overwhelming majority of companies retain the traditional model of "internalism" governance (Buchanan 2007) and shy away from external control (Gilson and Milhaupt 2004).[5]

Third, scandals started to become a daily feature of corporate Japan, despite widely-held views that Japanese companies are social institutions delivering philanthropic contributions, life-long employment and seniority (Kim 2004). Unlike previous cases associated with corporate racketeers, recent scandals have involved unethical behaviour at large and renowned companies: legal infringement of health & safety standards and falsifying accounts and reporting. This led to a public outcry that Japan was not excluded from corporate scandal cases such as Enron and Worldcom (Inukai 2005; Solomon et al. 2004). Despite Nippon Keidanren's (Japan Business Federation) efforts to upgrade the

[4] Between 2001 and 2004, commercial codes were revised 6 times, mainly to strengthen the function of internal auditors.

[5] Keidanren, Japan's largest industry association recently claimed that flexibility in governance systems, such as setting up only one of the three committees, is needed to suit individual companies' specificities. http://www.keidanren.or.jp/japanese/policy/2006/040.html

Charter for Good Corporate Behaviour (1991) throughout the 1990s (Solomon et al. 2004; Kim 2004), corporate ethics scandals still show little sign of subsiding.

Forth, Japanese companies have sought to secure home-based stable ownership in light of increasing foreign ownership. The share ownership by foreign institutions reached 18.3% (4.7% in 1990) in monetary terms in 2001, and 28% in 2006, while individual investors also emerged as a significant ownership group (18%).[6] Secured control cemented through cross-shareholding among affiliated financial institutions and companies faltered, which resulted in one in four listed companies seeking to attract individual investors. They introduced non-taxable gifts (cf. dividends), so-called "Kabunushi Yutai". Kabunushi Yutai are for example company products, discounted transportation tickets, gift certificates, etc, independent of dividend payout. Individual Japanese investors are perceived as being loyal, whereas foreign owners are perceived as deceitful since they sell stocks in mass when business results are disappointing (Nomura Research Institute 2006).[7]

Within this social and economic context, SRI from Europe and the US was introduced.

Roots of SRI

Early steps. The widely held opinion, considers that SRI emerged in Japan in the late 1990s with eco-funds. Eco-funds are mutual funds which invest exclusively or predominantly in companies which are actively working to improve the environment or have otherwise environmentally friendly business operations (OECD 2001; ASrIA 2003; Ministry of Environment Japan 2004; Japan Research Institute 2004; Kabeya 2004; Matsuno and Goriki 2006; Kato 2006).[8] The first eco-fund was introduced by Nikko Asset Management in partnership with Good Bankers, in August 1999. Within the 6 following months, 4 other eco funds were launched. As noted by Eiichi Takeda from Nikko Asset

[6] The Tokyo Stock Exchange data.

[7] The triangle merger, which allows foreign companies to acquire a Japanese company via a Japan-registered subsidiary as effective from July 2007, is likely to magnify Japanese companies' urge to stay Japanese.

[8] Supporters of the other view claim that an embryonic form of SRI appeared earlier, in the 1980s in the form of shareholder activism triggered by a nuclear plant accident (Tanimoto, 2003). However, it was more a single incident, as shareholder activism on ESG issues did not take root afterwards.

Management in an interview in 2003, investment funds such as mutual funds or pension funds are quite recent in Japan: "Japanese prefer the bank deposit to the investment" claims Eiichi Takeda[9]. The first Japanese eco-fund emerged in a timely manner for mutual funds investment in 1999-2000 as well as in an increasing awareness of the Japanese public on environmental issues (Tanimoto 2003; Kabeya 2004). In this context, eco-funds have been imported from the West and introduced into the market as new financial products.

----------Insert Figure 1----------

Beginning 2000. The introduction of eco-funds has been very successful. Assets under management (AUM) of Nikko eco-fund reached 23 billion JPY within only two weeks of its inception[10], and by March 2000 the eco-funds market grew to 220.7 billion JPY.[11] The Bank of Japan's zero-interest rate policy (February 1999 till August 2000) also gave fund marketers an opportunity to tell bank depositors to switch to better financial and environmental return-generating investments. Most of the participants were first time investors, primarily made up of women and young people. However, the IT bubble burst in mid-2000 and the consequent IT stock plunge reversed this trend in growth. Despite a growing number of eco funds from 1 to 9 in 4 years and the introduction of the first SRI fund [Asahi Life SRI Social Action Fund], the total AUM diminished to 71.8 billion JPY in September 2003 (Sompo Japan calculation). No new SRI or eco-fund was launched in 2002. As a result, lots of attention was given to the way in which SRI funds selected companies in the West and Japan as debated at the ASrIA Tokyo conference in 2002.

2003. Around 2003, SRI started to gain recognition in Japan. In 2003 the first SRI fund for pensions was launched (July) by the Sumitomo Trust Bank,[12] and in the same month Morningstar Japan launched the first Japan-specific SRI index called MS-SRI. Moreover, the Pension Fund Association of Japan issued the Proxy Voting Principle. This

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[9] Interview by William Baue in "Attitudes and Actions Behind the Growth of SRI in Japan", Socialfunds.com, June 20, 2003

[10] A comment of Ms. Tsukushi, President of Good Bankers in Economic Research Institute for Northeast Asia (ERINA) report vol. 45, 2002.

[11] Sompo Japan calculation, in the presentation on 20 November 2003 in Tokyo.

[12] Two pension funds belonging to KDDI and Shinsei Bank mandated Sumitomo Trust Bank to manage 25 billion JPY through the SRI fund (Solomon et al. 2004).

series of initiatives were rather a counter proposal to Western SRI criteria and the massive arrival of SRI questionnaires from overseas. Japanese companies felt strongly that some of the Western SRI criteria were not relevant to Japanese companies (ASrIA 2003, p.1). According to them, SRI overseas assumptions and criteria addressed the wrong problems in Japanese society (ASriA 2003; Solomon et al. 2004; Sakuma 2004). There was a common feeling that no country should attempt to inflict its ethical beliefs on another (Wong 1991; Bowie 2004). The Japan Association of Corporate Executives in fact issued a White Paper on CSR to highlight "Japan's way of CSR". However, individual companies exposed to cross-border business had a pragmatic reaction – both pride for Japan's practice, and interest in international standards for CSR. Western SRI questionnaires have nevertheless had a significant impact on the growth of domestically designed SRI funds and Japan-relevant CSR criteria and methodologies.

Today. The initial expansion has been followed by the introduction of a second SRI index, the FTSE4Good index for Japan in September 2004. As a result, the financial community as well as investors started to more concretely grasp the concept of SRI, which had for a long time remained very vague. With the launch of the UN Principles for Responsible Investment in June 2006, the Japanese financial community has begun to understand the international scope of SRI, and began to benchmark its own CSR activities against the leading Western financial institutions. Due to this international catch-up zeal, the Japanese financial community and consultants have shifted their focus on legal and non-legal means to push the volume of SRI from previous concerns on the Western criteria fitness to Japan's context.

As of 31 January 2007, the number of SRI funds increased to 34, representing 358 billion JPY of AUM (see annex 1).

The SRI community

Four key actors can be identified in the Japanese SRI field, namely SRI research organisations, SIF Japan, financial institutions and stock listed companies. SRI research organisations together with companies have played a determining role in developing and diffusing SRI in Japan, however both groups with different motives. Japanese companies have tried to regain trust by actively engaging in CSR activities, both at the national and international level.

SRI Research organisations

SRI Rating Organisations as well national Social Investment Forums have flourished in a number of countries. Today all financial institutions managing an SRI fund, in Europe, the U.S. or Japan use the services of at least one SRI rating organisation and a SRI fund that does not use the services of such an organisation may be perceived as unreliable (Louche 2004; Gond and Louche 2005). SRI rating organisations are today recognised as the professional body, the 'experts' on SRI. This seems to be the case in Europe, the U.S. as well as in Japan.

