

## **Corporate Social Responsibility Dynamics in South Korea and Japan:**

### **A Comparative Analysis**

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## The CONCEPT OF CSR

Over the past few decades, Corporate Social Responsibility (CSR) - actions taken by the firm intended to further social goods beyond the direct interests of the firm and that which is required by law (Abigail & Donald, 2001) - has gained increasingly enthusiastic attention from business and academic researchers. However, the very extensive literature addressing the theory and practice of Corporate Social Responsibility (CSR) is still very much grounded in the European and U.S. contexts (Birch & Moon, 2004). Nonetheless, given the globalization of business, there is a pressing need to acquire insight (?) into the nature of CSR in different countries. In recognition of this lacuna, we examine the activities of CSR in two Asian countries: South Korea (from here on Korea) and Japan. These two countries are both East Asian democracies and have been closely linked to each other, given geographical and cultural proximity as well as for historical reasons. Yet, despite their similarity, we show that these two Asian countries have adopted different approaches to CSR. Until recently, CSR practices and performance from most Asian countries has not been introduced to the western world, with the exception of a few Japanese CSR studies (e.g., Fukukawa, and Moon 2004; Lewin, Sakano, Stephens, and Victor, 1995; Wokutch, 1990; Wokutch and Shepard, 1999). Especially intriguing is the fact that there is no research in the western academic world focusing exclusively and in depth on Korean CSR issues, although there are a few comparative CSR studies that include Korea among their sample of countries (e.g. Chapple & Moon 2005; Welford, 2005).

The main purpose of our chapter is to analyze the characteristics of CSR in Korea and Japan in terms of the different influence that local actors exercise on their respective CSR practices. First, we introduce the general CSR trend in Korea and Japan based on several CSR indicators. Second, we discuss three general approaches to comparative CSR studies: a cultural

approach, an attitudinal approach, and an actor-centered approach. Thirdly, we explain the role of local actors in molding CSR in Korea and Japan. We conclude by discussing some implication of CSR activity in the two countries.

### **THE ASSESMENT OF CSR PERFORMANCE IN KOREA & JAPAN**

To identify differences in CSR performance between Korea and Japan, we look at environmental responsibility and social responsibility. Corporate environmental responsibility emphasizes minimizing the ecological impact of organizational operations in a number of ways, such as, preventing environmental pollution, devoting resources to environmental protection, and voluntarily committing to governmentally sanctioned environmental rules and laws (Shrivastava, 1996; Starik & Rands, 1995). The Environmental Sustainability Index (ESI) measures the ability of nations to protect the environment. It consists of 21 indicators of environmental sustainability including covering natural resource endowments, past and present pollution levels, environmental management efforts, contributions to protection of the global environmental systems, and a society's capacity to improve its environmental performance over time. "Private Sector Responsiveness," among the 21 indicators used to evaluate corporate environmental responsibility, is especially significant in considering Korea and Japan. "Private Sector Responsiveness" of ESI is significantly correlated with other environmental measures such as Ecological Footprint per capita and Environmental Vulnerability Index. Japanese firms have a score of 2.04 and are ranked third. In contrast, Korean firms rank 18th and score 0.76.

Social responsibility entails that companies care for the broader society in which they are embedded. It generally comprises the ethical, discretionary and legal responsibility of firms. Ethical responsibility is related to societal moral codes of conduct, whereas discretionary responsibility is concerned with voluntary involvement and support of wider societal entities

(Carroll, 1979). We draw on a set of existing indicators to compare social responsibility in Korean and Japan. First, the Opacity Index of Pricewaterhouse Coopers provides a corruption index as well as a ranking of ethical practices and legal responsibilities. The Opacity Index measures the lack of transparency in country's legal, economic, regulatory and governance structures. In addition, the ethical practice criteria and credibility of managers contained in the World Competitiveness Report of the Institutional Institute for Management Development (IMD) are used to assess ethical and legal responsibility. Lastly, the discretionary responsibility is assessed by the amount of voluntary donation towards social progress.

As Table 1 shows, the corruption score and ranking of Korea (61<sup>st</sup>) is higher than that of Japan (38<sup>th</sup>). In ethical practice criteria the ranking of Japan is 32<sup>nd</sup> and that of Korea is 38<sup>th</sup>. The ranking of the credibility of managers in Korea is placed 52<sup>nd</sup>, compared to 24<sup>th</sup> in Japan. However, Table 2 shows that the social contribution measures of Korean firms are generally greater than Japanese firms. That means Korean companies spend a higher proportion of their revenue on social contribution than Japan. Based on the above evidence, Japanese firms generally outperform Korean firms in social responsibility except in social contribution arenas.

Therefore, we can say that Japan is surpassing Korea in CSR performance based on two general CSR dimensions. However, Korea is also one of the few Asian countries to pay attention to CSR. For instance, in a study by Chapple and Moon (2005), Korea is the country with the second greatest impact of CSR.

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## COMPARATIVE APPROACHES TOWARDS CSR

There have been several attempts to explain CSR similarities and differences across countries from different perspectives. First, Wokutch (1990) explains the characteristics of Japanese CSR through culturally dominant factors, such as the sense of duty and importance of group membership, both of which are based on Confucianism. However, Korea and Japan have exchanged their cultural and social values for at least the past 1500 years, most notably Confucianism and Buddhism. In addition, the Japanese colonial period, from 1910 to 1945, stimulated the two countries towards sharing a similar institutional history. In particular, Japanese law, which originated from 19<sup>th</sup> century German Law, made an impact on the basic framework of Korean commercial law (Hamilton and Biggart, 1988). As a consequence, these similarities cause the two countries to share a lot in terms of history and culture. This is confirmed by Hofstede's (1980) cultural dimension index which is very similar in terms of power distance, uncertainty avoidance and individualism/collectivism and only differs when it comes to masculinity/femininity.

