The Interplay between Global Finance and Japanese Firms

Yukie Saito

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D.Phil
Supervisor: Professor Gordon L. Clark
School of Geography and the Environment
University of Oxford
St Anne's College

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ABSTRACT

This thesis explores the interplay between global finance and remote firms and institutions. It highlights the interactions between global institutional investors and Japanese firms on environmental, social, and corporate governance (ESG) standards, and the process of change in Japanese corporate governance practices. It focuses on analysing the responses of large Japanese firms with a high level of foreign ownership to global finance and global institutional investors' strategies for engagement.

Japan provides an excellent research environment for the topic. It is geographically and culturally remote from the West, and has the world's third largest economy with increasing foreign ownership on the Tokyo Stock Exchange. Under the influence of global finance, the Japanese economy has been in transition despite the persistence of its traditional institutions. There are many globally recognised Japanese firms, although certain firms have come under scrutiny in several recent corporate governance scandals. Recently, corporate reform has become one of the priority policy agendas, which has led to incremental convergence to global standards.

The aims of this thesis are as follows: (i) to analyse the evolution of shareholder activism and corporate governance practices in ownership structure change (Chapter 3); (ii) to examine how global institutional investors privately engage with remote firms (Chapter 4); (iii) to explore the power of global investors in an industry with lower foreign ownership (Chapter 5); (iv) to analyse the perceptions of local firms towards global ESG standards under policy change (Chapter 6).

The thesis revealed the following findings. First, global investors provide one of the only opportunities for ESG-related dialogues for local firms, in a country where local institutional investors are not active shareholders. Global finance has the power to transform local corporate governance practices by breaking down path dependence and institutional complementarities, although the status quo does persist. Second, local firms' norms and perceptions based on the existing institutions are culturally derived informal constraints, which slow down the change of corporate governance practices even after instrumental change. Third, the target firms of engagement activities are home-biased and limited to a small number of large global brand firms; hence, non-target firms and industries maintain their ESG standards unless policy reform occurs. Finally, local firms' unfamiliarity with engagement activities limits the power of global finance in a remote market. There is a gap between global institutional investors' motivation for engagement and Japanese firms' readiness to respond; hence, considered strategies and modes of communication are critical for effective engagement with remote firms, especially when language and organisational issues are present.

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TABLE OF CONTENTS

INDEX OF TABLES

INDEX OF FIGURES

CHAPTER 1 | Introduction

1.1. Introduction

The process of economic integration and interconnection under globalisation has not occurred in a homogeneous manner across borders. As a result of the diverse responses of local firms and institutions, uneven capitalist development can be observed through the interplay between global finance and local firms. The interplay between firms and the market has been acknowledged in the long traditions of comparative political economy, sociology, and business studies. Economic geographers have also engaged with the subject of the interplay across the space. As Clark and Wójcik (2007) state, wider implications can be drawn from local empirical studies: ‘market agents and market processes at the local level can be developed piece by piece to create a much broader perspective on the performance of the whole’ (Clark and Wójcik 2007: xiii). Of note is the analysis at a micro level of how a new institutional field emerges through the interplay between the macro-level socio-economy and the local context (Bathelt and Glückler 2011, 2014).

This thesis addresses the interplay between global finance and ‘local’ firms and institutions in a specific country. The power of global finance is increasingly important in reshaping political-economic geographies as a main force in incremental changes among local firms, by breaking down path dependence in existing institutions at the sub-national level (Clark and Wójcik 2007). As local firms are embedded in national institutions (Aoki 2001; Hall and Thelen 2009), the intervention of global actors in local markets generates resistance on the part of local actors. As such, global institutional investors have transformed the balance of power between owners and managers (Hawley and Williams 2000; Clark and Hebb 2004).

This research approaches the interplay between global finance and local firms and institutions by exploring Japanese firms embedded in processes of political, economic, and social transformation. It examines the interplay between global finance and Japanese firms for the change of environmental, social and corporate governance (ESG) issues, by focusing on the change of Japanese corporate governance. The thesis asks as its main research question '*What are the effects and limitations of global investors' engagement activities on Japanese firms?*' To approach the research question, this thesis deploys the concepts used by economic geographers, such as formal and informal institutions (North 1990) and transaction costs (Williamson 1981). This thesis focuses on the evolution of Japanese corporate governance practices and global institutional investors' engagement strategy with Japanese firms. It highlights the dynamics of reforms of political economy and corporate governance by exploring the responses by local firms and institutions to the influence of global finance.

This thesis contributes to the literature on shareholder engagement, corporate governance, and political economy, by addressing empirically the impact and limitation of global finance and policy convergence on local ESG issues and institutions in Japan. Of particular importance, the thesis explores shareholder engagement over the space between global investors and Japanese firms, which are geographically and culturally remote from the West (Hofstede 1984). Relatively little attention has been paid to Japan in the socio-economic and political economy literature over the past 20 years, even though the Japanese corporate world provides a relevant research environment for analysing the research topic. This thesis enriches the debate on how corporate governance practice evolves with increasing foreign ownership, which means of engagement global investors utilise with remote firms, how collaborative engagement is coordinated, and how remote firms respond to policy changes towards global standards of ESG issues. By analysing the impact and limitation of global investors in the case of Japan, the thesis will ultimately draw broader implications to suggest the critical importance of empirical studies outside the West to build a better understanding of shareholder engagement around the world.

1.2. Significance of issues

1.2.1. Significance of the research on global institutional investors and corporate governance

The power of financial markets is increasingly important in the world economy by remaking global capitalism (Boyer 2000). Global institutional investors, mainly Anglo-American investors, are powerful in monitoring firms and in promoting changes in their standards and practices (Shleifer and Vishny 1986). Clark (2000) argues for the importance of understanding institutional investors' asset allocation strategies and investment decisions for the further understanding of the long-term future of Western economies, these having wrought a transformation in Anglo-American capitalism.

Global finance plays a role in transforming the local system of institutions (Dixon 2011a), and it plays a significant role in altering local corporate practices further towards global standards. Such convergence with global standards occurs when global investors require higher ESG standards than the current regulatory framework of the countries in which target firms operate, even though the implementation of such standards remains voluntary (Hebb and Wójcik 2005). The interplay between institutional investors and firms on ESG issues is mainly through shareholder engagement, which refers to ‘a long-term process of dialogue with companies that seek to influence company behaviour in relation to their governance, social, ethical and environmental practices’ (Eurosif 2010). Global institutional investors create a global financial industry of responsible investment, and contribute to reducing risk in the long-term for sustainable economic growth (Hebb 2008). They scrutinise closely not only the economic performance of global firms but also the wider impact of corporate activities, along with their other stakeholders, such as consumers, the media, international and local governmental bodies, and non-governmental organisations (NGOs). As such, global firms are increasingly required to take into account ESG issues in their operations all over the world.

Shareholder engagement has drawn attention not only at firm and investor level but also at the policy level, as observed in the recent implementation of policy instruments across the world. In 2010, the Stewardship Code was first published in the UK. It has enhanced engagement activities through the dialogue between shareholders and firms. The code assists firms in understanding what investors expect to be disclosed, and also encourages investors to take an interest in collaborative engagement. The Stewardship Code complements the Corporate Governance Code in the UK, which has been instrumental in spreading board-level best practice; both Codes operate on the basis of ‘comply or explain’ (Financial Reporting Council 2015). A similar code has been implemented in several countries, such as in the Netherlands, Switzerland, Canada, Singapore, South Africa, and Japan. As such, shareholder engagement has been enhanced as a global trend from policy perspectives.

In analysing the strategies of shareholder engagement of Anglo-American investors with firms around the world, the asset allocation of global investors can be explained from behavioural finance and cost efficiency perspectives. For example, home bias effect is observed in the portfolio, as informational asymmetries exist between local and non-local investors (Kang and Stulz 1997). Investors also tend to prefer familiar firms, and locally headquartered firms (Huberman 2001; Coval and Moskowitz 1999; Bodnaruk 2009). In this regard, investment in remote firms incurs higher costs, associated with difficulties due to differences in economic practices and languages (Williamson 2000; Portes and Rey 2005). These characteristics of asset allocation can be applied to analysing the global investors' strategies of shareholder engagement over distance (see Chapter 4).