In total there are 15 SRI research organisations active in Japan, which is a lot compared to Europe and the U.S. and shows how fast SRI has developed in this country. Similar to Europe and the U.S., there are two main forms of SRI rating organisations in Japan: independent SRI research organisations, domestic and foreign, and affiliated SRI research organisations. Affiliated SRI research organisations are different from in-house SRI research: they are think tanks dealing with multiple themes and are affiliated with financial groups (see annex 2 for more detailed information).

The group of *domestic independent SRI rating organisations* consists of three organisations: Good Bankers, IntegreX and Morningstar/CPRD. Good Bankers, established in 1998 by a former Japan-based employee of a European bank, was the first Japanese SRI rating organisation. Good Bankers played an important role not only in linking ecology with mutual fund products, but also in encouraging Japanese financial institutions to rethink their business model and be more innovative. In its mission statement in Japanese it states:

> "…we have reached the conclusion that the financial sector, through the provision of financial products and services should contribute to societal progress and development, should be able to go out of the present impasse and explore new clients and markets. ….Good Bankers will introduce the concept 'SRI' as a new product line and will provide and plan diverse products and services that will match the changing financial market in the post-Big Bang era". [13]

Good Bankers clearly positions SRI as a commercial activity for mainstream financial institutions rather than a niche and norm-based product limited to a certain type

[13] Translated literally by the authors from Japanese into English. The mission statement on Good Bankers' English webpage did not carry the Japanese equivalent as of October 2007.

of bank or institution. It also promotes SRI as a way/tool to get the financial market out of a long recession period. In April 2006, Good Bankers launched a new business with Mitsubishi UFJ Research & Consulting to help the Tokyo Stock Exchange, Inc. design tailor-made SRI indexes.

The second independent SRI rating organisation, IntegreX, was set up in 2001, three years after Good Bankers, by a former trader in an international and Japanese brokerage house. From the start, IntegreX introduced a different message from Good Bankers –the revival of Japanese management rather than aiding financial institutions out of an impasse. It stresses that the integrity and sincerity of managers is the core of good management in Japan and due to this the need for a Japan-specific SRI approach. The President of IntegreX claimed on its website:

> " ….. it is important to develop SRI that is suitable to Japanese society and culture in order to build safer, fairer and better Japan. ….If we succeed in creating a mechanism by which the integrity of corporate management is translated into market competitiveness, it will benefit not only companies' improved brand image, but also adds values to stakeholders… ".

In one of her recent books, she wrote:

> "SRI, which was started in the US, as a means of embodying Christian belief, will be reborn in Japan as a means to support the fundamental corporate goals, namely, economic efficiency, competitiveness and sustained growth. Japanese companies are able to regain a success model of "Japanese management" (Akiyama and Hishiyama 2004).[14]

The third independent SRI research provider is the Centre for Public Resource Development (CPRD), a non-profit organisation established in 2000 by individuals with NGO, government and academic backgrounds. CRPD's aim was distinct from the previous two SRI research companies in the way that it sided with stakeholders. It aimed to strengthen the non-profit sector and establish new social systems by developing public resources through partnerships and collaborations. CPRD provides screening results to Morningstar Socially Responsible Investment Index (MS-SRI). However, Morningstar maintains rights over final constituent selection based on the CPRD recommendation and the development of derived products such as the MS-SRI research tool, an on-line application service to extract company data and research reports.[15]

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[14] Translated by the authors from Japanese to English.

[15] Morningstar mentions about the division of labour on its dedicated website.
http://www.morningstar.co.jp/sri/pdf/sri_rulebook_100.pdf

Although the three organisations, Good Bankers, IntegreX and Morningstar/CPRD, have different approaches, they all position SRI as a commercial project. This perspective is comparable with the development of SRI in Europe (Louche 2004) but differs from the U.S. approach of SRI which has its roots and still is linked to activism. CPRD's original goal of becoming a catalyst for new social systems, a kind of a soft version of U.S. activism, was soon transformed into a commercial project of Morningstar Japan. Good Bankers and IntegreX have contributed in the construction of a business model similar to financial rating agencies promoting economic efficiency, competitiveness and sustainable growth. Such an approach is consistent with the way they present SRI, a financial product for mainstream financial institutions. In Europe and more specifically France, Arese, a SRI rating organisation which has now merged with Vigeo, played a rather similar role (Gond 2005).

The group of *affiliated SRI research organisations* consists of four providers and can be described as think tanks that have an affiliation with a large financial group. The constitution of those conglomerates dates back to the pre-war period. The Japan Research Institute (JRI) is affiliated with the Sumitomo Mitsui Financial Group, Sompo Japan Research Institute with the Sompo Japan Group and Mitsuibishi UFJ Research & Consulting with the Mitsubishi UFJ Financial Group (Annex 2). Although the degree of affiliation is almost intangible today, group-affiliated financial institutions almost always appoint their group-affiliated research institute for their SRI funds screening. All SRI funds by Sumitomo Trust & Banking and Sumitomo Trust & Banking (STB) Asset Management are researched by JRI., two funds of Sompo Japan Asset management are screened by Sompo Japan Research Institute together with Sompo Japan Risk Management, and two of three SRI funds managed by Mitsubishi UFJ Asset Management are researched by Mitsubishi UFJ Research & Consulting[16]. Another common feature for the affiliated research institutes is that they provide a variety of research and consulting within and outside the group affiliations, with SRI representing just a fraction of emerging business revenues(between 0.05% to 1.5% of their total revenue). [17]

The last group, the *foreign independent SRI rating organisations*, have a limited role to date despite their large presence in Japan's SRI (8 out of 15 research companies

[16] Mitsubishi UFJ Asset Management using Good Bankers for Family Friendly fund is the exception.

[17] SIF Japan study, September 2005.

active are of non-Japanese origin). Only two of the foreign SRI research companies active in Japan[18] are voting members of ASrIA. [19] Non-Japanese SRI rating organisations have difficulties to penetrate the Japanese market as it often requires forming a 'trustworthy' or 'exclusive' partnership with local financial institution. No financial institution uses the same foreign research provider. It seems that foreign SRI research organisations are first and foremost used as a communication tool to signal their SRI orientation in the eyes of the media and public. However, we expect the role of foreign SRI research organisations to change, as they are becoming more strategic in expanding their client base in Japan, possibly with Japanese language-based services. Such a move is already observed for example with Innovest which opened its own office with Japanese staff in 2006 in Tokyo or IRRC which acquired its base in Tokyo as a result of a merger with ISS in 2005 (Today RiskMetrics Group, as a result of ISS's acquisition in January 2007).

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Japanese SIF

As in many European countries and the U.S., Japan has its own 'SIF', Social Investment Forum. SIF Japan was officially set up in November 2003 and has its origins in a study group formed by companies, NGOs, academics active in the GRI Forum Japan (renamed to Sustainability Forum Japan as of 1 August 2007), some CSR consultants and individuals promoting SRI/CSR in Japan. It is a non-for-profit membership association. Unlike SIF U.S. and Eurosif, SIF-Japan was not a financial sector initiative. As of April 2008, four out of 15 board members represent the financial sector: Daiwa Securities Co., Lehman Brothers Securities, Sumitomo Trust and Banking and the Development Bank of Japan, a government-financed bank. The rest of the board is represented by various stakeholders[20].

The lack of interest from the financial community may be explained by a competition factor. Indeed, several practitioners active in Japan's SRI argue that once

[18] Stock at Stake was also founding member until its merger with Vigeo Group.

[19] The third voting member active in SRI research in Japan is Good Bankers.