Second, most previous comparative CSR studies assess the difference of CSR activities by assessing the attitudes and values of managers or executives towards CSR (e.g. Maignan, 2001; Maignan & Ferrell, 2003; Quazi & O'Brien, 2000; Singhapakdi, Karande, Rao, and Vitell, 2001). This approach assumes perceptions and personal values of employees will be directly related to actual CSR activities of corporations. In other words, it presumes that a more favorable perception towards CSR stimulates more active CSR performance. This approach has been identified as a significant determinant of the decisions of social and environmental corporate responsibility strategies and policies (Egri & Herman, 2000; Hemingway, 2005; Hood, 2003; Mitchell, Agle & Wood, 1999). Even though the attitudes and values of individuals are powerful

motivators to explain different behaviors, this explanation does not clarify why individuals have favorable or unfavorable attitudes and perceptions toward CSR. In addition, the favorable attitudes and values do not always translate into behaviors. Especially, since most CSR questionnaires are related to ethical aspects of respondents, which could readily entice them to give socially acceptable answers regardless of their actual CSR performance. The oral illustrations of researchers or the presence of surveyors might prevent this kind of bias. However, geographic limitations make it hard to conduct structured questionnaire in comparative CSR studies. In fact, many attitude approach studies are conducted via standard mail or email. Hence, there are limitations in substantially illustrating the differences between two countries with attitudinal determinants.

Finally, CSR can be explained with the stakeholder management model (Aguilera, Willams, Conley and Rupp, 2006). This notion suggests that companies have an influence on various stakeholders, such as customers, employees, local communities, governments, and interest groups. Therefore, companies have a responsibility to consider the interests of multiple stakeholders in their operations, production and decisions. Even though these stakeholders are recipients of CSR activities of firms, they also exert influence on the companies' CSR behaviors. Aguilera and Jackson (2003) understand the creation and transformation of institutions as a result of the mutual interaction of agency of actors influencing institutions. They argue the variance of corporate governance practices across countries is a product of the internal interactions of actors, including capital, management and labor, given their institutional environment. When considering stakeholders, who are related to CSR activity as actors, CSR might be regarded as the consequence of interactions of related actors. As Figure 1 shows, we adopt the actor-centered

approach to analyze the differences and characteristics of CSR between Korea and Japan by looking at five actors: state, corporate, customers, labor, and investors.

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### **CSR DYNAMICS IN KOREA**

Korean society recognized the importance of CSR through its financial crisis. This historic economic disaster provided a context which generated societal demands and pressures on CSR by stimulating local actors. Korea experienced a financial crisis between October 1997 and March 1998. The first symptoms of the crisis were recognized in 1996. Korea's account deficit broadened from 2% of GNP in 1995 to 5% in 1996. The growth of exports slowed down and foreign debt increased dramatically to 100 billion dollars in 1996. The relative appreciation of Korean currency, a prolonged recession in Japan and Europe, and the contagion of financial crisis in other East Asian countries made the Korean economic situation worse (Ahmadjian & Song, 2006). The financial disaster had fatal impacts on chaebols<sup>1</sup>, which generated 40% of GNP in Korea (Ahmadjian & Song, 2006) and had played a significant role as an internal generator of Korean economic miracles. In 1997, sixteen chaebols among the top 30 filed for bankruptcy, including Hanbo Steel (the 14<sup>th</sup> largest chaebol), Sammi Group (17<sup>th</sup> largest chaebol) and Sangyong Group (5<sup>th</sup> largest chaebol) and Kia motors (third largest auto maker). The stock market dropped 50% and Korea's sovereign credit was downgraded by Moody's and Standard and Poor's from A1 status to junk bond status. One third of Korean merchant banks were closed and the default ratio rose to 62% in February of 1997. This financial meltdown required the

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<sup>1</sup> Chaebols are Korean style conglomerates, which are family owned business groups (Cho, 1990).

Korean government to borrow a total of US\$30.2 billion from the International Monetary Fund (IMF) and the World Bank (Ahmadjian et al, 2006).

The financial crisis introduced the concepts of CSR to Korean society. For example, there was a substantial increase in references to CSR in the *Korean Economic Daily*. Even though Korean firms superficially knew about CSR before the financial crisis, most CSR activities were generally limited to corporate contribution and philanthropy activities. This crisis had a great impact on local actors, such as state, corporate, unions, and consumers, who were important stakeholders in CSR. For example, the financial crisis brought the first transition of political power from the ruling to the reformative opposition party. Moreover, the severe restructuring of companies broke lifetime employment systems, and the uncovering of firms' corruptions prompted NGOs' monitoring. Abolishing protectionist trade policies made customers seek their rights and voice their complaints against Korean companies, which had enjoyed a monopoly for decades. Furthermore, these local actors saw the fatal consequences when companies only pursued their economic profits through the financial crisis. As a result, these bitter lessons make local actors rethink the role and responsibilities of corporations in society and stimulated them to generate considerable societal demands for improved CSR behavior in Korea.

### **State**

Traditionally, Korean government sustained close relationships with private firms for economic development purposes. A highly centralized, strong government set and implemented ambitious economic development programs for its industrialization (Kim, 1997). It had a power to license business projects of private firms and provide financial resources to firms through nationalized commercial banks (Kim, 1997). The Korean government used chaebols as an engine for industrialization. Chaebols did not hesitate to follow government directions because they

could enjoy a lot of advantages for their cooperation with government such as promoted exports in strategic industry sectors (Amsden, 1997; Kim, 1997) with the help of preferential credit allocations, tax benefits and protection from foreign imports and investments (Steers, Shin and Ungson, 1989). Under these protections of government, chaebols could make use of unrestrained bank debt to diversify into new products, unrelated businesses and overseas markets and focus on growth over profitability (Ahmadjian & Song, 2006).