The practice of local corporate governance lies at the intersection of global finance and local institutions (Clark and Wójcik 2007). The governance structure of local firms is a result of long-term consequences of local legal and institutional features, as well as the ownership of local and global investors, and relationships with shareholders and stakeholders (La Porta *et al.* 1997, 1998). Hence, diversity among local corporate governance can be observed due to the different response of local firms to the pressures of global forces. Whilst local firms are embedded in the local institutional complementarity (Aoki and Dore 1994; Aoki 2001), in which multiple institutions function effectively together (Aoki 2001), some firms have the persistence to maintain the status quo, and others change by breaking with their path dependence. As such, in globalisation along with the growing power of global markets, the future for local firms is uncertain, and path dependence is limited in line with rapidly changing rules of the game for local firms and existing institutions (Wójcik 2006; Bauer *et al.* 2008).

Traditionally, corporate governance has been studied in the framework of agency theory between owners and managers, and corporate governance literature tends to deal with shareholders as a homogeneous entity (Jackson 2010) within a country. The comparative capitalism literature recognises diverse national corporate governance systems across borders and advocates the Varieties of Capitalism (VoC) approach (Hall and Soskice 2001). This approach suggests two types of economy, namely liberal market economy (LME) and coordinated market economy (CME), and outlines the characteristics of the financial systems and corporate governance of each economy. It is suggested that firms in countries categorised as CMEs tend to have bank financing with long-term business relationships, whilst firms in countries in LMEs tend to emphasise short-term financial return. As such, the VoC takes a national approach and does not allow for diversity within a country. Even though the VoC approach provided a useful analytical tool of typology, later literature developed the discussion further by arguing for the weaknesses of this approach (see Chapter 2).

Whilst there is a growing presence of Anglo-American institutional investors, the identities of local shareholders are still heterogeneous across the world, and global convergence has not yet been much achieved in this regard (Agnes 2000). Various shareholders have their own value, investment strategies and time horizons, as well as different propensities to exercise voice or exit (Hirschman 1970; Jackson 2010). The interests and values of shareholders can also be differentiated by the type of investors, such as pension funds, individual investors, hedge funds, banks. The growing power of global institutional investors, such as Anglo-American pension funds, allows greater intervention through exercising voice, whilst investors with an emphasis of financial orientation do not exercise voice and simply exit. Further, the identities of shareholders are also different by geography, even though they are the same type of investors.

For example, Anglo-American pension funds, such as the California Public Employees' Retirement System (CalPERS), have been active in exercising voice across the world since 1990s. Nonetheless, Japanese pension funds, such as the Government Pension Investment Fund (GPIF) had never announced any interests in responsible investment until recently. As such, despite the increasing presence of global institutional investors around the world, it should be noted that local shareholders possess different shareholder values, diverse identities and interests from global investors, whilst global investors exercise voice to local firms based on their strategies with Anglo-American shareholder values.

Overall, research on the interplay between global investors and local firms is important for the understanding of the changes of corporate practices of local firms and the process of convergence of corporate governance towards global standards. It is also important to explore global investors' engagement strategies and the responses of local firms, which will contribute to revealing the impact and limitation of global finance around the world. Further, the researches on corporate governance and shareholder engagement are important at policy level, as seen in the recent implementation of the Corporate Governance and Stewardship Code. Of particular importance, the interplay between firms and the market over distance involves actors with different identities. Local corporate governance is shaped by local institutions in a path-dependent manner, including relationships with local investors with different identities from global investors, prior to transformation through the interplay with global finance. Corporate governance practices are different across the world, as the ownership structure of local firms is changing over time, with the relationship between owners and managers also changing. As such, a study of the interplay between global finance and local firms will contribute to the understanding of why local firms embedded in local institutions persist in maintaining their current practices under the force of global finance, and ultimately lead to a proper understanding of capitalist development across societies.

1.2.2. Significance of Japan

Japan is the only G8 country in Asia and is the world's third largest economy. It raises several research questions in the areas of comparative political economy and economic geography, and deserves to inform broader and more general areas of scholarship through its firms' relationships with global investors. The Japanese corporate world provides a relevant research environment for this research topic for the following reasons.

First, within the comparative capitalism literature (Hall and Soskice 2001) Japan is a prominent case of a CME shifting towards a LME (Sako 2007), with unique traditional institutions, such as lifelong employment, long-term bank financing, cross-shareholdings and inter-company networks, as well as stakeholder-oriented corporate governance with a smaller role for shareholders (Aoki and Dore 1994; Dore 2000; Jacoby 2007). The economic success of Japan can largely be attributed to local institutions and institutional complementarity (Aoki 1994) especially until the early 1990s, when the Japanese financial market started to be liberalised and change its ownership structure with an increasing number of foreign investors. It has been argued that during liberalisation in the process of shifting from CME to LME organisational diversity and change can be observed (Streeck and Thelen 2005; Sako 2007). Hence, analysing the process of institutional change in Japan can showcase how existing institutions are transformed by the power of global finance, how local firms respond to such power whilst they are embedded in local institutional settings, and whether they break their path dependence under external pressure. Many Japanese firms are globally well-recognised yet at the same time they are embedded in local traditional institutional settings, such as traditional financial and human ties called *Keiretsu*. For example, in the Forbes Global 2000 ranking in 2014, which is based on sales, profits, assets, and market value, the top five largest Japanese companies are Toyota Motors, Mitsubishi UFJ Financial Group, Sumitomo Mitsui Financial Group, NTT, and Honda Motors. Some of them underwent a group-wide or management reorganisation, but many of them are still under original family management or are related to *Keiretsu* groups.

Second, analysing the interplay between global investors and Japanese firms and institutions involves the concept of ‘distance’ from economic geography perspectives. Distance determines how people interact with firms and institutions and economic geography perspectives can be applied to the geography of finance and shareholder engagement; analysing the interplay between Japanese firms and global investors can enrich the debate on the engagement strategies of global investors associated with these concepts. In a given interaction with local firms, specific transaction costs occur (Williamson 1979), and these costs are incurred when global investors deal with international equities (French and Poterba 1991; Lewis 1999). Costs are also associated with information frictions caused by differences in the regulatory environment (Bekaert 1995). Investors tend to prefer firms with some degree of familiarity, because investing in remote firms might involve higher transaction and coordination costs, some of which increase with distance (Huberman 2001).

The concept of distance in analysing Japanese firms involves not only physical distance but also ‘cultural’ distance, which increases with differences in languages, race, social norms and religious beliefs (Ghemawat 2001; Grinblatt and Keloharju 2001). In terms of language, the Japanese language is unique to Japan, and people often have problems with their command of English in business. For example, the average score on the standard test of English as a foreign language (TOEFL) of Japanese native speakers ranked 105th out of 115 language groups (ETS 2013). Nonetheless, a relatively poor command of the English language should not be taken as an indicator of the general level of education or people's skills in Japan. According to the OECD's Programme for the International Assessment of Adult Competencies (PIAAC), the key cognitive and workplace skills gained by education and training systems of 16-65 years old in Japan ranked top among 33 OECD countries in 2013 (OECD 2013a). Regarding religion, Japanese financial markets are not influenced by any strong active investors with a religious influence, whilst some responsible investors exercise voice or choose investee firms based on religious criteria in other parts of the world. For example, in the US, certain faith-based activist institutional investors exercise responsible stewardship in ESG issues with ethical mandates, which include religious organisations such as churches. Further, Islamic funds exclude certain industries, such as alcohol, pork, and tobacco, from their portfolios (Pollard and Samers 2007).

As such, Japan can be argued as a country which is culturally distant from the West. Cultural factors cannot be ignored in explaining the unique Japanese corporate environment. The interplay between global investors and Japanese firms involves cultural sensitivity, as global investors can tend to promote the adaptation of global standards in a hostile manner whilst traditional Japanese firms can persist in maintaining their own standards (Jacoby 2007). In the Japanese corporate environment, traditional firms try to maintain their corporate governance style. For example, Dore (2013) mentions the tradition of seniority system of Japanese firms, which does not often allow appointing employees with of a young age to very senior positions.

It is further argued that the boardroom cultures of Japanese firms normally do not allow outside directors to behave in the way that is expected in the US, which can be designated as an oversight of management (Dore 2013).

Third, Japan provides an excellent research environment for investigating shareholder engagement due to the size of its financial market, with increasing foreign ownership and regulatory frameworks incrementally convergent to global standards. The Tokyo Stock Exchange is the world's third largest market in the world, following the New York Stock Exchange and Nasdaq Stock Market, with a total market capitalisation of more than USD 4.5 trillion, and has an increasing foreign ownership of approximately 25% (Tokyo Stock Exchange 2014a). Japan is still internationally competitive in industries such as automobile and precision machinery, and Tokyo is a megalopolitan city within complex local and international networks, where the headquarters of major Japanese firms are located. Further, the current administration of Prime Minister Shinzo Abe has emphasised the importance of shareholder engagement, and implemented Japanese versions of the Stewardship Code and Corporate Governance Code in 2014 and 2015 respectively. Japan has the largest pension fund in the world, the GPIF, with USD 1.5 trillion in assets under management. The GPIF had not committed to responsible investment and its governance was criticised by the OECD for not being a fully independent entity with unclear asset allocation (Stewart and Yermo 2010), even though it finally announced that it would accept Japan's Stewardship Code in 2014 (GPIF 2014a). Hence, analysing the Japanese market can illustrate the impact of increasing foreign ownership on responsible engagement, as well as the process of policy convergence on local firms and institutions.