[20] The other stakeholder members of the SIF Japan board are: three CSR related NGOs, two academics, one company, one securities company-related research institute (Daiwa), two consulting companies specialising in CSR and one SRI independent research organisation (IntegreX) and one affiliated research organisation (JRI) .

one's competitor is in one organisation, it does not want to join that organisation. While Daiwa Securities are in, Nomura Securities has no interest, and while IntegreX and other SRI leading persons are in, Good Bankers has no interest, for example. In addition, SIF-Japan's secretary-general is the same person as Sustainability Forum Japan's secretary-general. Co-founder of CPRD is affiliated with the Sustainability Forum Japan through its auditor role. Another noteworthy point is that SIF-Japan is not a voting or associate member of ASrIA, while the Korean Sustainable Investment Forum (KoSIF) is an associate member. SIF Japan seems to struggle not only to reach the status of a ´pivotal platform´ domestically, but also international recognition, without ASrIA membership.

Our observations and numerous discussions with actors in the SRI Japanese field lead to the conclusion that the Japanese SIF remains an unfocused organisation with a rather ambiguous role. As of today, it is difficult to predict whether it will become an important actor in the field or stay marginal.

Financial institutions and SRI funds

Financial institutions have been a passive group of actors in Japan's SRI arena. As of January 2007, there are 34 SRI funds in Japan and all 34 are mutual funds (see Annex 1). Ten of the funds are eco-funds that focus on environmental screenings, two are theme-funds that focus on the empowerment of women in the workplace, and the remaining twenty-two funds are SRI funds that screen on environment, social, compliance/governance criteria.

Affiliation with ASrIA seems to be an important anchor for some financial institutions. Daiwa Securities, Sompo Japan Risk Management and Sumitomo Trust & Banking are voting members of ASrIA. Interestingly, Nikko Cordial Co. with whom Good Bankers launched Japan's first SRI (eco) fund is not a voting member of ASrIA. Yet the company was the most frequent sponsor amongst Japanese institutions during the three-year (2002-2004) period. Daiwa Securities, a voting member, sponsored in 2002 and 2004, while the others show no record of active sponsorship for events and projects. ASrIA plays an importance role as a platform for SRI research companies and financial institutions, which seek legitimacy of their activities in Japan.

Companies

Japanese companies, as the object of evaluation and the recipients of SRI questionnaires, played an important role in Japan's SRI development in two ways: mobilising the CSR debate and enhancing disclosure. The companies' CSR drive was in a sense triggered by the media. Since 2003, the media coverage of CSR skyrocketed (Daiwa Investor Relations 2006)[21] becoming the prime driver for CSR by early 2005. Internal reforms to combat scandals were not a driver of CSR for a majority of companies, according to the Keidanren survey in 2005. [22]

As the guardians of the Japanese management system, Japanese companies responded to mounting SRI inquiries on ISO14001 certification by increasing the number of certified sites by 390% between August 1999 and the end 2003 (Tanimoto 2003, p.243). By the end of January 2006 Japan was ranked the No.1, with 18.8% (19,477) of the total environmentally certified sites (103,583) in the world (Peglau P., German Environmental Agency).

Moreover, Japanese companies are stepping up their CSR disclosure. Japanese companies comprise more than 20% of the total reports that use the Global Reporting Initiative (GRI) guidelines, making Japanese companies top amongst the global GRI reporters (KPMG International Global Sustainability Services 2005). CSR reports are not confined to large companies: 23% of Japanese companies (51% amongst large companies) prepared a separate report covering both the environment and society, and 32% had a CSR department or a CSR committee in 2003 (Keizai Doyukai 2004). During the period 2004-2005, amongst the CSR/environmental reports published by Japanese companies, the percentage of those citing their SRI index inclusion increased from 7.6% to 10.6%. (General Press Corporation 2005, p.26).

[21] The media coverage of CSR issues increased by 17 times from 225 in 2002 to 4,311 in 2006, while the coverage on investor relations (IR) remained between 400 and 500.

[22] The prime reasons for companies to take up CSR were popularity in the media (66.7%), CSR-conscious activities in economic associations such as Keidanren (56.7%) and SRI questionnaires (39.3%), while internal reform to combat scandals (13.3%) and benchmarking (10.7%) were found in a minority of companies. Keidanren surveyed 1,324 member companies during the period March –April 2005 (response rate: 43%). http://www.keidanren.or.jp/japanese/policy/2005/066.pdf

Definitions and Vocabulary

Definitions and vocabulary are important indicators of the national 'identity' of SRI. Although we can find some similarities with Europe and the U.S., there are also interesting and unique features within the Japanese SRI field.

Definitions

Most SRI funds refer to the Eurosif definition: 'to combine investors' financial objectives with their concerns about social, environmental, ethical (SEE) and governance (G) issues. Yet, despite the text-book definition widely employed, the narrative explanation of SRI in Japan places a different emphasis in comparison to Europe. It places importance on "investment method" or "investment activities" rather than investors' objectives (see Annex 3)

Moreover, the word "ethical investment" has never been translated into Japanese as the use of "ethics" is regarded in Japan as reserved for groups of intellectuals or those who have had a Christian education..

Furthermore, SRI is defined as a mixture of the U.S. and European approach. It takes the U.S. scope of screening, shareholder activism and community investment, in addition to the European understanding of shareholder activism -engagement.

Vocabulary

Japanese SRI uses a softer language when compared to the European and U.S. SRI community. Wording such as eco-, earth-, employee- and family-friendly, and social contribution are used. Imported words such as CSR, compliance and engagement are used without Japanese language equivalents. Like many traditional mutual funds, some (12 out of 30) SRI funds have a nickname that highlights their stock-picking criteria: ecological beauty (12 out of 30), bright future or human relationship (5 out of 30) (Table 1).

There are roughly three sets of vocabulary in the Japanese SRI scene: eco-efficiency/eco-friendly, compliance/integrity, and 'CSR'.[23] Eco-efficiency, which has been promoted by the World Business Council for Sustainable Development, is a variation of the business case for CSR, in which improvements in the handling of environmental matters results in efficiencies in the manufacturing process, and hence in competitiveness and profit (Louche

[23] Recent emergence of women-related funds was not taken into account, because of their minority values in today's SRI scene.

and Lydenberg 2006, p.18). This concept, the most important underlying value associated with SRI in Japan, has been popularised not only by Good Bankers but other followers.

The notion of compliance in Japan includes both legal and ethical aspects. This notion emerged onto the scene in reaction to a call for honesty and integrity amongst top managers amid scandals. Honesty and integrity was popularised by IntegreX and its method of screening, R-BEC001. However, with the increasing media coverage of scandals, the accent has somewhat shifted to post-scandal management capability from a 'good heart' that could prevent non-compliance and scandals. Keidanren's 2004 revision of the Charter for Good Corporate Behaviour states that legal compliance is the core of social responsibility. And the recent survey of Keidanren [24] confirms this thinking.[25]

CSR, without any translation is an increasingly popular expression amongst SRI funds in Japan. It encompasses a variety of notions including a management system of integrity and social contribution, Shakai Koken in Japanese. A management system of integrity means demonstrating a good environmental and human resources performance, reflecting the recent discussion around ISO26000. Whereas Shakai Koken is the concept closely associated with charities, community involvement and corporate citizenship. The concept became known through Keidanren's launch of the 1% Club in November 1990, which was modelled on the US practice of percentage clubs.[26] In fact, the first SRI (eco) fund, an unspecified fraction of Nikko Ecofund's return, was annually donated to the greening activities of NGOs and communities during October 2000 and December 2006. Some other SRI funds also give part of their return to charities.