However, the Korean financial crisis brought on a dramatic change in the strong bond between chaebols and government. In 1998, a reformative opposition party swept the government away from the conservative party, which had originated from military dictatorship. It believed that the ineffective management of chaebols was one of the main triggers of the Korean economic crisis. New administration imposed new laws and regulations on chaebols as part of a restructuring program. For instance, it required them to reduce the debt to equity ratio below 200% and introduced a mandatory requirement for independent directors for large listed firms (Ahmadjian and Song, 2006). In addition, it strengthened the penalties for accounting fraud (Chung, 2002) and introduced accounting principles that matched with international standards. President Roh Moo Hyun also showed his clear commitment to reformation of chaebols through the following comments in 2002: *“What I mean to say is that the unreasonableness of the economic system governing chaebol, if it is not addressed, will weigh on the economy, undermine efficiency and consequently bring about an economic crisis. I will address the problem of the letup in the reform of the chaebol system so as to forestall any burden on the economy. There will absolutely be no retreat from market reform, but there will be forward movement bit by bit.”*

We argue that CSR might be a useful tool for the Korean government in accelerating the restructuring process of chaebols. The goals of CSR, which emphasize firms' social, ethical, and environmental responsibilities beyond economic and legal duties, are aligned with the goals of the reformation of chaebols by the Korean government. There are already several signs that the government intends to pay attention to CSR. For instance, MOCIE (Ministry of Commerce, Industry and Energy) has a plan to legislate CSR laws to promote CSR activities. MOCIE is also developing a CSR reporting system for companies and planning to use pension investment as Social Responsibility Investment (MOCIE, 2005). Furthermore, the Korean government established The Presidential Commission on Sustainable Development of Republic Korea (PCSD) in 2000. PCSD is establishing a national strategy and policy for sustainable development, maintaining balance between economy, society, and environment. Therefore, considering the historically strong influence of the government on firms and its recent support of and attention to CSR, the government might become a cornerstone of the development of CSR in Korea.

### **Corporate**

Korean companies have used CSR activities to restore their damaged reputation and credibility. Korean companies, especially chaebols, were blamed as a primary cause of Korea's financial crisis. The public and government criticized their reckless over- expansion, cheating their shareholders and hiding dodgy corporate deals. For instance, research shows that a Korean CEO perceives the strongest anti-corporate mood among 22 countries (Accenture, 2001) where 70% of Korean CEOs responded that there is an anti-corporate mood in Korea. Korean corporations recognize that the lack of credibility in the eyes of the public and the state is a detrimental barrier to their business success.

To restore their damaged reputation, many large Korean firms have paid attention to CSR activities. They established CSR or ethical departments and got involved in a variety of CSR activities including donations, community involvement and the adoption of codes of conduct (FKI, 2003). Korean CSR activities especially focus on donations. For example, 79 % of the total CSR budgets were executed in the forms of cash or product donations as charity and the amount of donations increased over time (FKI, 2003). Usually, firms do not make follow-up efforts after donations, as they would need to with other CSR activities such as community involvement and social contribution. Large donations can easily draw the attention of media and give the public a favorable impression.

Nevertheless, the excessive focus on donations results in limited development of other CSR initiatives in Korea. Many Korean companies simply think of CSR as the extension of social contribution and community involvement. For example, the survey of the Korea Enterprise Institute (KOREI, 2004) shows that only 20.6 % of respondents in Korean companies are familiar with the concepts of CSR. In addition, only large companies in limited industries, which have a direct influence on the environment and export most of their products, such as oil and electronics, to foreign countries are involved in CSR activities (KOREI, 2004).

Furthermore, the convenience of donations prevents the development of more sustainable CSR activities in Korea. In other words, Korean companies have used CSR as an impression management tool to repair their tarnished reputation and to increase brand value rather than internalizing long-term CSR into their corporate philosophy or core strategy. For example, recently Samsung Group chairman, Lee Kun-hee, the largest Korean chaebol, donated \$ 0.85 billion to charity due to illegal political donations and dubious inside trading. In addition, Hyundai Motor Group chairman Chung Mong-Koo, the second largest chaebol, also donated \$1

billion in shares of an affiliate to charity to remedy a deepening bribery scandal. Both companies announced their CSR plans in order to win over the support of the public at the moment when public opinion was at its lowest point. These cases clearly show the tendency of Korean companies to rely heavily on monetary donations as a solution for CSR problems. In sum, these highly visible examples show that Korean CSR activities are superficial.

### **Customers**

Inglehart and Baker (2000) argue that individuals in high GNP per capita countries are more likely to be concerned with environmental and social issues, quality of life, and subjective well-being than individuals in low GNP per capita countries. In addition, people in high income countries assert stakeholder claims for corporate responsibility based on their greater economic and human capital (Jones, 1999). Before the financial crisis, Korean consumers thought of chaebols as a key driver of economic development and, recognizing the limited presence of CSR, focused on the economic responsibility of firms. Korean consumers were willing to bear low quality and expensive prices of products and services of Korean firms in the name of national economic development. As a result, the economic miracle made it possible for Korea to become the 11<sup>th</sup> country in terms of economic size and GDP in the world (IMD, 2004). The industrialized economy influenced Korean consumers to develop the awareness and necessity of CSR activities. Above all, consumers clearly recognize that irresponsible activities of firms undermined the economy's strength through the lessons of financial crisis. In terms of a survey of EAI (The East Asian Institute, 2005), 72.4% of respondents reply that they will not invest in companies, which do not give social and environmental responsibility serious attention. In addition, 76.6% of subjects respond that they will not purchase products and service of companies, which do not fulfill a minimum CSR standard. Even though only 15% of respondents actually have boycotted

the products and services of irresponsible companies, 46% of consumers respond that they have a high intention to act on their convictions in the future. It is interesting that 63% of respondents support the interventions of government to promote CSR activities. Considering the Korean government's strong interest in CSR, consumers might support the direct involvement of government in the establishment of laws and regulations regarding CSR.