Fourth, Japan has several internationally renowned issues of corporate governance, and reforming the private sector is one of the most important priorities for Japanese policy reform. The Corporate Governance Survey, conducted by the Asian Corporate Governance Association (ACGA), in 2014 ranked Japan third in Asia, behind Hong Kong and Singapore (CLSA and ACGA 2014). In 2011, there were two big corporate governance-related scandals of Japanese firms, Olympus and the Tokyo Electric Power Company (TEPCO) after the Great East Japan earthquake. The recent financial performances of Japanese electronics giants, such as Sony, Sharp, and Panasonic, have suffered from deficit. In July 2015, the president and top executives of Toshiba quit due to the overstatement of its operating profit by JPY 152 billion (USD 1.2 billion) (Nikkei Newspaper 2015). Private sector reform, including corporate governance reform, is one of the three main arrows of Abenomics, the policy reform package of the Abe administration. In April 2015, Prime Minister Shinzo Abe delivered a speech at the US Congress and included Japanese corporate governance reform as one of the most important items on this agenda. The detail of the policy reform of Abenomics will be explored in Chapter 2.

Finally, Japanese society, as an OECD country, has several social problems that are of interest to global responsible investors. One of the policy recommendations by the OECD is to enhance female and foreign labour participation, due in part to an ageing population. About 60% of female workers withdraw from the labour force after having their first child, even though the participation rate of women aged 25-54 years old rose from 65% in 1994 to 72% in 2010 (OECD 2013b). Diversity of the board is one of the main topics of engagement of foreign investors with Japanese firms, especially the greater inclusion of women and foreigners. These kinds of Anglo-American standards are supported by global investors or foreign proxy advisory groups, whilst Japanese society is still in the process of trying to implement these standards.

Japan provides a unique research environment due to the above-mentioned reasons. Nonetheless, Japan does not gain much international research attention despite being the third largest market in the world, and research on Japanese firms and foreign investors in Japan is limited due to difficulties in obtaining data through conducting interviews because of geographical isolation as well as language issues. There has been research on Japanese corporate governance and financial markets, highlighting the potential reward from economic geography perspectives (see for example Jacoby 2007; Aoki *et al*. 2007; Jackson 2009). This thesis engages with this wider research agenda, including the influence of the recent significant ESG-related corporate scandals and the recent changes of local firms and policies, both of which should be taken into account to reframe the research. Moreover, the interplay between investors and remote firms has not been emphasised yet in most of the related literature. For this reason, the design of this research overall corresponds to that of Jacoby (2007) who addressed the interplay between CalPERS and Japanese firms from the 1990s to the early 2000s, as well as that of Clark and Wójcik (2007) who illustrated how global finance changes local corporate governance by using the case of Germany. It is expected that the individual findings from the case of Japanese firms and market will together allow this thesis to draw broader implications. Shareholder engagement by global investors in Japan gained attention only recently, after CalPERS withdrew its major engagement activities in the early 2000s, and it is still a recent movement in Japanese corporate history.

1.3. Thesis objectives, goals, and research questions

The aim of this thesis is to examine the interplay between global investors and locally embedded firms and how this evolves over time and space (Clark *et al.* 2009; Dixon and Sorsa 2009). It has been pointed out that the spatial effects of institutional investors' actions should be studied by economic geographers (Clark 2005). This thesis does not necessarily aim to demonstrate the on-going convergence to the Anglo-American model of corporate governance or financialisation, which refers to the greater role of finance to lead a systematic change in capitalist development (Boyer 2000), but instead the thesis highlights on-going change through the interplay between investors and local firms by providing cases of Japanese firms under pressure by external actors such as global institutional investors and policy change. The goal of this thesis is to reveal how global institutional investors impact Japanese firms and institutions, and how Japanese firms respond to global financial markets and policy convergence. This research project sets out to achieve a greater understanding of the under-researched areas of the geography of finance and shareholder engagement. It answers the call for a greater appreciation of the actors and networks in the landscape of corporate governance and sustainability by analysing empirical cases of the market and firms in transitional processes. The overall aim of the thesis is to examine the interplay between global actors and locally embedded firms, which can be broken down into four specific research objectives outlined below:

The first objective is to analyse the evolution of shareholder activism and corporate governance change in the context of ownership structure change (Chapter 3). By identifying the actors who exercise voice and the agendas raised by active shareholders in Japan through public means, the chapter reveals the current state of shareholder activism in Japan, without any strong local investors who exercise voice. By filling this gap in the literature, this chapter is the first attempt to explore the contents of shareholder proposals in Japan.

The second objective is to examine how global institutional investors informally engage with Japanese firms, and to explore the responses of the target firms (Chapter 4). Emphasising the bilateral relationship between global investors and local firms across space contributes to examining the importance and limitations of engagement activities with remote firms. By analysing the engagement strategies of global investors with Japanese firms, the chapter aims to argue the gaps between the motivation of global investors to engage and local firms' readiness to respond, and offers practical recommendations to global investors.

The third objective is to uncover the various stakeholders interacting with Japanese firms in an industry with a lower proportion of foreign ownership on non-governance issues (environmental issues), and also to examine the impact of collaborative engagement by global investors (Chapter 5). The chapter aims to clarify the issues in an industry led by firms outside the Western world, and how local firms in such industries control their ESG standards. This chapter deals with the case of collaborative engagement on fisheries, where Japan is the world's leading market. Examining the case of a specific industry illustrates the role and impact of institutional investors in a remote market, and also demonstrates the limitations of the impact of engagement activities.

The fourth objective is to explore the latest policy convergence of corporate governance and examine the perceptions of Japanese firms towards global standards (Chapter 6). By examining the responses of the largest local firms to engagement activities by global firms or to global standards, this chapter aims to summarise the process of the convergence of ESG practices towards global standards. Further, analysing the implementation of new policy instruments offers a view from a political economy perspective to Japanese corporate governance, by answering how non-state actors are involved in policymaking by taking into account local institutional complementarities.

In order to achieve the above objectives, the primary questions are set out to draw the broader implications from the substantive chapters, which can be applied to different geographies and contribute to specific areas of literature, '*What are the effects and limitations of global investors' engagement activities on Japanese firms?*' This question is explored in greater deal throughout the thesis, by approaching it through the four subsidiary questions below, which correspond to each substantive chapter:

1) What has been the evolution of shareholder activism and corporate governance change in Japan? (Chapter 3)
2) How is private engagement activity by global institutional investors informally conducted with Japanese firms? (Chapter 4)
3) How is collaborative engagement conducted and how powerful can global institutional investors be with firms in an industry with a lower proportion of foreign ownership in Japan? (Chapter 5)
4) How does corporate governance policy change converge towards global standards and can policy reform bring about norm changes in corporate governance? (Chapter 6)

These four subsidiary research questions are designed to address the primary question of the thesis. These questions emerged and were developed through conducting a literature review, interviews, and data collection and analysis (see Section 4 of this chapter: Methods and research design).

1.4. Methods and research design

The thesis adopts a ‘four paper approach’, based on a series of empirical investigations of the impact of global investors and ESG issues of Japanese firms and is built on a foundation of theories from multiple disciplines applied to economic geography. Each paper is designed to approach the four subsidiary research questions to answer the primary question of the thesis. Four papers allow for the development of interrelated but independent empirical cases; however, efforts have been made to minimise the unnecessary repetition of overlaps in the empirical or theoretical background to the thesis.

The thesis employs a combination of qualitative and quantitative research methods. A mixed method approach is important to obtain a more robust and comprehensive understanding (Mingers 2001). The data in the field of shareholder engagement and corporate ESG issues is often difficult to obtain and interpret due to its confidential nature and for this reason this thesis applied a multi-method approach. Both qualitative and quantitative methods contribute to enriching the understanding of specific issues (Plewis and Mason 2005) as well as strengthening the interpretations of findings (Yin 1984; Eisenhardt 1989). The multi-method approach was particularly useful to support the results derived through quantitative methods by using qualitative methods (Plewis and Mason 2005). The data obtained through qualitative methods, such as interviews, helps to provide the background information and to further understanding of the results of quantitative analyses. The multiple data sources also contribute to triangulate the analysis and findings from difference sources (Eisenhardt 1989). As a theoretical backbone of each substantive chapter, relevant literature was reviewed both as primary and secondary sources.