Approaches to SRI

Despite the textbook definition of SRI adopted in Japan, Japanese SRI is predominantly screening. No engagement is acknowledged amongst Japan's SRI

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[24] Keidanren surveyed 1,324 member companies during the period March –April 2005 (response rate: 43%). http://www.keidanren.or.jp/japanese/policy/2005/066.pdf

[25] Legal compliance and administrative guidance compliance are the most important CSR issues today (96.6%) and in the future (73.6%), followed by safety and quality (64.7% and 43.9%), environment (66.3% and 60.5%), privacy protection and information security (61% and 39.3%) and risk management (42.5% and 56.8%).

[26] As of September 2006, the 1% Club was composed of 271 companies and 1,026 individuals which voluntarily contribute 1% of their profit to the social activities.

practitioners, while community investment is still in the process of identifying Japan's distinctive features in contrast to U.S. definitions and practices.

Screening

Within the Japanese context, and like Europe and the U.S., screening is usually understood as selecting companies based on evaluations on social, environmental and/or ethical and governance issues simultaneously or BEFORE the financial analysis (Tanimoto, 2003). However three SRI funds conduct non-financial screening AFTER the selection based on financial and stock performance data.[27]

Exclusionary criteria, that is the rejection of companies due to their involvement in certain activities –the most widely used criteria in the U.S. and Europe being alcohol, tobacco, gambling and weapons—are employed by two global index tracking SRI funds screened by foreign SRI research organisations: Nikko Global Sustainability Fund screened by SAM based on DJGSI and Nomura Global SRI 100 screened by FTSE and based on the FTSE4Good Global 100. Foreign SRI research firms providing domestic equity screening services use positive screening exclusively. It is important to note, however that some SRI funds, including Tokyo Teachers' Mutual Aid Association (TTMAA) excludes companies with a past record of causing scandals stemming from non-legal compliance (Tanimoto, 2003, p.92). Morningstar SRI Japan Index also replaces companies associated with non-compliance scandals with those possessing a clean record.

With respect to screening criteria, there is a tendency to focus more on crisis management skills such as post-scandal transparent communication and execution of management turn-over, rather than a more in-depth screening of issues that cause such scandals. One reason for this tendency is the absence of reliable information sources. All domestic SRI research organisations rely predominantly on questionnaires, CSR reports and other disclosed company information (SIF-Japan 2005). NGO or civil society sources have not gained an equal or trustworthy status comparative to the major news media. This makes it difficult for information users to defend their final ratings or assessments. Secondly, budget and time constraints. Most domestic SRI research organisations use a data package that allows semi-automatic production of rating results. The number of

[27] They are Nikko Eco Fund, DIAM's Eco Fund, and Sumitomo Mitsui Asset Management's Eco Balance Fund.

companies per analyst per year vary from 37.5 (Interrisk) to 283 (IntegreX)[28], reflecting various styles of research (Annex 2). One practitioner in Japan mentions that the SRI analyst is not yet an established profession and that it is difficult to find them.

The screening criteria specific to Japan are of legal and administrative compliance. These types of indicators typically focus on Japan-based or non-consolidated entities' human resources practices, which is another dissimilarity from European and U.S. screening criteria, which focus more on consolidated performances.

These criteria are found mostly in the human resources area where there has not been much enforcement.[29] One example is the percentage of disabled workers in the workforce and measures to extend senior employees' (those reaching the retirement age of 60) employment contracts. The former indicator's benchmark is 1.8%, a legally required rate for companies with more than 56 employees, yet the average rate for the companies in 2004 was 1.46%. Amongst Tokyo-based companies (20% of Japan's corporate establishments), it was 1.44% in 2006. The latter indicator refers to the legal provision that requires companies to either (1) extend the retirement age, (2) introduce a continual re-employment system, or (3) abolish the retirement age (effective April 2006). The law moreover encourages companies to make other efforts to promote the employment of seniors.

Engagement / shareholder activism

Proxy voting has a recent history in Japan, however neither U.S. or European styles of shareholder activism have been seen as of September 2007. Yet, in a relatively voting shy country, 1998 was an 'epoch-making year' for proxy voting history in Japan (Yoji Yoshioka, CEO of Japan Proxy Governance Ltd.). The Pension Fund Association of Japan (PFA) published a first study on the corporate governance of pension funds, followed by the launch of the Principles of Corporate Governance by the Corporate Governance Forum of Japan. This was followed by the insurance of corporate governance principles targeted at Japanese companies by the California Public Employees' Retirement System (CalPERS).

[28] Calculating the part-time staff as 0.5 full-time, divided by the number of companies researched per year.

[29] Companies failing to achieve the required rate have been allowed to compensate by paying 50,000 JPY per missing disabled person per month.

In February 2003, after a series of guidelines the Pension Fund Association (PFA) unveiled the PFA Proxy Voting Principle, because it needed to encourage Japanese pension funds to vote (Yano, 2004, Yoshitaka, 2006) in light of rising foreign ownership. The PFA Principle successfully created a wave of shareholder responsibility to not endorse proposals blindly and do cast a vote (Yano, 2004; Yoshioka, 2006).

A recent study by Jacoby (2007) documents evidence of limitations of US-style shareholder activism in Japan due to persistent cultural obstacles. Jacoby (2007) investigated CalPERS' involvement in Japan. He showed that over the last 15 years CalPERS has shifted its initial solo activism, to local partnerships and finally to company-level 'relational investing'. RIETI (2003) also points out that proposals submitted by individual shareholders are considered odd and are almost never supported by the institutional investors.

Community Investing

Unlike Europe, community investing is considered more and more as an integral part of SRI in Japan. SIF Japan's regular media monitoring includes initiatives by local banks in raising funds for specific local issues. These types of activities are somewhat different from U.S. community investing, which focuses mainly on support for small, community-development banks, credit unions, and revolving loan funds. In addition, SRI investors focus on the community lending records of larger banks, looking for evidence that they lend to economically disadvantaged neighbourhoods and regions. The Japan Research Institute, introduced a new definition of SRI as 'a provider of finance by way of investment or loans' in its 2004 report submitted to the Ministry of Trade, Economy and Industry (METI). (Table 2).

----------Insert Table 2 ----------

The report identifies the Community Reinvestment Act in the U.S. and Community Investment Tax Credit in the UK as vehicles to convert community investing into a local welfare policy. This broadened scope of SRI is reflected in the new METI project entitled "2007 Environmental Community Business Project" (METI 2007).[30] This one-year subsidy aims to promote a business model in which small and medium size companies collaborate with local NGOs and communities in environmental sustainability in reaction

[30] Calls for projects were opened until 2 April 2007 and the selected projects will be announced on 1 June 2007. METI's project is available at http://www.meti.go.jp/policy/eco_business/

to the fact that companies are reluctant to form partnership with NGOs.; despite the dramatic increase of incorporated NGOs (non-profit organisations or NPO in Japanese) after the enactment of the Law to Promote Specified Non-profit Activities (NPO Act) in 1998.

Similarities and differences with Europe and the U.S.

From the above analysis, we can conclude that SRI in Japan holds a number of similarities especially with Europe. The main characteristics of SRI in Japan are summarised in Table 3 and Annex 4.

SRI is a recent phenomenon in Japan –beginning in the late 1990s with no links to religion, unlike the U.S. and Europe. SRI in Japan was launched with a clear desire to create a market mechanism to channel household financial assets into SRI and the corporate sector. But Japan had been confronted by SRI earlier through the questionnaires sent by overseas SRI research organisations. This even resulted in questionnaire fatigue amongst companies in the 2000s – before SRI really took off in Japan - particularly since they had the feeling that the questions were not adapted to their national context and therefore at times irrelevant.

Japan's actors, vocabulary and strategies have a number of common characteristics with Europe, which is not surprising since Europe has been regarded as a model for the development of SRI in Japan.