### **Labor**

Korea adopted many of the Japanese labor institutions such as synchronized annual contract renegotiation, a seniority-based wage and a bonus system (Yoon, 2005). Nevertheless, unlike Japan, Korea has one of the strongest unions in the world. From 2000 to 2004, the number of working days lost due to strikes (per 1000 employees) was the sixth highest among the OECD countries and well above other Asian countries including Hong Kong, China, and Taiwan (OECD, 2005). In particular, the strike intensity figure in 2000 for Korea (109.1) was 63 times larger than that of Japan (1.6) (Yoon, 2005). We believe that this strong Korean union density has high potential to influence the CSR agenda of companies for a number of reasons.

First, Korean unions pressure companies to apply elements of CSR in workplaces, which naturally favor unions. There is commonality between CSR and union interests in improved work-life balance, better child care facilities, and flexible working arrangements for parents (Weitbrecht, 2003). Furthermore, other areas of CSR that foster union attention emphasize concerns for employee welfare, training, and the protection of employees from the negative consequences of restructuring (GPMU, 2001; Preuss, Haunshield, and Matten, 2005). For example, the German union IG Bergbau, Chemie und Energie advocates that it traditionally has been making a contribution to CSR by fighting for co-determination and against unfair competition in its industries (Habisch and Wegner, 2005). The Federation of Korean Trade

Unions (FKTU), the nation's largest labor confederation, pursues improvement of working conditions and abolition of discrimination in workplaces. For instance, FKTU made a certain contribution to the development of CSR in Korea by bringing these topics into the annual negotiation of labor contracts, including realistic real wage, employment security, promotion of occupational health and safety standards. Recently it is focusing on human rights issues about contingent workers and workplace discriminations.

Second, FKTU has a political alliance, called Domestic Labor Party (DLP). DLP is a political party that represents workers and pursues progressive social, economic and political agendas. In 2004, it sent 10 representatives out of 299 to The National Assembly and gained 13.1% of the proportional representative vote. Even though DLP is still a minority political party in Korea, the entrance of DLP into The National Assembly is significant in giving Korean unions a political force to represent their interests and concerns. Considering that European unions, which have representatives in congress, are actively involved with CSR activities, Korean Unions have potential to voice themselves in establishing CSR regulations and laws. In sum, strong Korean unions will take a clear place in CSR through alliance with political arenas.

### **Institutional Investors**

The social responsible investment (SRI) represents a significant source to influence investors or potential investors in firms to manage all of the corporation's responsibilities (Waddock, Bodwell and Graves, 2002). SRI investors select targets for their investments after a comprehensive evaluation of the CSR and financial performance of companies. Usually, the main actors of SRI are institutional investors, who put pressure on companies to manage CSR activities through large investments.

The impact of SRI in Korea is currently minimal. Until 2004, Korea had only two SRI funds and about 10 million dollars in assets (Yoon, 2004). It is essential for institutional investors to accurately and reliably assess information about CSR performance of firms for dynamic SRI activity. In order to increase reliability and validity of CSR information, companies need to engage in more transparent and standardized reporting practices such as The Global Reporting Initiative (GRI). GRI establishes “Sustainability Reporting Guidelines to create accepted reporting standards” (Waddock et al, 2002). In 2005 only two Korean companies had joined GRI (KOREI, 2004). Therefore, institutional investors in Korea have to rely on the selective and unreliable information provided by companies. The lack of reliable information makes it difficult for them to create the pool of SRI targeted firms.

### **CSR DYNAMICS IN JAPAN**

Previous Japanese CSR studies in the 1990s paid attention to the exceptional CSR performance of Japanese companies across certain dimensions, including product quality, customer service and concern for employee welfare (Wokutch 1990; Lewin, Sakano, Stephens and Vicotor, 1995; Wokutch and Shepard 1999). During the 1990s, much of the world was enticed with Japanese innovative management practices such as Just in Time, Quality Circle, and Total Quality Management. These advanced management practices provided high quality goods and services to markets at a competitive cost. As a result, it brought customer satisfaction and credibility to Japanese companies. In addition, the participation of employees, life time employment, good working conditions and extensive benefit programs of Japanese firms resulted in strong loyalty and high morale of employees. Japanese firms especially had a strong

reputation for their occupational safety and health, evident in the extremely low worker injury and illness rates (Wokutch 1990 & 1999; Wokutch & McLaughlin, 1992).

Lewin et al. (1995) argued that the world might scrutinize the Japanese model of CSR in the future as it had Japanese management practices in the past. Even though the CSR performance of Japanese firms is exceptional, compared to other Asian countries (Chapple & Moon 2005), the CSR performance of Japanese companies has not met the expectations of these scholars. The CSR achievement of Japanese firms has been limited to certain areas such as environmental responsibility and work environment. For instance, despite their achievements, Japanese firms have failed to improve chronic problems such as discrimination against minorities, women and foreigners, and are also noted for poor corporate governance (Fukukawa and Moon 2004). Why has Japan failed to meet the expectations of the western world in the CSR field up to the present day? We address this question through the analysis of each actor who is related to the formulation of CSR. We argue that Japanese actors have not created enough internal societal pressure to motivate Japanese firms to develop CSR practices that exceed limited and restricted past CSR activities.

### **Government**

In Japan, there is a historical division of power between companies and states (Van Wolferen, 1990). In other words, even though Japanese government has maintained a close and stable relationship with companies, the two play their own distinct roles without intervening with each other (Lewin et al, 1995). Therefore, it is very hard to find direct state intervention in the business activities of Japan. Instead, the government relies heavily on the extensive use of administrative guidance rather than legal procedures to control industries (Lewin et al, 1995). Based on this cooperative relationship with the state, companies have encountered a favorable

legal and social environment for conducting their business, reflected in their opinions of the policies and laws of government.