The primary methodology for the acquisition of knowledge for this thesis was through in-depth, semi-structured interviews from fieldwork. An in-depth interview allows the respondent to explain issues in detail in a wide-ranging discussion. All the in-depth interviews were conducted in the UK and in Japan during fieldwork. Conducting fieldwork is essential for gathering primary information on the responses of the local firms to engagement activities, whilst shareholder engagement is normally conducted confidentially. Most of the interviews were conducted face-to-face, with a range of firms, institutional investors, asset managers, trust companies, ESG engagement service providers, international NGOs, and academics. This thesis mainly utilises corporate interviews and close dialogue techniques throughout the empirical chapters. Both interview techniques were adopted in various contexts to understand how institutional investors and other stakeholders engage with remote firms in the remarking of space. It is in line with the theory building of economic geographers based on empirical observation, which provides an opportunity to assess stylised facts and related theories (Clark 1998). The interview list is summarised in Appendix B. In total, 47 interviews were conducted. Among them, 8 interviews were conducted with Consultant B, who is a specialist on Japanese firms and market from the UK investor perspective. This repeated interview technique helped to obtain broader and deeper insights on specific issues (Lazarsfeld *et al*. 1944), such as shareholder engagement by the UK investors with Japanese firms. Moreover, in the interviews for Chapters 5 and 6, protocols were created underpinned by literature reviews, and they were utilised for supporting the reliability of the case studies (Yin 2003). The sample interview questions are documented in Appendix C.

In addition to in-depth interviews, extensive proprietary databases were created for quantitative analyses. These datasets provide data which is subsequently qualified in the context of corporate governance and shareholder activism. The database on shareholder proposals in Japan was created based on data compiled by the Institutional Shareholder Services (ISS) in Tokyo. The data was obtained from direct communication with ISS, because it is not an open data source. It consists of 490 shareholder proposals submitted to 79 companies over a period of five years from 2007 to 2011 in Japan, each of which were reviewed and categorised into the respective ESG topics. Several in-depth interviews were conducted with ISS for deeper understanding of the context in August 2012. Further, firm level intensive databases were generated based on publicly available data sources, the Corporate Governance Information Service at the Tokyo Stock Exchange (TSE), as well as Kaisha Shikiho CD-ROM at Toyo Keizai. Both of them are only available in Japanese and are the most reliable data sources on Japanese listed firms. The sample of Japanese firms is taken from all the listed firms in the First Section of the TSE, the total being more than 1,500 firms. In the analysis of determinants of corporate governance characteristics with the datasets, logit models and OLS regressions are employed (Linck *et al.* 2008; Guest 2008). These data sources were utilised for the analyses of Chapters 3 and 4.

Another extensive dataset on shareholder engagement on a UK asset manager's ESG engagement with Japanese firms was generated for the research project of Chapter 4. In order to track the investor's private engagement activities, data was obtained from direct communication with the asset manager, because these activities are normally conducted in a confidential manner. This institutional investor had approximately USD 100 billion in assets under management on behalf of 25 institutional investors, and it engages with firms on ESG issues on behalf of its client asset owners in 2012. Prior to the database creation, several in-depth interviews with the asset manager were conducted to identify the characteristics of engagement with Japanese firms. The database categorised the 169 contacts by means of engagement, such as emails, letters, phone calls, and meetings from 2006 to 2012. Further, 530 engagement activities were subcategorised into the following ESG groups: corporate governance, sustainability management and reporting, business ethics, human rights, labour standards, public health, environmental management, ecosystem services, and climate change. Prior to the commencement of the research of Chapter 4, a confidentiality agreement by the UK asset manager was signed in July 2012. In addition to this data, each target firm's annual security report and CSR report were reviewed, namely, 40 potential target Japanese firms from 2003 to 2012. The ESG issues of these firms were also reviewed by accessing documents which were only available in Japan, such as CSR Kigyo Soran by Toyo Keizai from 2005 to 2012. These datasets analysed the intensity of conducting engagement activities by utilising a Tobit regression model, following the methodology utilised in Bauer *et al.* (2013).

Finally, a case study approach was also adopted for Chapters 4 and 5, which is beneficial when the main issues of the research subject are in the initial stages of exploration (Eisenhardt 1989). A case study approach can contribute to analytic generalisations, through extending theories by benefitting from the development of prior theoretical propositions (Yin 1994, 2003). It is argued that a case-based approach should be applied to the study of corporate governance, because an historical and actor-oriented view of institutions is important (Aguilera and Jackson 2003). It has been also argued that the case study approach is a suitable option when analysing a topic for theory building. For Chapter 5, in order to analyse firms in a resource-intensive industry with a low proportion of foreign ownership in Japan, which had not yet been studied, the case study of global investors' collaborative engagement with firms in the fisheries industry was selected and examined. Further, Chapter 6 analysed the norms and perceptions of Japanese firms. For selecting the detailed cases, a purposive sampling method (Glaser and Straus 1967) was utilised for Chapters 5 and 6, because of the difficulties in obtaining a sample population. Due to the nature of the topic, many of the target firms of shareholder engagement were not willing to participate in interviews because of Japanese firms' limited human resources directed to responding to shareholder engagement, their unfamiliarity of responding to academic research regarding the topic, and the confidentiality of the process of engagement. For theory testing research, random sample selection might be a better fit (Cook and Campbell 1979); however, the purposive sampling method is also consistent in the case of the chapters, which conducts analysis across different cases based on theoretical underpinnings. The case study approach adopted multiple case studies rather than a single case study because multiple cases allow for cross-case analysis and to further refine the conceptual framework for analytic generalisation (Eisenhardt 1989; Yin, 2003). Data collection for the case studies was conducted by the aforementioned in-depth interviews or document review.

This thesis is subject to some methodological limitations in its substantive chapters. The case study approach faces the problems of the validity of findings, which is only temporarily valid because the case represents a particular period of time (Ellinger *et al.* 2005). The time span of the dataset utilised for quantitative analysis is limited for certain durations, and also the interviews for quantitative analysis needed to be conducted at a certain period of time. Moreover, it is difficult to generalise the findings of the results of a case study (Yin 1994). For example, the data analysed in the thesis represents a certain period of time, and other data was given by a specific institutional investor with regard to Japanese firms and markets. Even though focusing on a certain case study lends depth to the analysis, the conclusions drawn from the findings can be limited only to the Japanese market. Nevertheless, this thesis sought to bring in broader theoretical contributions based on the findings of empirical studies focused on the case of

Japanese firms and local or global investors. From a data collection perspective, this thesis is one of the first attempts to challenge existing practices of data collection by both investors and target firms to address specific shareholder engagement cases. It has been difficult to obtain such data, because shareholder engagement activities are conducted confidentially behind the scenes, and also because target firms are not willing to disclose to the public that they are the target of engagement. Hence, by its very nature the topic of this thesis would of necessity lead to inherent methodological limitations, such as of access to confidential databases or documents owned by firms or investors, as well as of collecting a sample of firms or investors willing to provide data by participating in interviews.

Another methodological limitation is related to the background of the author. The linguistic background, gender, age, social status, and ethnicity of the fieldworkers may lead to different perspectives on the phenomenon (Okely and Callaway 1992; Wei 1994). I am a Japanese female researcher, and deployed corporate interviews in Japan as a research methodology. For this research, more interviews were conducted with male respondents than female respondents (see Appendix B). Hence, because of the gender issue, there might have been some differences in the degree of disclosure of information in the interviews. For example, male respondents might have been more open and eager to speak with me, because I am a woman, or the converse may have been true. There has been a recent blossoming of the methodological debate on gender issues surrounding the utilisation of corporate interviews in the research of economic geography, in particular regarding a lack of recognition of gender relations in interviews (Barnes *et al.* 2007). Even though the investigator and respondents speak the same language and share a similar social background, the majority of respondents of corporate interviews can be men, a factor which should not be neglected as irrelevant, especially when one considers that the interviewer is a woman and gender relations can pattern interactions and encourage or inhibit disclosure (McDowell 1992). Nonetheless, whilst such feminist-inflected interventions in the research methodology of economic geography have garnered attention of late, how and what differences gender makes in corporate interviews is not yet exactly known (Schoenberger 1992), and certainly the issue of gender relations in the field needs be further explored (Barnes *et al.* 2007).