Three actors have played an important role in the emergence and development of SRI in Japan: companies, SRI rating organisations and the government. All three have had different motives for stimulating SRI in Japan. Japanese companies felt challenged by foreign investors and have been confronted with the importance of showing sound signs of corporate social responsibly in order to remain legitimate. Therefore a number of them have actively engaged in developing CSR strategies and have been active in involving the financial community to increase their own credibility. Indeed companies as well as the government perceive CSR as a threat to the one of their prides, namely the Japanese management system. From this point of view, it has become crucial for them not only to perform as well as other countries, but even better; therefore companies have embraced certifications such as the ISO and others. SRI rating organisations, and especially the independent organisations, have played an important role in rationalising SRI and building a business model for SRI. The government has stimulated SRI by signalling its interest in

the development of the SRI industry. The government also sees SRI as a way to rebuild national confidence.

Overall, Japan has adopted a 'soft' version of European SRI, choosing for engagement rather than activism, and for positive screening rather than exclusion. This approach reflects the conflict-avoidance nature of Japanese society. The focus of SRI in Japan is not on bringing broad social changes, as some may describe the U.S. approach, but rather in stressing the financial and commercial benefits for both investors and companies. The preference for soft and conflict-free language, coupled with its origin as a new financial product, implies that aggressive or activist connotations of screening activities have not taken root in Japan. Moreover, NGOs and the civil sector (SIF-Japan, 2006) and consumer movements (Wokutch 1990) are relatively underdeveloped in Japan, which makes it difficult for SRI to address societal challenges from the point of view of the affected stakeholders of companies.

From the analysis of the emergence and development of SRI, the very determinant for Japan's SRI future seems not to be the interests of holders of "stakes"[31] but rather an institutional design to foster recognition of the Japanese management system.

SRI in Japan is also unique because of the criteria SRI funds use. There are some divergences in terms of criteria between Japan, Europe and the U.S. As Siggelkow (1999) argued, investment fund managers (agent) should undertake decision-making on behalf of their investors (principle). This means that U.S. and European fund managers are accountable to U.S. and European investors, and Japanese SRI fund managers are accountable to Japanese investors. But one may argue that if both Western investors and Japanese investors focus on the real stakes faced by Japanese companies in local stakeholder relations, then screening criteria and indicators are likely to converge. This would mean that Western investors should adapt their criteria to the local reality. But this remains an open debate. In either case, if a perception gap between investors and fund managers can be mitigated through a more reliable and transparent analysis on the real state of companies' behaviour, it could help citizens in both regions to make more

[31] One positive note is that the SRI community, partly influenced by UK legislation protecting whistle-blowers, played a part in legalising a whistle-blowing procedure. Thanks to this legislation, a formerly untouchable collusive practice amongst a dozen construction and building companies (Kyoryu affair) was scrutinised, and unpaid overtime salaries of 167,958 workers was unveiled by the Labor Standards Inspection Offices, resulting in 23.295 billion JPY premium payment imposed on 1,524 firms.

responsible choices as consumers and investors (Tencati et al. 2004). Such a test case will be whether the recent high-profile legal and administrative non-compliance incidents, such as the anti-trust violation in the construction sector and the failure to pay claims in the non-life insurance sector, will become an integral part of sector-specific sustainability analysis.[32]

---------- Table 3 ----------

Discussion: What model for SRI in Japan?

SRI in Europe and the U.S. is on its way to becoming mainstream (Louche and Lydenberg 2006). Although it has not yet arrived, there is strong evidence that mainstream financial analysts and fund managers individually recognize the importance of environmental, social and governance (ESG) dimensions (Ambachtsheer 2005; Taylor Nelson Sofres 2003; Pleon 2005). Moreover, there are emerging initiatives such as the Enhanced Analytics Initiative and Yachnin & Associates (2006), which promote the integration of this type of information into standard company valuation models.

In Japan, while some commitments towards mainstreaming have been observed, it is debatable if SRI will ever embrace mainstreaming in the future. Fund managers recently interviewed by the Financial Times acknowledged that "much of the money flowing into SRI investments remains very short-term".[33]

A recent survey by Daiwa Investment Relations (January 2006) shows that 30% of asset managers and financial analysts think that SRI screening influences investment decision-making. Another survey by Mitsubishi UFJ Asset Management (MUAM) on Japanese pension funds reveals that trustees are reticent to implement SRI strategies because of fiduciary duty and concerns about the financial performance of SRI funds (Kato

[32] The collusive behaviours in Japan's construction sector was a taboo topic even among Japanese SRI research circles until the recent steel bridge bid-rigging case involving 47 companies, which resulted in the arrest of high-ranking officials at Japan Highway Public Corporation and company officials in July 2005. The Supreme Court ordered a total of 640 billion JPY penalties to 23 companies on 10 November 2006. Likewise, insurance companies' failure to pay claims was a non-issue for the SRI funds despite increasing complaints by consumers until an administrative action was taken against all 26 non-life insurance companies by the Financial Services Agency in November 2005.

[33] Financial Times article, "Japan's ethical funding makes breakthrough", 3 July 2006.

2006). While over 60% of pension funds are interested in SRI, about 12% are actually willing to implement SRI and over 70% respond neither Yes or No. Moreover, over 80% of pension funds think that financial performance is a prerequisite for SRI, and 65% think that the financial performance is the most important selection criteria for SRI funds.

Yet, mainstreaming might be advancing invisibly.[34] Despite a tendency towards risk aversion, Japanese mainstream investors have shown some commitments: several SRI options for pension funds were launched by September 2006 and eight financial institutions signed up to the United Nations' Principles for Responsible Investment in one year.[35]. Moreover, several developments suggest that Japan might follow the European pattern of mainstreaming, meaning a take up by mainstream investors fostered by government initiatives:

- The government is interested in redesigning an economic system in which private companies including financial institutions are given a role in channelling household savings into SRI funds and community investment. According to Toyoda (2006), if the increasing number of SRI mutual funds does not reach a comparable volume to the US and Europe, it becomes a natural and logical step for the government to forge an architecture driving a part of the financial assets of the highly-environmentally conscious Japanese people to SRI. The Japan Research Institute (2004) proposes a policy menu, in which SRI can be fully deployed in order to replace part of the role and functions played by the government sector in relation to companies.
- A growing awareness of fiduciary duty amongst pensions and asset mangers since the burst of the economic bubble (Nitta, 2002) was heightened by a move by MUAM, the largest pension mandate holder in Japan, to implement SRI into its pension management in June 2006. MUAM has recently contracted a legal expert to provide a fresh interpretation of fiduciary duty in the Japanese context (Kato

[34] In an interview with Socialfunds.com, June 20, 2003, Mr. Hayami, fund manager responsible for Asunohane SRI fund stated "In my scenario, mainstream investors will move toward SRI, though this movement may be invisible from the outside. I think that in Japan, SRI development will continue without the SRI name".

[35] Signatories are Daiwa Asset Management, Sumitomo Trust & Banking, Mitsubishi UFJ Asset Management, Mitsui Asset Trust & Banking、Mizuho Trust & Banking, Nissay Asset Management, Sompo Japan, Kikkoman Pension Fund.

2006). Findings of this report are in line with the Freshfields Bruckhaus Deringer report (2005).