This stable and harmonious relationship between firms and government restricts the influence of government on CSR. The Japanese state emphasizes initiatives and guidance to encourage CSR activities rather than specific laws or rules. This approach of government gives Japanese firms wide latitude in interpreting and applying government guidelines. Furthermore, government takes into account the opinions of industry, when it establishes guidelines for CSR. As a result, most of the state's guidance has not exceeded the expectation and control of firms. For example, Keidanren (Japanese Business Federation) closely collaborates with METI (Ministry of Economy, Trade and Industry) and MOE (Ministry of Environment) in developing CSR schemes. The CSR proposal, in particular, which METI handed in to ISO (International Standard Organization), is an example which demonstrates the strong influence of Keidanren. In 2005, METI adopted the original CSR proposal of Keidanren without much alteration of the suggestions for standardization of social responsibility to ISO (International Standards Organization).

Evidently, the over-reliance of the Japanese government on administrative guidance fails to establish institutionalized CSR programs and systems. Vague guidelines of government result in the confusion of firms about the range and the definition of CSR. Furthermore, the liberal guidelines fail to produce conformity of CSR practices by way of legislation, laws and rules. Even though the legislation forces restrict the flexibility of business, they bring on clear standard and agreement on controversial issues. Without specific legislation regarding CSR issues, Japanese companies have selectively focused on CSR areas which are positively related to their profitability and public image, most notably employee health and safety, harmonious labor

relations and high quality products. In addition, it is difficult for the Japanese government to introduce reformative and innovative CSR policies which might ignite resistance from companies.

The effects of legislation on Japanese CSR activities are evident in the outstanding achievement of environmental responsibility. Unlike other CSR areas, the Japanese government has controlled and emphasized environmental issues with the assistance of legislation such as “The Basic Environment Law” of 1993 and “The Basic Law for Establishing a Recycling-Based Society” of 2000. Even though government has used initiatives and guidelines, they are more specific and explicit as compared to ones in other CSR areas. Of course, the achievement of environmental responsibility might be attributed to other sources: domestic factor (Fukukawa et al, 2004) and foreign criticism (Wokutch, 1990). Nevertheless, the influence of legislation forces on this issue cannot be ignored.

In conclusion, the general guidelines and initiatives of CSR activities allow the Japanese government to sustain stable and non-adversarial relationships with companies. However, the lack of enforced legislation results in selective development of CSR activities and the introduction of narrow CSR policies.

### **Corporate**

Japanese firms have played a significant role in formulating the performance and characteristics of Japanese CSR. When considering the indirect intervention of government and the limited influence of customers and unions on CSR, Japanese firms have been a major actor in molding Japanese CSR activities. Previous studies emphasized the role of Japanese multinational companies, which imported the CSR practices of host countries into their own operations in Japan (Lewin et al, 1995; Wokutch, 1990). Furthermore, the performance of

Japanese companies on certain dimensions of CSR achieved high standards (Wokutch, 1990).

For example, Japanese companies have a reputation to provide high quality goods and services, which has led to high customer satisfaction. Furthermore, their harmonious labor relations and workplace safety and health promotion have become a benchmark for other companies.

Environmental responsibility is the area of CSR in which Japanese corporations have made the most progress and impact (Keizai Doyukik, 2003).

On the other hand, there are certain CSR areas which Japanese companies have ignored. According to Wokutch and Shepard's study (1999), there is a huge discrepancy between the working conditions of regular workers in large companies and contingent workers and subcontractors. For instance, small Japanese subsidiary firms have not enjoyed the same level of safety and health conditions as major Japanese companies. Furthermore, most Japanese firms disregard gender equality issues, sexual harassment and racism. Also, they tend to be involved in business scandals related to political donations and mismanagement.

Without close interaction with or intervention of other CSR actors, Japanese companies have focused on CSR areas that are directly aligned with their profitability. Even though most companies respond positively to the economic profit of CSR activity, companies in other countries are requested by governments, unions, and NGOs to engage in CSR activities which are not necessarily related to the firm's bottom line. However, Japanese companies have enjoyed autonomy to formulate CSR strategies without interference of internal and domestic actors. As a result, they consider CSR as an instrument to increase their self-interest and to improve their public image. In other words, the pursuit of self-interest is a major driver for Japanese CSR initiatives rather than ethical consideration (Wokutch, 1990; Wokutch & Shepard, 1999; Lewin et al, 1995). As a result, Japanese firms give a priority to CSR areas in which they can see a clear

connection to profit and return on investment. For example, Japanese firms clearly recognize that improving the working environment and harmonious labor relations encourages the active participation of workers and increases the commitment of employees to their work. The involvement and collaboration of employees results in boosts to worker productivity and loyalty, as well as increased product quality (Ouchi, 1981; Pascale & Athos, 1981; Schonberger, 1982; Wokutch et al; 1999). Furthermore, the focus on occupational health and safety minimizes the productivity loss caused by illness and accidents.

Secondly, Japanese firms identify that advanced environmental CSR activities give them a competitive advantage over other companies. Historical environmental disasters, Minamata disease and Itai Itai disease, made Japanese firms realize their significant role in environmental responsibility. Furthermore, Japanese firms are evidently aware that their efforts to reduce environmental burdens have led to greater efficiency, lower costs and creation of new markets for environmentally friendly goods and services. In addition, the effort to tackle environmental issues leads to innovation in technology and management for Japanese firms. Fukukawa and Moon (2004) provide evidence showing that environmental responsibility is well institutionalized within Japanese CSR. Furthermore, the Kyoto Protocol to the UN Framework Convention on Climate change, which was agreed upon in Japan, is pushing Japanese companies of all sizes and industries to reduce green gas emissions. This force gets Japanese firms to focus on resource conservation, recycling and the adoption of an environmental accounting system (Keizai Doyukai, 2004). Japanese hybrid cars are a good example of the effects of their environmental management. These cars are based on the advanced technology that offers fuel efficiency and ultra low gas emission. Obviously hybrid cars are making a positive contribution

to conserving natural resources and reducing pollution. Furthermore, they also provide new and fast growing markets for Japanese companies.