Being a native Japanese researcher brought both disadvantages and advantages for conducting fieldwork and research in my ‘home country’. As disadvantages, it was challenging to conduct research about Japan, because the familiarity of the issues often compromises one’s objectivity, or lessens the desire for knowing the issues (Latour 1999). For example, I confronted assumptions about the norms and institutions of the Japanese corporate world which I had internalised by having grown up in Japan as a native. Regarding this issue, I tried to be both an insider and an outsider throughout the research, by taking the view of Crumbley (2007) that the status of ‘insider’ or ‘outsider’ constantly shifts, becomes conflated, and co-exists. As a Japanese researcher studying abroad, my interview questions to Japanese managers could be seen as coming from an ‘insider’ since I am Japanese, but also as coming from an ‘outsider’ since I am also a researcher at a university in the UK. I tried to avoid both complete distancing and involvement, and often tried to suspend my assumptions, as a Japanese researcher, that are not taken for granted in the international research environment.

Nevertheless, I found significant advantages in conducting the research in Japan as a native Japanese from a renowned university. Most of the interviews were conducted with Japanese managers in Japan or in the UK, and they were conducted in the Japanese language, which allowed the interviewees to express their opinions in more open and detailed ways. Even more, I found that being a Japanese researcher speaking in Japanese gave such interviewees an impression that I was an ‘insider’ and, as such, they were more willing to cooperate with the research. For the nature of this research, it was important to show the interviewees that I shared common ground as a native Japanese, with proper knowledge of the Japanese corporate environment and its institutions and history. Japanese firms often consider foreign actors as ‘outsiders’ who are not cognisant of the characteristics of the norms or institutions in the Japanese corporate world. Hence, being Japanese and speaking in Japanese helped the collection of data through smoother conversation in interviews, especially when trying to collect informal data, such as how Japanese firms actually feel about foreign investors or about corporate governance policy convergence to global standards. Further, being a student from the world-renowned University of Oxford also encouraged Japanese firms or global investors to participate in interviews as it engendered greater trust in me as a researcher. Due to the nature of this research, the detailed information on ESG issues or shareholder engagement could be considered as confidential. Firms are often unwilling to disclose the information that they are the target of engagement activities that seek to improve their ESG issues. Nonetheless, the name of the university encouraged trust that I would deal with the confidential data properly and also helped to give the impression that the interviewees were contributing to providing data for a research project which was academically important.

1.5. Overview of substantive chapters: introduction and contributions to literature

This section presents a brief introduction to the thesis by describing an overview of each chapter.

It explains how conceptual frameworks are deployed and expanded within the substantive chapters, by approaching the four subsidiary research questions. The overview of each substantive chapter describes the key findings, which lead to contributions to specific literatures and theories.

Chapter 1 (the current chapter) is the introduction. It demonstrates the objectives and research questions, as well as the methodology of the thesis. Chapter 2 is the literature review and background of the thesis, which provides conceptual frameworks and explains the gaps in the literature that support the substantive chapters. Chapters 3-6 are the substantive chapters of the thesis. These chapters are set out to draw together the research questions and the broader implications of the research topic, which can be applied to other geographies and contribute to specific areas of literature. Chapter 7 concludes the thesis. It summarises the main findings of this study, and contributions to the literature and practitioners by drawing wider implications and recommendations.

The rationale of the order of the substantive chapters, Chapters 3-6, is as follows. Chapter 3 aims to draw an overall picture of shareholder activism in Japan through public means. Then, Chapter 4 adopts a shareholder engagement approach at the global investor level, and investigates the interplay between global investors and remote firms by focusing on private engagement. This is in contrast to Chapter 3, which investigates publicly exercised shareholder engagement. Based on the findings of Chapters 3 and 4 that foreign ownership matters to Japanese corporate governance practices and that collaborative engagement is one of the means of private engagement by global investors, Chapter 5 analyses the case of a collaborative engagement in a traditional industry with lower foreign ownership. It aims to explore corporate sustainable policy without much public scrutiny and to analyse the effectiveness of collaborative engagement with both geographically and culturally remote firms. Finally, Chapter 6 takes a policy approach to analyse the recent changes in corporate governance policy in Japan, and also explores the gap between the motivation of global investors to engage and Japanese firms' perceptions towards engagement which was found in Chapters 4 and 5.

Overall, all the substantive chapters bring together a broader understanding of the influences of global investors on local firms in their corporate ESG issues, as well as suggesting the limitations of global financial markets and engagement. It is also expected that the individual findings of each chapter will be drawn together to give broader implications. The chapter also makes suggestions for future research based on the limitations of this thesis. The following outlines the empirical Chapters 3-6 (Papers 1-4).

1.5.1. Chapter 3 (Paper 1): Corporate governance and shareholder activism in Japan: transformation in the face of incremental ownership structure change?

This chapter was presented at the Graduate Student Conference: Institutional Investor and Corporate Governance for Sustainability held at the University of Oxford in May 2012. It is reviewed and published in the special issue of the Journal of Sustainable Finance & Investment, 2012, 2 (3-4): 179-197.

Chapter 3 tracks the overall evolution of shareholder activism and corporate governance reform in the Japanese economy. It examines the influence of change in ownership structure, especially an increasing number of foreign investors, on shareholder activism and corporate governance systems. The chapter identifies active shareholders exercising voice to local firms through public means, such as shareholder proposals and proxy voting in Japan, and analyses what kind of ESG agendas local firms need to deal with. This chapter is intended to reveal the evolving nature of shareholder activism in Japan, and also identify any influences on changing corporate governance practices, neither of which has been addressed much in the literature. In so doing, this chapter seeks to enrich the debate on shareholder activism and corporate governance change in a space where major local investors tend not to exercise voice by public means.

The main finding of this chapter is that recent global and local institutional investors do not exercise voice through public means in Japan; hence, limited actors lead to narrow agenda settings set by shareholder proposals. This finding has implications for the importance of private engagement, which is explored in Chapter 4. Another main finding is that larger firms tend to undertake a greater degree of change in corporate governance practices, mainly dependent upon their level of foreign ownership. Corporate governance reform tends to be conducted more in firms with a higher proportion of foreign ownership, which confirms the important role of global investors in changing corporate governance systems of firms in remote markets.

This chapter seeks to contribute to the literature on shareholder engagement and comparative corporate governance. Describing the diversity of firms in terms of corporate governance systems within a single national system fills the gap in the literature of comparative political economy, by supporting uneven capitalist development within a single national space. Overall, this chapter emphasises the importance of analysing shareholders empirically across societies, because of the variety of shareholders and their identities across space (Hawley and Williams

2000). Under the continuous influence of traditional paradigms within existing institutions, the responses of firms to changes over time in their ownership structure vary, which creates diverse organisational structures among Japanese firms.

1.5.2. Chapter 4 (Paper 2): Institutional shareholder engagement with Japanese firms

This chapter was presented at the Graduate Research Seminar, Nissan Institute of Japanese Studies at the University of Oxford in May 2013, PRI-CDC Academic Network Conference in Paris in November 2013, and Regional Studies Association International Conference 2013 in UCLA, Los Angeles, USA. Paper 2 is a co-authored journal article of which I am the first author (see Appendix A). It is reviewed and published in the Annals in Social Responsibility, 2015, 1(1): 30 -56.

Chapter 4 analyses the interplay between a global institutional investor and Japanese firms. In order to clarify the impact and limitation of engagement by global investors with remote firms, this chapter assesses the role of individual actors by disaggregating the complexity of other driving forces in the interplay between two actors (Young 2008). Whist a growing body of literature on shareholder engagement analyses Anglo-American or European contexts, little attention has been given to the engagement strategies of global investors and responses of remote firms. By analysing the dataset on global investors' engagement with remote firms and the dialogues between global investors and Japanese firms, this chapter aims to draw more attention to the role of foreign investors in remote markets and to explore how they informally engage with remote firms.

This chapter studies a UK asset manager's shareholder engagement strategies with Japanese firms on ESG issues. Within the shareholder engagement literature, this chapter is the first attempt to examine the means of engagement. It provides enough evidence to underline the importance of global investors' understanding of local context for effective engagement. In an institutional setting where local investors are not active shareholders and where local firms are not familiar with engagement activities by global investors, face-to-face contact is the most important means of engagement for transmitting complex and context dependent messages (Storper and Venables 2004). The chapter deploys new perspectives in seeking to contribute to the shareholder engagement literature, which has not paid much attention to the geography of shareholder engagement or the means of engagement. In particular, the chapter analyses the gap between the asset manager's motivation to engage and local target firms' readiness to respond. Further, the chapter argues that global investors need to engage with remote firms strategically in a cost-efficient manner, by applying the theory of home bias effect underpinned by transaction specific cost across space (Williamson 1979).