- The Pension Fund Association announced its first proxy voting guideline in 1999. PFA emphasizes voting as an important means for enhancing shareholder value, and is thus considered as a means to meet fiduciary duty. In the same year, 7 financial institutions adopted their own proxy voting principle.
- Stock exchanges are encouraging SRI. The Tokyo Stock Exchange announced in March 2006 that it would start a customised SRI index, in collaboration with two domestic SRI research companies, Good Bankers and Mitsubishi UFJ Research & Consulting. From the previous experience of the MS-SRI Index, FTSE4Good index and other indexes, it might help popularise and legitimise SRI. In 2005, 10.6% of the companies publishing environmental/sustainability reports sited their SRI index inclusion in environment/CSR reports, up from 7.6% in 2004. (General Press Corporation 2005, p.26).
- An increasing number of government initiatives are designed to promote SRI.[36] The Ministry of Environment (MOE) is seeking to formulate a tax policy by which institutional investors are incentivised to integrate environmental criteria into their investments, according to a report by the Study Group on Financial Institutions' environmental strategies (2005). The Ministry of Finance (MOF) on the other hand promotes SRI as a financial institution CSR initiative, and is studying the possibility of introducing statutory SRI by public pension funds (Ministry of Finance, July 2006). Finally, the Cabinet Office recently commissioned a study on how to shift the individual financial assets of senior citizens, which accounts for 60% of 1,500 trillion JPY (approximately 10 trillion euro), into SRI and social activities that could substitute public money. The survey results reveal that 41.9% of people in their 50s and 60s are ready to invest in SRI if it meets their conditions, and nearly 80% want to know in which types of activities their financial assets are invested (Nomura Research Institute 2006).

[36] Besides the initiative, the Law promoting activities that considers environmental matters was enacted in April 2005, by which the Japanese nationals shall endeavour to gather environmental information to use in their investment and other activities (Article 5).

Japan is not an exception when it comes to SRI. Although it started relatively late compared to other countries--twenty years later than in the US and ten years later than in some European countries-- SRI is gaining ground within the Japanese financial community. Japan is joining the 'SRI worldwide movement'. As has been documented in several studies, SRI is diffusing across numerous countries ((Boxenbaum and Gond 2005; Louche 2004; Louche et al. 2005; SiRi company 2005).

In Europe, as in the US, the growth of SRI has been driven by a desire to redefine the relationship between companies and society and find mechanisms to exercise a quasi-regulatory power over companies without direct governmental interventions (Louche and Lydenberg 2006). Drivers in Japan have been of a quite different nature. The 6-year long growth of Japanese SRI has been driven by two main factors: first, a desire to create a market mechanism to channel household financial assets into SRI and the corporate sector; and second, a desire to legitimize the Japanese management system through new sets of vocabulary such as eco-efficiency, ethics compliance, management integrity and social contribution in the eyes of the Japanese public and the world.

Conclusion and further research

SRI in Japan remains a unique case. Although it has imported a global concept, it has managed to adapt it to its specific national context. SRI in Japan does have some similarities with SRI in the U.S. and in Europe, but it shows numerous characteristics that are quite unique. SRI is going through a translation process which requires adaptation. This process is not yet over. The SRI field in Japan is still in a very dynamic construction process where changes are taking place at a very rapid pace. Therefore, as of today it is difficult to depict the future shape and form of SRI in Japan. But it is there and we expect it to stay.

Our finding has some practical implications for global SRI investors looking to invest in Japanese companies. The fact that the different drivers underpinning the Japan's SRI construction means that SRI investors need to consider the context in which Japanese companies operate in their evaluation and investment decisions. Contexulization might be able to reduce a gap between the perceived sustainability of companies and real state of companies. In this light, a new research is on the way to shed light on the role of contextualization in the SRI decision-making process. The paper also suggests two other

areas of further research to enhance the understanding of the mechanism of translation in Japan's SRI field. First, an evolving relationship between the SRI rating and asset management companies needs to be examined due to the fact that the mainstreaming of SRI might have progressed beneath the surface in Japan. SRI Mainstreaming was accompanied by the in-housing of research in Europe. Such research will unveil the evolution of SRI inquiries in Japan's SRI scene and might support or contradict our initial finding. Second, the emergence and development of community investing in the Japanese context warrants further investigation. It is quite possible that the local grassroots movements amongst local cooperatives and NGOs who support the rights and well-being of disfavoured populations existed prior to the ´official birthday´ of SRI in Japan.

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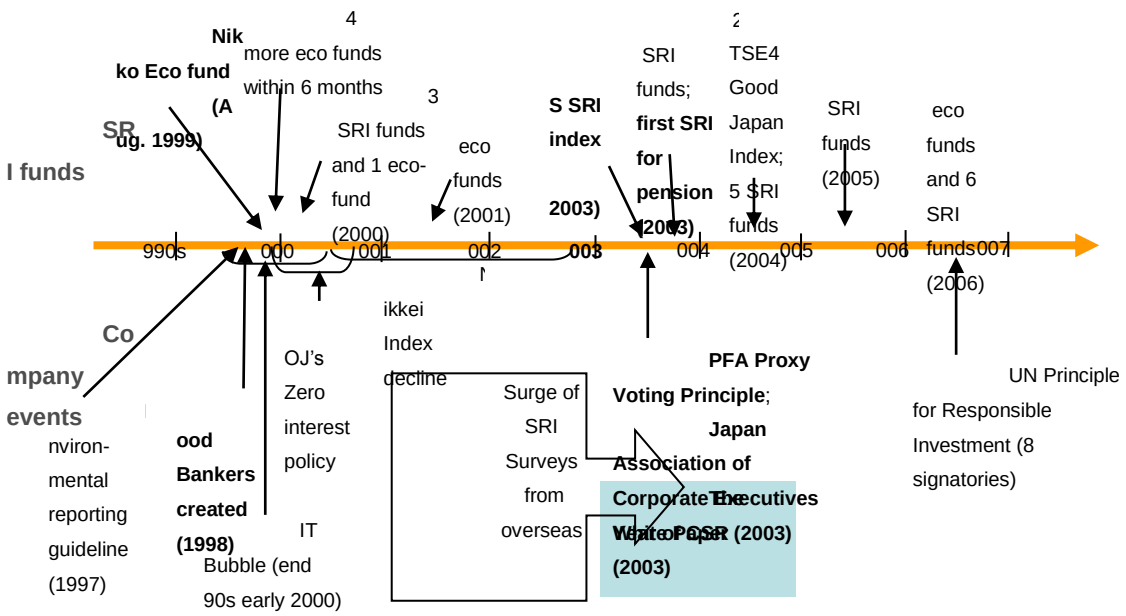
Socially Responsible Investment in Japan: Its mechanism and drivers