On the other hand, Japanese corporations could not find direct profits or interests in improving social responsibility in areas such as discrimination based on gender, race, and age. They have not shown serious involvement in these areas and have even opposed involvement in practices which do not match their interests. For example the improvement of corporate governance is essential to increase the transparency of management, especially when considering the continuous scandals of Japanese corporations. Nevertheless, Keidanren (Japanese Business Federation) clearly opposed the corporate governance reform which threatened the influence and authority of top management (Ahmadjian & Song, 2006).

Nevertheless, Japanese corporations have responded sensitively to the above social responsibility issues and corporate governance problems in that overseas business, especially in western countries due to strong pressures from host governments and customers for social responsibility. For example, sexual harassment and racism are serious issues which can easily damage corporate image and public relations in the West. This discrepancy of Japanese firms' attitudes toward social issues reveals that self-interest is a strong driver and standard for Japanese CSR performance. Furthermore, some scholars even argue that much of the environmental progress that has been achieved in recent years has come about in response to foreign criticism rather than domestic pressures (Beck, 1986; Hamilton & Kanabayashi, 1994).

In conclusion, Japanese firms perceive CSR as an instrument to increase their profits and to generate competitive advantage. As a result, they have made outstanding success in certain areas, which align with their self-interest, such as environmental management, labor relations

and working conditions. However, they continue to ignore other responsibilities such as promoting equal employment opportunities and effective corporate governance.

### **Consumers**

Continuous increases in economic prosperity and fulfillment of basic economic needs in Japan brought about greater demands for CSR by Japanese citizens (Wokutch, 1990). Japanese consumers are willing to give support to companies which have a good CSR track record. Recent survey data uncovers that 62.4% of respondents will give priority to buying from companies which fulfill social responsibility and have a thorough sense of ethics (METI, 2004).

Nevertheless, it seems doubtful that the strong interest of Japanese consumers in CSR generates enough societal pressure to affect the CSR agenda of Japanese companies. Traditionally, the consumer movement in Japan has been relatively weak (Wokutch, 1990). Furthermore, Japanese firms place little importance on consumers' interest due to their protectionist trade policies, which place industry interest over consumer interest (Lewin et al, 1995; Wokutch, 1990). Therefore, it is uncertain how many consumers actually carry their intention to support CSR into their behavior, such as boycotting products and services of irresponsible companies.

### **Labor**

Japanese labor institutions have created industrial peace in Japan (Hashimoto & Rasin, 1985; Ito, 1992; Flath, 2000; Yoon, 2005). Japanese unions have had very stable and predictable relations with companies. This cooperative labor-management has been a foundation of Japanese participation management, fostered in part by enterprise unions (Wokutch, 1990). Enterprise unions organize workers within a single enterprise or establishment and cover all regular workers,

blue collar and white collar. One of their main roles is to inform employees about firms' decisions and to monitor the personnel administration of the company (Aoki, 1990).

However, the symbiotic relationship between management and labor limits the influence of unions on the CSR agenda of companies. Even though Japanese companies vigorously seek the participation of employees, they do not intend to invite unions into decision making processes. In fact, Japanese unions have been criticized for failure to contest the "frontier of control of the workplace." The enterprise unions that are based on a single firm cannot generate strong collective bargaining compared to craft or industry unionism. Furthermore, Japanese firms are well prepared to fight fiercely for the "right to manage" and implement personnel policies which thoroughly consolidate control (Whittaker, 1998). The personnel department has been developed to restrain unions (Aoki, 1990). Therefore, Japanese enterprise unions do not generate sufficient pressure on firms to go beyond standard CSR purposes.

### **Institutional Investors**

Since the first SRI fund was introduced in 2001, Japan has 11 funds with 100 billion yen in assets (Japaninc, 2003). In terms of SRI, Japan ranks third after the U.S. and Europe, according to figures analyzed by SiRi Co. Ltd, an SRI research and consulting company, headquartered in Fribourg, Switzerland. A June 2003 survey of Japanese, U.S. and U.K. investors conducted by Japan's Environment Ministry supported the strong interest of Japanese investors in CSR. Some 84% of Japanese investors surveyed responded that they were "very much interested" or "somewhat interested" in CSR. This number is larger than the percentage of U.S. respondents (80%) and those in U.K. (67%). In addition, 79 Japanese companies have joined the Global Reporting Initiatives (GRI) and they provide credible and standardized information on their CSR performance.

Even though the rapid growth of SRI in Japan is impressive, it is a relatively new concept with a short track record in Japan. Compared to the size and the number of SRI funds in the U.S. and Europe, the development of Japanese SRI is incipient. For instance, the U.S. manages 200 SRI mutual funds, and has \$ 151 billion in assets. Europe has 313 funds and \$12.2 billion in assets.

Nevertheless, we argue that institutional investors have high potential to make a strong impact on CSR performance in Japan. Unlike other actors such as unions, customers and government, institutional investors directly affect the interest of companies. For instance, the opinions and attitudes of institutional investors toward specific companies influence their stock price. Furthermore, most companies acquire their financial capital through institutional investors. Therefore, the strong interest of Japanese institutional investors in CSR might play a significant role in molding Japanese CSR initiatives.

### **DISCUSSION**

Our chapter shows different levels of CSR involvement in Korea and Japan. Generally, Japanese CSR activities outperform Korean ones in terms of environmental and social dimensions. As table 3 summarizes, we analyzed the role of relevant actors in framing CSR in Korea and Japan by adopting an actor-centered approach and show how different actor influences—state, corporate, customers, labor and investors- lead to different CSR in the two countries.