Of particular importance, the chapter identifies some of the limitations of engagement activities by global investors. In particular, it was found that the target firms of engagement are a small number of the largest Japanese firms with global brand names, and that the topic of engagement is focused on corporate governance issues. This points to further research agendas on the non-governance issues of firms and industries with lower levels of foreign ownership, which is addressed in the subsequent chapter.

1.5.3. Chapter 5 (Paper 3): The interplay between Japanese firms and the stakeholders on sustainable fisheries: The case of collaborative shareholder engagement

This chapter was submitted to the Journal of Business Ethics.

Chapter 5 provides an understanding of the interplay between a broader range of stakeholders and Japanese firms. It examines the effectiveness of collaborative engagement by a group of global investors in a remote market, and analyses the case of collaborative engagement on sustainable fisheries in 2011-2012. This chapter was conceived in early 2013, when Japanese fisheries firms received international attention in media coverage and international conferences because of Japan’s mass consumption of tuna. The fisheries industry is a resource-intensive industry across geography. Japan is a leading consumer and exporter of seafood products, but its fisheries industry has one of the lowest levels of foreign ownership.

From the broader perspective of stakeholder theory, this chapter analyses which actors interact with Japanese firms in the fisheries industry and to what extent they can influence corporate sustainability policies, in terms of demanding higher standards of sustainability (Clark and Hebb 2005). The findings highlight that relationships between firms and stakeholders vary across geography and industry. Similar to the findings from Chapter 3 and 4, this chapter also argues that local context matters to the effectiveness of engagement, especially where most of the local firms are not cognisant of engagement activities by institutional investors. It is argued that engagement activities by foreign investors are not powerful enough to influence remote firms, especially in an industry where the firms are embedded in powerful existing institutional complementarities. Hence, firms do not improve their standards of sourcing policy unless there is a serious reputational risk. The research results provide enough evidence of the limited impact of private engagement activities in a geographically and culturally remote market, and also that the topic of engagement by global investors matters to the effectiveness of engagement with remote firms where responsible investment is not familiar.

This chapter also seeks to enrich the debate on the literature on shareholder engagement by deploying the concept of collective action theory. It is found that collaborative engagement can be triggered by frequent media coverage, and that it enables multi-party interaction among stakeholders for conducting more effective engagement. Engagement activities triggered by media coverage also contribute to increasing the satisfaction of the clients of institutional investors, due to their high levels of interest in the issue.

1.5.4. Chapter 6 (Paper 4): Corporate governance policy reform and norm changes: evidence from Japanese firms and policies

This chapter was submitted to Corporate Governance: An International Review.

Japanese corporate governance policy change has been one of the main pillars of corporate reform by the Abe administration since 2013. Chapter 6 takes a political economy perspective of Japanese corporate governance and examines how corporate policy reform by the latest Abe administration is conducted, and how Japanese firms perceive global standards. This chapter analyses the latest corporate governance policy reforms and investigates Japanese firms' perceptions of global standards based on interviews with ten leading Japanese firms. By so doing, this chapter seeks to examine how corporate governance policy changes converge towards global standards and if policy changes bring about norm changes in corporate governance in Japan. This chapter determined the existence of a disconnect between the unfamiliarity with engagement of local firms and the motivation of global investors, which is also explored in Chapter 4.

In accordance with North (1990), this chapter emphasises not only formal but also informal perspectives of corporate governance. It argues that policy reform in corporate governance cannot change social norms immediately, because culturally derived informal constraints are maintained. Further, the chapter also analyses the process of the implementation of global instruments for corporate governance convergence, which aims to contribute to the literature on the internationalisation of public policies. In particular, it explores the process of corporate governance policy reform by analysing policy instruments, such as the Japanese Corporate Governance Code and the Stewardship Code. The chapter provides evidence that the details of policy instruments are localised through the involvement of non-state actors, in reference to existing local institutions in institutional complementarities (Aoki 2001; Hall and Thelen 2009), in order that they be appropriate to the local context.

As such, the chapter seeks to contribute to the public policy and corporate governance literature. The chapter seeks to enhance the debate on the convergence or divergence of corporate governance practices across societies by emphasising the importance of informal constraints on corporate governance change. In particular, Japanese firms' collaborative behaviour can be considered as culturally derived informal constraints (North 1990) inhibiting change of Japanese corporate governance practices.

CHAPTER 2 | Background and literature review

2.1. Introduction

This chapter provides an overview of the background of the thesis and some of the key elements that underpin the substantive chapters from Chapter 3 to 6. Each of the substantive chapters includes an extensive literature review; hence, this chapter attempts to avoid unnecessary repetition, even though some of the definitions or concepts that appear in the later chapters are foreshadowed. This thesis engages with theories, concepts, and analytical tools from multiple disciplines applied to economic geography. Analysing the interplay between global investors and local firms involves understanding how local firms change in line with increasing foreign ownership in local financial markets, how global investors engage with local firms on environmental, social and corporate governance (ESG) issues, how local firms embedded in local institutional settings respond to engagement by global investors, and how local firms respond to policy reform in corporate governance. Each of these issues will be explored in the substantive chapters. Not all themes that appear in the present chapter are apparent in each of the four substantive chapters; however, they serve as further background to the thesis in order to explore the interplay between global investors and Japanese firms.

This chapter proceeds as follows. Section 2.2 presents the theoretical framework applied in the thesis, such as arguments in the geography of finance, a subfield of economic geography, that are relevant to the substantive chapters of the thesis. The geography of finance and financialisation literature provides views on how local markets and firms respond to global financial markets, despite the local history and institutional environment within a specific space.

Further, the section explores arguments regarding the weaknesses of the comparative capitalism literature, and the suggestions voiced in later literature, directed at the Varieties of Capitalism (VoC) approach. Section 2.3 offers the background concepts necessary to understand Japanese capitalism from comparative perspectives, as well as the historical context of the Japanese corporate world, and discusses the key institutional features and changes to them from theoretical perspectives. The comparative political economy literature and international business literature contribute to explaining how Japanese firms became diversified along with changes to the surrounding institutional environment and through interplay with global investors. Section 2.4 discusses shareholder engagement and its theoretical underpinnings, and examines the overall issues of the shareholder engagement literature. This section also summarises the literature of shareholder engagement with Japanese firms, and presents Japanese corporate governance as one of the major areas of engagement by global investors. Section 2.5 empirically documents Japanese political economy from the latest corporate reform perspectives, in particular, under the Abe administration since 2012. Focusing on the key policy reforms of the corporate sector reveals the problems which Japanese firms have accumulated over the past two decades in trying to achieve a revitalisation of the economy. Finally, Section 2.6 concludes the chapter by summarising the key insights of the background and literature review of this thesis.

2.2. Economic geography and comparative capitalism

This section explores the theoretical concepts that are employed in this thesis, which were originally developed in other areas of scholarship such as by economists or political scientists, and then deployed by economic geographers. In economic geography, institutional thinking emerged in response to work in the field of New Institutional Economics (Williamson 1985; North 1990) as well as that of economic sociologists (Powell and DiMaggio 1991). Institutions are rules of the game or humanly devised constraints (North 1990), which evolve through interactions between economic actors and geographic contexts (Bathelt 2006). Economic geographers emphasise how existing institutions shape economic interactions in space by using a geographical lens, and how the economy influences new and existing institutions (Bathelt and Glückler 2014). In particular, a relational perspective in economic geography highlights the interplay between specific economic actors and the role of local social and institutional contexts at the micro level (Bathelt and Glückler 2003, 2011, 2014; Yeung 2005). Similarly, the importance of micro-level analysis is argued by Streeck (2009), who asserts that institutional change can only be explained by analysing context-specific institutions and political economy. A specific geographic space with local institutions provides a particular environment, and influences how locally embedded actors respond to socioeconomic and political change. It is also argued that institutional change occurs in a path-dependent manner, because of national institutional complementarities with reference to existing institutions (Hall and Thelen 2009).

Within the discipline of economic geography, the geography of finance literature explores the role of global financial markets in social and political economy, including those in remote spaces. Financialisation is a major driver of the global integration of local economies through the restructuring of political economy by global financial markets across space (Tickell 2000; Clark *et al*. 2009). Even though it was argued that global financial integration would lead to the 'end of geography' (O'Brien 1992; Agnes 2000; Tickell 2000), the industrial agglomeration of the financial sector is observed as geographical concentration to realise economies of scale, in specific places such as New York (Friedman 1986) , London (Thrift 1994), and Tokyo (Rimmer

1986) . The characteristics of local investors are heterogeneous across societies depending on their backgrounds and culture (Thrift 2000). The agglomeration results in knowledge spillovers, whereas knowledge spillovers across distant spaces entail transaction costs. Although recent advances in communication technology has contributed to removing some of these transaction costs (Scott 1988; Bathelt and Glückler 2011), face-to-face contact is vital for the financial sector: despite all the costs of coordination, the information in finance is sensitive and imperfect, so it has to be transmitted in complex and context-dependent messages (Agnes 2000; Storper and Venables 2004).