Louche & Sakuma

Tables and Annexes

Figure 1



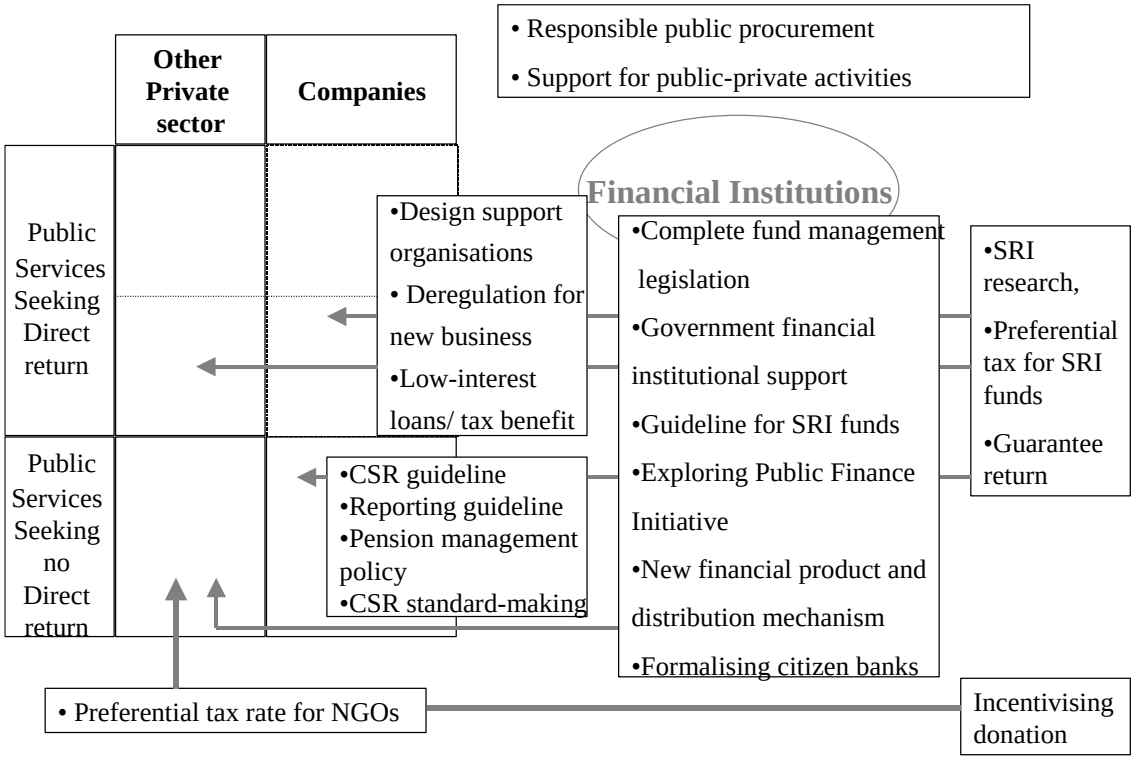
Source: elaborated by the authors

Table 1 Relationship of SRI research companies of foreign origin with financial institutions, as of April 2006

	SRI research companies	Financial institutions	# of funds
1	IRRC	AIG Asset Management	3
2	Innovest Strategic Value Adviser	Daiwa SB Investments	2
3	Oekom Research*	Daiwa Asset Management	2
4	SAM	Nikko Asset Management	2
5	FTSE (FTSE4Good Global Index)	Nomura Asset Management	1
6	KLD (KLD Global Climate 100 Index)	Shinko Investment Trust Management	1
7	UBS AG (Dow Jones Sustainability Wold Index)	UBS AG	1
8	Vigeo	Asahi Life Asset Management	1

Oekom Research forms a partnership with Japan Research Institute to serve Daiwa Asset Management.

Table 2 Policy menu for placing SRI in the right track, proposed by JRI



Source: Japan Research Institute 2004. The table was simplified and translated from Japanese into English by the authors.

Table 3 Comparing Japanese SRI characteristics with those of US and Europe

	Japan	US	Europe
Historical roots / Shared purpose	**Eco-fund launch** A desire to **create a market mechanism** to channel household financial assets into SRI and Corporate sector A desire to legitimate the Japanese management system through new sets of vocabulary such as eco-efficiency, ethics compliance and CSR in the eyes of Japanese public and the world	**X** **X**	X **X**
Definitions	Emphasis on **investment methods** of meeting financial and social goals	**X**	**Δ**
Actors	Independent and affiliated **SRI research companies** **Companies** including banks Increasing **government interest**	X	**Δ**
Vocabulary	**Screening** **Eco-efficiency, eco-friendly** **Compliance** and **integrity** **CSR** and **social contribution**	**X**	**X(Δ)**
Strategies	**Negative screens rejected** Positive screens stresses on **scores and ranking** **Avoidance of conflict**, increasing proxy voting but no ESG issues Embryonic **community investing**	X **(Δ)**	**Δ**

X = No similarities, **Δ =** Some similarities, **X(Δ) =** Some similarities but largely different

Source: elaborated by the authors

Annex 1 SRI funds in Japan, as of 31 January 2007

	Inception	Management firm	Fund name	Nickname	Net Asset (billion JPY)	Research firm
1	1999/8/20	Nikko Asset Managment	Nikko Eco Fund	Nikko Eco Fund	39.6	Good Bankers
2	1999/9/30	Sompo Japan Asset Management	Sompo Japan Green Open	Buna no Mori	18.9	Sompo Japan Risk Management
3	1999/10/29	DLIBJ Asset Management (DIAM)	Eco Fund	Eco Fund	5.5	Good Bankers
4	1999/10/29	UBSGlobal Asset Management	UBS Japan Eco Fund	• Dr. Eco	3.5	Japan Research Institute
5	2000/1/28	Mitsubishi UFJ Asset Management*	Eco Partners	Green Feather	2.8	Mitsubishi UFJ Research & Consulting
6	2000/9/28	Asahi Life Asset Management	Asahi Life SRI Social Action Fund	• Feather of Tomorrow	5.0	Vigeo Group**
7	2000/10/31	Sumitomo Mitsui Asset Management	Eco Balance	Ocean and sky	1.2	InterRisk Research Institute& Consulting
8	2000/11/17	Nikko Asset Management	Nikko Global Sustainability Fund, without hedge	Globe A	1.0	SAM
9	2000/11/17	Nikko Asset Management	Nikko Global Sustainability Fund, with hedge	Globe B	0.5	SAM
10	2001/6/15	Daiwa SB Investments	Global Eco Growth Fund, with hedge	Mrs. Green A	1.2	Innovest Strategic Value Adviser
11	2001/6/15	Daiwa SB Investments	Global Eco Growth Fund, without hedge	Mrs Green B	2.4	Innovest Strategic Value Adviser
12	2003/11/7	UBS Global Asset Management	UBS Global Stock 40	UBS Global Stock 40	3.8	UBS AG
13	2003/12/26	STB Asset Management	STB SRI Japan Open	Good Company	56.3	Japan Research Institute
14	2004/4/1	Shinkin Asset Management	Fukoku SRI Fund	-	4.1	Fukoku Life Asset Managment, Centre for Public Resource Development (CPRD)
15	2004/5/20	Daiwa Asset Management	Daiwa SRI Fund	Daiwa SRI	10.0	IntegreX

				Fund		
16	2004/5/28	Nomura Asset Management	Nomura Global SRI 100	Nomura Global SRI	4.3	FTSE
17	2004/7/30	Nomura Asset Management	Morningstar SRI Index Open	Tsunagari	2.7	CPRD (Morningstar SRI Japan Index)
18	2004/12/3	Mitsubishi UFJ Asset Management	Mitsubishi UFJ SRI Open	Family Friendly	4.4	Good Bankers
19	2005/3/05	Sompo Japan Asset Mangement	Sompo Japan SRI Open	Mirai no Chikara	1.6	CPRD, Sompo Japan Risk Management (Morningstar SRI Japan Index)
20	2005/3/18	AIG Asset Management	AIG-Saikyo Japan Stock CSR Fund	Suiren	6.1	ＩＲＲＣ
21	2005/3/18	AIG Asset Management	AIG- Resona Japan Stock CSR Fund	Seijitu no Mori	15.9	ＩＲＲＣ
22	2005/4/28	AIG Asset Management	AIG-Hirogin Japan Stock CSR Fund	Class G	0.7	ＩＲＲＣ
23	2005/8/12	Fukoku Capital Management	Japan SRI Open	Kizuna	2.5	Fukoku Capital Management
24	2005/11/15	Commerz International Capital Management Japan	Asian SRI Fund	-	0.1	Kingsway, Moonlight Capital
25	2005/12/05	DLIBJ Asset Management (DIAM)	High Rated Income Open SRI Fund	Happy Clover SRI	1.7	IntegreX
26	2006/2/06	Invesco Asset Management Japan	Focus Alpha Fund (Plus Angle)	-	41.7	Invesco Asset Management Japan
27	2006/3/6	Daiwa Asset Management	Daiwa Eco Fund	Daiwa Eco Fund	57.1	Japan Research Institute
28	2006/3/6	Daiwa Asset Management	Six-assets balanced fund, monthly distributed		23.7	Japan Research Institute, Oekom Research
29	2006/3/6	Daiwa Asset Management	Six-assets balanced fund, accumulated		24.1	Japan Research Institute, Oekom Research
30	2006/5	DLIBJ Asset Management (DIAM)	Natural Environment conervation Fund	Oze Kiko	3.6	IntegreX
31	2006/6	STB Asset Management	Simitomo Trust Japan Equity SRI Fund		5.1	Japan Research Institute
32	2006/6/30	Shinko Investment Trust Management Global Warming Prevention Fund		Chikyu ryoku	3.5	KLD (KLD's Global Climate 100 Index)

33	**2006/6/30**	**Societe Generale Asset Management Japan**	**Love me! Premium**		**2.8**	**-**
34	**2006/11/30**	**Chuo Mitsui Asset Management**	**Mitsui Trust SRI Fund**	**SRI Plan**	**0.9**	**Chuo Mitsui Asset Management IntegreX**
TOTAL					**358**	

Source : Japan Research Institute
* UFJ Partners Asset Management was merged with Mitsubishi Asset Mangement in October 2005 to become Mitsubishi UFJ Asset Management.
** Stock at Stake was merged with Vigeo (France) in December 2005 to form jointly Vigeo group.