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Insert Table 3 about here

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Since the financial crisis, the Korean government has focused on reforming inefficient and unreasonable management of the chaebols. In fact, weakening chaebol's influence on the economy has been a central goal of the government (Ahmadjian & Song, 2006). Even though the Korean government had not shown direct involvement in CSR, it recently recognized the relevance of CSR as a tool to accelerate the restructuring process of chaebols. Considering the historically strong influence of Korean government on corporations, we expect that the Korean state has high potential to become one of the most influential actors in molding CSR. In Japan, in contrast, the government has sustained pro-business attitudes toward companies. In addition, it relies on initiatives and guidance to encourage CSR activities rather than specific laws or rules. The government even listens to the opinions of companies, while establishing guidelines of CSR. However, vague guidelines of government result in the confusion of firms about the range and the definition of CSR. As a result, it enables firms to adopt selective and instrumental CSR practices.

Korean firms have adopted CSR due to instrumental reasons such as restoring their damaged reliability and reputation. This perception has led Korean corporations to focus on corporate donations in their CSR activities, which can draw the attention of media and give a favorable impression to the public. However, the excessive emphasis of corporate donations prevents Korean firms from understanding CSR as a multidimensional model. Furthermore, it makes corporations believe that they can avoid taking the responsibility of their unethical and illegal behaviors by making donations to society. Japanese firms have played the most active role in formulating the involvement and characteristics of Japanese CSR. Without the direct intervention of other CSR actors, Japanese companies have accomplished a great success on certain CSR areas that are directly aligned with their profitability such as environmental

management, workplace safety and harmonious labor relations. Nonetheless, Japanese corporations have ignored and even opposed CSR areas which are not directly related to their interests. In sum, the commitment of Japanese corporations to CSR has failed to go beyond self-interest. There has been growth in consumer expectations of socially responsible businesses, as consumer economic prosperity has increased. However, very few consumers actually are carrying out their concerns for CSR into their behavior, such as boycotting products and services of socially irresponsible companies.

Korea and Japan shared labor institutions such as synchronized annual contract renegotiation, a seniority-based wage and a bonus system. However, the influence and power of Korean unions are much stronger than the Japanese unions. Korean unions have affected the development of certain areas of CSR through their collective bargaining, including realistic real wage, employment security, and promotion of occupational health and safety standards. Furthermore, Korean unions succeeded in sending their representatives to the Korean National Assembly. Therefore, we argue that the influence of Korean unions on CSR will increase in the future, and we also expect that it has a high potential to create external pressure to force Korean corporations to proactively adopt CSR. In contrast, Japanese unions have had very stable and predictable relations with companies. The nature of enterprise unionism prevents unions from having strong collective bargaining power which is only diminished through the policies and control of human resource departments weakening unions. As a result, a symbiotic relationship between management and labor restricts the influence of unions on the CSR agenda of corporations.

The development of social responsible investment (SRI) in Korea is limited due to the lack of a transparent and standardized CSR reporting system. On the other hand, the rapid

growth of SRI in Japan is impressive. Even though Japanese institutional investors have adopted SRI recently, the size of SRI in Japan has recently been established as the third largest in the world. There is a strong shared interest among Japanese investors in CSR. Furthermore, many Japanese firms provide credible and standardized CSR information for institutional investors. Therefore, we argue that institutional investors may have strong impacts on CSR performance in Japan and generate social pressures to force Japanese firms to go beyond typical CSR purposes.

### **Conclusion**

Unlike other comparative studies relying on cultural or attitude approach, we draw on an actor-centered approach to compare CSR practices in Korea and Japan. We believe that CSR in different countries might be regarded as the consequences of the internal interactions of related stakeholders. This approach is especially useful to compare countries when they have similar cultural and societal backgrounds or when surveys do not provide comprehensive information on CSR. We argue that CSR is often being used as a tool of impression management for companies. However, we expect that the strong interest of local actors in CSR, such as government and unions can generate internal social pressure such as in the case of Korean firms. We confirm that Japanese corporations have established notable achievement in CSR programs and policies yet this outcome does not meet the expectations of researchers who had predicted Japan to establish its own CSR model as it did in Japanese management practices. For example, the success of Japanese CSR has been limited to areas directly aligned with their economic profit. We suggest that local actors in Japan have failed to create enough social pressure to motivate Japanese firms to go beyond the excessive emphasis of the instrumental CSR. Japanese firms have been able to

develop a CSR agenda without intervention of other actors such as government, consumers and unions and as a result they have taken an instrumental CSR view.

Our chapter also takes a comparative look at Korean CSR which is a rare inquiry in the western academic world. Even though there has been active research on Korean CSR in Korea, most of it was published in Korean and has focused on certain areas of CSR, particularly social contribution and donations. We assessed the overall CSR performance in Korea by analyzing the role of each actor in influencing CSR.

We discuss the role of limited actors to pressure CSR in each country yet we are aware that other actors might also affect CSR practices. For instance, both Korea and Japan have many multinational companies operating all over the world. The interaction with local actors in foreign contexts, such as the U.S. and U.K., countries more responsive to CSR, might encourage CSR in both countries. In addition, we do not mention specific measures to gauge the degree of influence of each actor on CSR and to estimate social pressures for CSR in each country instead our analysis is based on a review of the existing literature (in their original language) and archival data.

### **KEY LEARNING FEATURES:**

- A useful way to compare CSR in two countries is to look at how different stakeholders might influence CSR practices. We look at five different “players”: state, corporate, customers, labor and institutional investors.
- Korean companies are just beginning to be aware of the importance of CSR while Japanese firms provide credible and standardized CSR information to stakeholders.
- Our research shows that the strong interest of Korean local actors in CSR, such as government and unions is likely to generate future internal social pressure, which will cause firms to become more committed to CSR.
- Japanese corporations have in place extensive CSR programs and policies (particularly in, environmental management, labor relations and working conditions) but they tend to be limited to areas directly aligned with economic profit.
- Japanese CSR lags behind when it comes to promoting equal employment opportunity and implementing effective corporate governance practices.
- Organized labor is more likely to exercise pressure on CSR in Korea than in the Japanese institutional setting of enterprise unionism.
- The development of social responsible investment (SRI) in Korea is limited due to the lack of a transparent and standardized CSR reporting system while there has been tremendous interest and impressive growth of SRI in Japan in recent years.