One strand of the geography of finance literature analyses how global institutional investors exercise their power through their investment practices and protocols as well as through their expectations of how firms should be managed in terms of global ESG standards. Clark and Wójick (2007) explore corporate governance as the intersection with local and global financial markets, and demonstrate the tension between political and economic convergence and divergence in relation to German corporate governance. They argue that corporate governance changes in Germany have occurred in a bottom-up manner from firm level, and that the degree of change is different depending on the region and industry. This emphasises the importance of economic geography for local firms embedded in local institutions, with their competitors and ownership. Local managers respond to changes in their surrounding environment differently, depending on their market position or industry (Zingales 2000). Drawing on Clark and Wójick (2007), it can be argued that the power of global finance in shaping political economic geographies not only forces convergence to global practices, but also provides a means for local firms to defect from the constraints of local institutions, giving a strong impetus to overcome their path dependence (Dixon 2011a).

The impact of global investors across the world has revealed one of the weaknesses of the VoC approach. Jackson and Deeg (2008) mention how the impact of the internationalisation of business and markets has influenced local institutions and firm strategies, as well as the coherent characteristics of national ‘types’ of models of capitalism. The internationalisation of financial markets allowed the emergence of new market actors, which are not traditionally assumed in the comparative capitalism literature (Jackson and Deeg 2008). For example, global institutional investors influence local firms through diverse mechanisms, such as shareholder proposals, proxy voting, and shareholder engagement activities; however, their impact was not expected to emerge in the VoC approach.

As such, the conceptual weakness of the VoC dichotomy has been criticised by various strands of scholars. The approach of empirical cases for finding theoretical types is one of the characteristics emphasised in economic geography (Bathelt and Glückler 2011, 2014), and it addresses a gap in the comparative capitalism literature. For economic geographers, the VoC approach is too static, and insufficiently accounts for theorising the uneven development of national capitalism, and exploring path dependency and capitalist restructuring (Peck and Theodore 2007). Hence, it is claimed that VoC requires not simply an institutional theory, but a wider theoretical framework that incorporates historical trajectories as well as path-shaping and path-altering change (Howell 2003; Peck and Theodore 2007).

Another weakness of the VoC approach is its ‘firm-centered’ attitude (Hall and Soskice 2001: 5). In the VoC approach society searches for economic efficiency but social and political change is not accounted for (Bruff 2008; Streeck 2010), whilst culture and informality are also neglected (Witt and Redding 2013). Dore (2003) argues that the VoC approach lacks a practical application of culture in the analysis, and the concept of culture in the VoC approach is only mentioned in general terms. Culture can be defined as ‘a set of transitive, informal rules or guidelines for action, which have a coordinative effect and are applied in specific kinds of situations’ (Storper 2000: 87). The role of culture in corporate management has been discussed since the 1980s. Hofstede (1984) theorised national cultural differences in management techniques or philosophies. Ghemawat (2001) argues the concept of ‘cultural distance’, which increases with differences in language, race, social norms and religious beliefs. Others have shown that cultural differences explain variation in accounting systems (Licht 2001; Han *et al.* 2010) or in public policy (Park *et al.* 2007).

Culture is related to the understanding of the power of actors and daily practices in context-specific institutions in globalisation (Yeung 2005); hence cultural factors are inherently contextual, with the field of analysis of culture thus potentially controversial territory from which social scientists have tended to steer clear (Landes 2000; Witt and Redding 2013). Dore (2003) mentions that culture can be ‘thorny terrain that these institutionalists are so reluctant to tread’ (Dore 2003: 361). It is also argued that culture cannot be a causal variable due to its various conceptual dimensions (McSweeney 2002; Herrmann-Pillath 2010), so that culture should be re-concretised in the form of conventions (Storper 2000). For economic geographers, even though utilising culture as a major analytical tool is criticised due to its vague definitions and concepts (Aoyama *et al*. 2011), the concept of culture is approached in a multi-dimensional manner by adopting the concepts in various socioeconomic disciplines.

There is a linkage between culture and informal institutions (Hofstede 2005), because group-based societies tend to maintain informal institutions more than individualistic societies

(Grief 1994). Informal institutions can be defined as social norms or cultural affinities that impact on economic interactions (North 1990; Williamson 2000; Rauch 2001). Economic geographers originally emphasised formal institutions (Aoyama *et al.* 2011), and the majority of literature in international business or corporate governance also focuses on formal institutions. For example, Streeck and Thelen (2005) excluded engagement with informal institutions from their work, and Aoki *et al.* (2007) focuses on analysing only the formal institutions of Japanese corporate governance. Nonetheless, recent studies have explored informal institutions and their role in a specific location and interaction. Witt and Redding (2013) argue that there is a need to incorporate informality and its interplay with formal institutions for analysing a great deal of the variation of economies across the world, because VoC dichotomy is not applicable to Asian countries, unless incorporating culture and informality for further refining theories in international business.

This thesis approaches culture as providing 'the key to path dependence – a term used to describe the powerful influence of the past on the present and future' (North 1994: 364), and considers that the concepts of culture and informal institutions are inter-related, in line with Hofstede (2005). Whilst formal institutions, such as rules, may be changed immediately, it takes time to change informal institutions, and norms change only gradually, because of culturally derived informal constraints (North 1990, 1994). Due to the vague definition of culture, the thesis also applies the argument by Storper (2000) that culture should be re-concretised in the form of conventions, which are 'the rules of spontaneous individual action; constructing agreements between persons; and institutions in situations of collective action' (Storper 2000: 87).

2.3. Japanese capitalism and institutional features

By stressing the social embeddedness of firms (Granovetter 1985), the comparative political economy literature assumes that the interactions among actors with diverse identities and interests configure the strategies of global firms (Redding 2005; Jackson and Deeg 2008), because the capabilities of firms evolved together with the institutional environment (Arthur 1994; Dooley and Van de Ven 1999; Volberda and Lewin 2003). Such literature, however, does not pay much attention to the diversity of firms within a single national model (Aoki *et al.* 2007; Dixon 2011a). It has been argued that the growing diversity of organisations is conceptualised as the liberalisation of a coordinated market economy (CME) (Hall and Soskice 2001; Streeck and Thelen 2005; Sako 2007; Lane *et al.* 2007), whilst the short-term market pressures in a liberal market economy (LME) allow less diversity among firms (Armour *et al.* 2003). The diversity of firms has also been argued in comparative corporate governance studies. It emphasises the diversity which is generated among firms through differing degrees of adoption of global systems (Clark and Wójcik 2007).

In the comparative capitalism literature, Japanese capitalism is in transition from a CME to a LME (Dore 2000; Hall and Soskice 2001). The dimensions of this institutional typology can be described as follows: CME has long-term finance, regulated labour markets, and strong inter-firm coordination, whilst LME has short-term finance, deregulated labour markets, and strong inter-firm competition (Hall and Soskice 2001). Economic policies after World War II in Japan have developed through informal and strong connections between industry and the Liberal Democratic Party (LDP) (Aoki 2001), and Japanese corporate governance has also co-evolved along with political institutions (Jackson and Miyajima 2007). Industrial relations are strong with major industry associations, such as the Japan Business Federation (Keidanren), which have been the major opponent to Japanese corporate governance reform as representative of the private sector. The Japanese corporate world is characterised by institutional complementarity, with inter-related systems, such as long-term finance, lifetime employment, and organisational structure with lower levels of decentralisation (Aoki 1994; Ministry of Finance 2003). The bank financing system was considered as a critical element of Japan's rapid economic growth until the 1980s since it provided stable equity holdings, which influenced corporate finance and governance (Aoki *et al.* 1994), reducing the costs of financial distress (Hoshi *et al.* 1990), and helping firms with financial difficulties (Kaplan and Minton 1994; Kang and Shivdasani 1997). The main banks have been the centre of horizontal *Keiretsu* group firms, such as Mitsubishi, Mitsui, and Sumitomo, and bank financing was the dominant source of funds of Japanese firms in the post-war era. In corporate governance, the main bank system played an important role in monitoring management (Aoki and Patrick 1994) to accumulate firm-specific skills by monitoring and protecting local firms from the threat of hostile takeovers (Abe and Hoshi 2007), as well as in helping to overcome information asymmetries between firms (Jackson and Miyajima 2007). Nakatani (1984) argues that main banks provided a form of insurance mechanism to firms, because *Keiretsu* companies tend to have stable interest rates, a higher debt-to-equity ratio, a lower dividend ratio, and lower profits, even though they have higher compensation for employees and stable profits.