SRI funds for pension, as of 31 August 2006

	2003/4/25	**Tokyo Teachers' Mutual Aid Association**	**-**	**For pensions**	**-**	**Good Bankers**
	2003/7/31	**Sumitomo Trust & Banking**	**-**	**For pensions**	**-**	**Japan Research Institute**
	2004/8/1	**Chuo Mitsui Asset Management**	**Chuo Mitsui SRI Fund（for Institutional investors)**	**For 401k pensions**	**-**	**IntegreX**
	2006/6/29	**Mitsubishi UFJ Asset Management**	**-**	**For pensions**	**-**	**Mitsubishi UFJ Research & Consulting**

Source : SIF-Japan website

Annex 2 Profiles of major SRI research companies of Japanese origin, as of April 2006

	CPRD	IntegreX	JRI	Sompo Japan Research Institute/ Sompo Japan Risk Management	Mitsubishi UFJ Research & Consulting *	InterRisk Research Institute & Consulting
• **Legal Statute**	Non-for-profit	Stock incorporated	Stock incorporated	Stock incorporated	Stock incorporated	Stock incorporated
Year of establishment	January 2000	June 2001	February 1969	-	October 1985 *	October 2001
Major (share) owners/ Affiliated conglomerate	-	-	Sumitomo Mitsui Financial Group / Sumitomo Group, Mitsui Group	Sompo Japan: 50% Sompo Japan Group: 50% / Former Yasuda Group**	UFJ Group companies * / Mitsubishi Group	Mitsui Sumitomo Group: 56.1% / Mitsui Group, Sumitomo Group
% of SRI in total sales	2/3 (monetary value)	30%	>0.05%	1%	>1%*	1.5%
Number of companies evaluated	300-400	851(2004)	270 (2004)	792 (2004)	300	150
＃of analysts	4 full-time 2 part-time	3 full-time	5 part-time /double-tasked	6 full-time	4 full-time 3 part-time	4 full-time
Source of research info	Questionnaire, CSR reports, other disclosed company info	Questionnaire, CSR reports, other disclosed company info	Questionnaire, CSR reports, other disclosed company info	Questionnaire, CSR reports, other disclosed company info	Questionnaire, CSR reports, other disclosed company info	Questionnaire, CSR reports, other disclosed company info
Weight of rating	Priority is basically management systems and vision. Performance is only on social issues.	Top commitment: 35%, Transparency:30% Compliance management: 25% Own initiatives:10%	Higher weighting is given to items with larger differences among companies.	More weight is being given to performance compared to before.	Priority is in the following order: Vision, management system and performance.	Priority is in the following order: Performance, management system and vision.

Source: SIF-Japan survey, September 2005

Note: SIF-Japan focused its survey on the research provider of Japan-based retail SRI funds. Good Bankers did not participate in the survey and Vigeo Group (then Stock at Stake) was not able to share date due to propriety nature of the research.

*The data applies uniquely to UFJ Institute, which is pre-merger entity of Mitsubishi UFJ Research & Consulting.

** Yasuda Fire & Marine and Nissan Fire & Maine merged to create Sompo Japan in 2002.

Annex 3 - SRI definition used by several actors in Japan

Actors	Definition		Source
Corporate sector	Keizai Doyukai (Japan Association of Corporate Executives)	SRI is used without definition or explanation.	White Paper on CSR
	SIF-Japan	**An investment method** by which companies are evaluated and selected according to their environmental response and social activities in addition to their financial outlook. …. Besides, bond investment, project finance and community investment are included as far as social responsibility criteria are employed. ……. In the equity investment, engagement by shareholders is also considered as broad SRI. …..It is about the money flow that considers social aspects and the financing activities that will make such a money flow".	• Website
Financial sector	STB Asset Management	**An investment activity** which places importance on social profiles of companies in addition to the companies' profit growth and the health of balance sheet.	Website
	Nikko Asset Management	**To select and invest** in companies from the perspectives of sustainability.	Website
	Daiwa Asset Management	**An investment activity** which takes into account corporate social responsibility.	Website
	Sompo Japan Asset Management	**An investment method** to select companies with CSR management (environment and social rules) among excellent financial performance.	website
	Mitsubishi UFJ Asset Mangement	**An asset management method** by which companies are evaluated not only from the financial perspective, but also from their social existence.	Website
SRI research	Good Bankers	No definition given	Website
	IntegreX	**As investment criteria in asset management**, to select the investment objects based not only on financial aspects but also on social and ethical aspects. This means that an investor approves the social and ethical values of the companies and supports them through the financial market. As a result, the companies and the investors are able to share the values.	Website
	Morningstar Japan	**An investment method** which aims to obtain stable return, by evaluating and selecting companies from social, ethical and environmental aspects such as legal compliance, employment, human rights, consumer relations, community contribution, in addition to the conventional financial analysis and investment criteria.	Website
	Centre for Public Resource Development	SRI is **an idea/way** of integrating social and environmental evaluation into the traditional financial evaluation when selecting stocks.	Website
	Japan Research Institute's 2004 report	**Investing and lending activities** of finance providers, who evaluate the companies that meet both the economic performance and the social responsibility and also the activities/initiatives of NGOs and local public bodies that aim to solve the societal problems.	JRI March 2004 report

Source : The information was taken from the website between December 2006 and February 2007. All the definition was translated from Japanese to English by the authors. The financial sector actors are selected according to the size of SRI funds.

Annex 4 - Overview of the main differences Japan vs US/Europe

	Japan	**US**	**Europe**
Historic roots Motivation	Eco-fund launch A desire to create a market mechanism to channel household money to SRI A desire to demonstrate Japanese management legitimacy	Religious background A desire to redefine the relationship between corporations and society	
Definition	Emphasis on financial objectives and investment impacts	Emphasis on personal values and social purpose	Emphasis on financial objectives and investment impacts
Actors	No active retail and institutional investors Independent SRI firms and financial-group-affiliated think tanks Companies Increasing government interest	Retail investors SRI firms independent of the mainstream financial community Little government involvement	Institutional investors Mainstream financial community promoting SRI activities Substantive government involvement
Vocabulary	Screening Eco efficiency and eco-friendly Ethics compliance and integrity CSR Social contribution	Social responsibility Fairness and justice Access to capital Wealth creation Exclusionary and qualitative screens Shareholder activism	Sustainability Eco-efficiency and business case Triple Bottom Line investing Best of class investing Negative and positive screens Engagement
SRI strategy	Negative screens rejected Avoidance of companies with negative press coverage Non-conflictual and casting votes in the shareholders' meeting	Exclusionary screen crucially important Positive screens stress judgement Activism often public and through proxy resolutions	Negative screens not emphasized Positive screens stressed quantitative measurements Engagement often through behind-the-scenes dialogue

Source: The authors added Japan to the table made by Louch and Lydenberg (2006).