## **DISCUSSION QUESTIONS:**

1. What are four stakeholders that have the potential to influence CSR practices according to Choi and Aguilera? Can you suggest other stakeholders? Please discuss.
2. What is the main difference regarding the role of the state towards CSR in Japan and Korea? How do you think this difference shapes CSR practices in these two countries?
3. Is labor more likely to have a stronger influence on CSR in Japan or in Korea? Why?
4. Describe the traditional CSR practices that Japanese and Korean firms have engaged in.
5. Discuss the corporate governance characteristics that prevent a wider and deeper development of CSR in Korea. Do you think other countries might face similar challenges?
6. In Japan, what is the relationship between its innovative management practices such as total quality management (TQM) and CSR issues?
7. The main motivation of CSR practices in Korea and Japan is instrumental (e.g., economic profits, reputation, and public support). Is it appropriate that companies are undertaking CSR practices merely for their own benefits? How do instrumentally-driven CSR practices affect the implementation and diffusion of CSR?
8. Recently the reformative government in Korea was replaced with a conservative and traditional party. How does this government change might influence CSR practices in Korea?
9. Many multinational companies from the United States and Western Europe are doing businesses in Korea and Japan. How might these MNC influence CSR practices of local companies in Korea and Japan? Try to find some examples.
10. Many Japanese and Korean companies have subsidiaries and branches all over the world. What are possible strategies for them to operate their CSR practices in other countries? (e.g., they might simply sustain CSR practices in other countries? or they might adjust CSR practices to local countries?). Try to find some examples.

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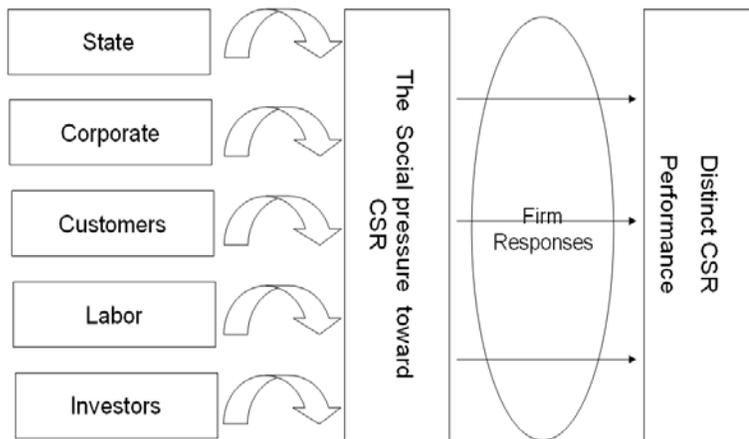
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**FIGURE 1**  
**The Analysis of Actor- Centered Approach in CSR**



**TABEL 1**

**Rankings of Social Responsibility in Korea and Japan**

Measures	Korea	Japan
Corruption criteria of Opacity Index	61 <sup>st</sup>	38 <sup>th</sup>
Ethical practices	38 <sup>th</sup>	32 <sup>nd</sup>
Credibility of managers	52 <sup>nd</sup>	24 <sup>th</sup>

Comment [h1]: Check

Sources: The Opacity Index 2004 (Kurtzman Group)  
World Competitiveness Report 2004 (International Institute Management Development)

**TABLE 2**  
**The Social Contributions Ratio in Korea and Japan**

Measures	Korea(2000)	Japan(1999)
Social donation / Revenue	0.37% (out of 192 companies)	0.1% (out of 283)
Social donation / Income for continuing operation	6.3% (out of 186)	2.3% (out of 279)
Social donation / Income before Tax	4.4% (out of 172)	4.76% (out of 229)

Source: Corporate community relation white book 2003 (The Federation of Korean Industries) and Corporate community relation white book 2003 (Japan Business Federation)

**TABLE 3**

**Comparison of the Role of Actors in Formulation CSR between Korea & Japan**

Actor	Korea	Japan
State	<ul style="list-style-type: none"> <li>- the strong intervention into business activities</li> <li>- adversarial relationship with firms</li> <li>- relying on legal procedure</li> </ul>	<ul style="list-style-type: none"> <li>- the weak intervention into business activities</li> <li>-cooperative relationship with firms</li> <li>-relying on administrative guidance</li> </ul>
Corporate	<ul style="list-style-type: none"> <li>- using CSR to restore damaged credit and public relations</li> <li>- focusing on corporate donations</li> <li>- the lack of understanding CSR</li> <li>- the lack of real commitment to CSR</li> </ul>	<ul style="list-style-type: none"> <li>- The most active role in formulating Japanese CSR</li> <li>- Focusing CSR area directly related with profit : instrumental purpose e.g. environmental management</li> <li>- Enjoying autonomy of CSR activity without pressures from other actors</li> </ul>
Customers	<ul style="list-style-type: none"> <li>- Increase in the awareness of CSR</li> <li>- the discrepancy between behavior and awareness</li> </ul>	<ul style="list-style-type: none"> <li>- Increase in awareness of CSR</li> <li>- the discrepancy between behavior and awareness</li> </ul>
Labor	<ul style="list-style-type: none"> <li>- a strong trade union</li> <li>- adversarial relationship with management</li> <li>- strong collective bargaining</li> <li>- bring CSR issues on annual negotiation of labor contracts</li> <li>- having political alliance</li> </ul>	<ul style="list-style-type: none"> <li>- enterprise union</li> <li>- cooperative relationship with management</li> <li>- weak collective bargaining</li> <li>- relying on firms (human resource department) in CSR issues.</li> <li>- no political alliance</li> </ul>
Investor	<ul style="list-style-type: none"> <li>- the introduction of social responsible investment</li> <li>- the small size of social responsible investment.</li> </ul>	<ul style="list-style-type: none"> <li>- active social responsible investment</li> <li>- the rapid growth in the size of social responsible investment.</li> </ul>