Due to such institutional features, the Japanese corporate governance system is characterised as stakeholder-oriented and the oversight and execution of management is not separated (Dore 2000; Jacoby 2004). In contrast to Anglo-American shareholder-oriented corporate governance, Japanese board members are not representative of shareholders, but rather are chosen by an extension of internal promotion systems, except for those from main banks or group companies (Miyajima and Aoki 2002; Ministry of Finance 2003). Hence, the size of the board has normally been large in Japanese firms (Ministry of Finance 2003), and interlocking directors among the same business groups have also promoted group-wide transactions of intermediate products in long-term relationships. Whilst the Anglo-American corporate governance system provides this function through audit committees, major Japanese firms use a statutory auditor (Kansayaku) system, in which auditors are not in the formal decision-making process and do not have authority as directors (ACGA 2013). In this system, board members receive relatively low directors' remuneration regardless of performance (Ministry of Finance 2003). According to Dorling (2014), the top 1% in Japan takes the least remuneration among developed countries. In 1945, after Japan lost World War II, the share of income of the richest 1% in Japan was only 6.4% and it has remained at similar levels ever since. It is less than half of the equivalent level of the US, where the top 1% of the population has received almost 20% of all income since 1928.

Since the early 1990s when its economic bubble burst, Japan has been suffering from stagnation. From 1992 to 2011, average nominal GDP growth in Japan was minus 0.7%, the average annual actual growth was 0.8% (Cabinet Office of Japan 2012), and the average inflation rate was 0.1% (IMF 2012). The years of stagnation in the Japanese economy are referred to as a lost decade (from 1992 to 2005), and Japan has been suffering from major macro-economic issues, such as a growing public deficit, a declining population and labour force along with decreasing demand, and low economic growth rates with low corporate profitability and wage compression. Foreign ownership in the Tokyo Stock Exchange has increased from 5% in 1990 to 17% in 2002 and to 26% in 2013 (Tokyo Stock Exchange 2014a). The proportion of cross-shareholdings dropped from 15% in 1990 to 7% in 2002 (Kuroki 2003), and stable shareholdings, which are owned by related business firms or long-term investors, decreased from 43% in 1990 to 26% in 2002 (Jackson and Miyaijma 2007). Further, the extreme collapse of asset values created serious economic problems, particularly for financial institutions holding the loans (Ueda 2012), with the non-performing loans owned by major bans peaked to be JPY 43 trillion in 2002 (Nikkei 2014a). The bank crisis weakened the role of banks in Japanese corporate governance, along with financial liberalisation giving large Japanese firms greater access to the bond market (Jackson and Moerke 2005), which resulted in the growth of the corporate bond market more than doubling from 1996 to 2004 (Jackson and Miyajima 2007). The commercial code has been amended, especially since the 1990s, and it was amended every year from 1997 to 2003, which contributed to providing several options of new board structure to employ, rather than enforcing a homogeneous manner of governance (Shishido 2000). For example, the amendment of the commercial code in 2002 provided options for Japanese firms to implement a US-style of board structure, even though it also offered the freedom to retain the traditional board structure.

Despite these features, after the bubble economy burst the volume of literature on the Japanese corporate world drastically decreased; even though Japanese corporate governance and capitalism were once celebrated during the era of economic growth, Japanese firms have been criticised for losing their competitive advantage through globalisation and technical progress (Lechevalier 2014). As such, Japanese firms have not been central to the literature for about two decades, despite drastic change in the Japanese corporate world and financial market, not least in its ownership. In line with financial liberalisation and the increase of foreign ownership since the 1990s, Japanese corporate governance and institutions started to change substantially. This financial liberalisation brought Japanese firms increased diversity due to differences in their negotiation of changes and contention with their stakeholders (Streeck and Thelen 2005; Sako 2007). Increasing numbers of foreign shareholders in Japanese firms is the main force pressuring Japanese firms to adopt global standards (mainly the Anglo-American style) of corporate governance.

Nonetheless, the interplay between foreign investors and local firms has not been studied much in the literature. There is still an increasing pressure for Japanese firms to reform their traditional management style and corporate governance structure, such as board structure, long-term employment policies, and business relations, especially by international actors such as global institutional investors. Diversity among Japanese firms was created in the trade-off between the short-term and long-term incentives in on-going institutional change; hence, the evolving institutions should be analysed through the complex process of micro-level and aggregate changes (Lechevalier 2007, 2014).

2.4. Shareholder engagement and recent problems in Japanese corporate governance

The research in shareholder engagement is concentrated in the Anglo-American world (see for example Dimson *et al.* 2015). This literature focuses on global institutional investors and their engagement with firms within the same geographical space, such as the Anglo-American or European world. Hence, there is a gap in the literature in that not much attention has been paid to other areas. There are some studies that emphasise the importance of geography, as well as the concepts associated with it, such as home bias effect in shareholder engagement (Bauer *et al.* 2013).

Hebb (2011) argues that the theoretical underpinnings of responsible investment can be discussed in relation to two main theories, namely, modern portfolio theory (Markowitz 1952, 1959) and principal-agent theory (Jensen and Meckling 1976; Fama and Jensen 1983). In the Twentieth Century, modern portfolio theory provided investors with the tools to create the best portfolio for maximising total expected returns adjusted for a given level of risk. The theory assumes rational investors monotonically prefer higher returns, and the efficient market with information symmetry. This assumption has been criticised from the perspectives of behavioural finance because investors have inconsistent preferences (Beyhaghi and Hawley 2013), and they use available information to make satisfactory choices (Williamson 1981; Rubinstein 1998) especially since the financial crisis in 2008. The theoretical framework of responsible investment is built upon the critique of the efficient market hypothesis (Samuelson 1965; Fama 1970, 1971), which emphasises information asymmetries in financial markets, especially in terms of ESG issues (Hebb 2011). Whilst some investors exit and others exercise voice (Hirschman 1970), Hawley and Williams (2000) argued for increasingly diverse ownership by criticising monotonically efficient owners, and suggested the emergence of universal owners with widely diversified portfolios to pursue as the means to minimise negative externalities and to encourage the long-term wellbeing of society.

Another theoretical underpinning of responsible investment is principal-agent theory (Jensen and Meckling 1976; Fama and Jensen 1983). Whilst there is a long history of conflict between managers and owners (Berle and Means 1932; Roe 1994), responsible investment mitigates agency issues by enhancing a shift from managers to owners (Hebb 2011). Responsible investment promotes shareholder participation in management by exercising voice (Gillan and Starks 1998) in order to monitor managerial agency issues (Bebchuk 2005; Harris and Raviv

2008). In particular, the use of proxy voting or shareholder proposals contributes to pursuing corporate governance agendas (Gillan and Starks 2000), as well as environmental and social issues (Clark *et al.* 2008). Shareholder activism is in the public spotlight in corporate annual meetings through shareholder proposals (Gillan and Starks 2000; Clark *et al.* 2008), proxy voting (Bebchuk 2005; Harris and Raviv 2008), or class-action lawsuits (Gande and Lewis 2009; Bauer and Braun 2010). For example, in the US, some actors in responsible investment, such as pension funds, sponsor social activists to submit shareholder proposals on social and environmental issues (ICCR 2012). These means are conducted in public, whilst shareholder engagement is normally conducted privately behind the scenes. It is argued that private engagement can be more powerful than public engagement because it is possible to communicate and negotiate on politically sensitive issues (Carleton *et al.* 1998; Jacoby 2007) rather than putting the agenda in public as a public shaming (Braithwaite 1989).

Pursuing effective shareholder engagement is one of the recent trends in the research agenda. Due to the nature of private engagement, there is a free-rider problem (Grossman and Hart 1980) among investors because the benefit of engagement activities is equal to the market without any additional return to investors who engaged with firms by spending additional costs and effort (Clearfield 2005). Conducting collaborative engagement with other investors is one of the means to mitigate such issues and to increase the effectiveness of engagement. Collaborative engagement contributes to increasing legitimacy, power, and urgency (Gond and Piani 2012), which are critical factors to enhance stakeholder salience for effective shareholder engagement (Mitchell *et al.* 1997; Gifford 2010). From collective action theory perspectives, collective action contributes to combining resources and power (Gillan and Starks 2000, 2003) by formulating a common identity and interest among individual stakeholders (Rowley and

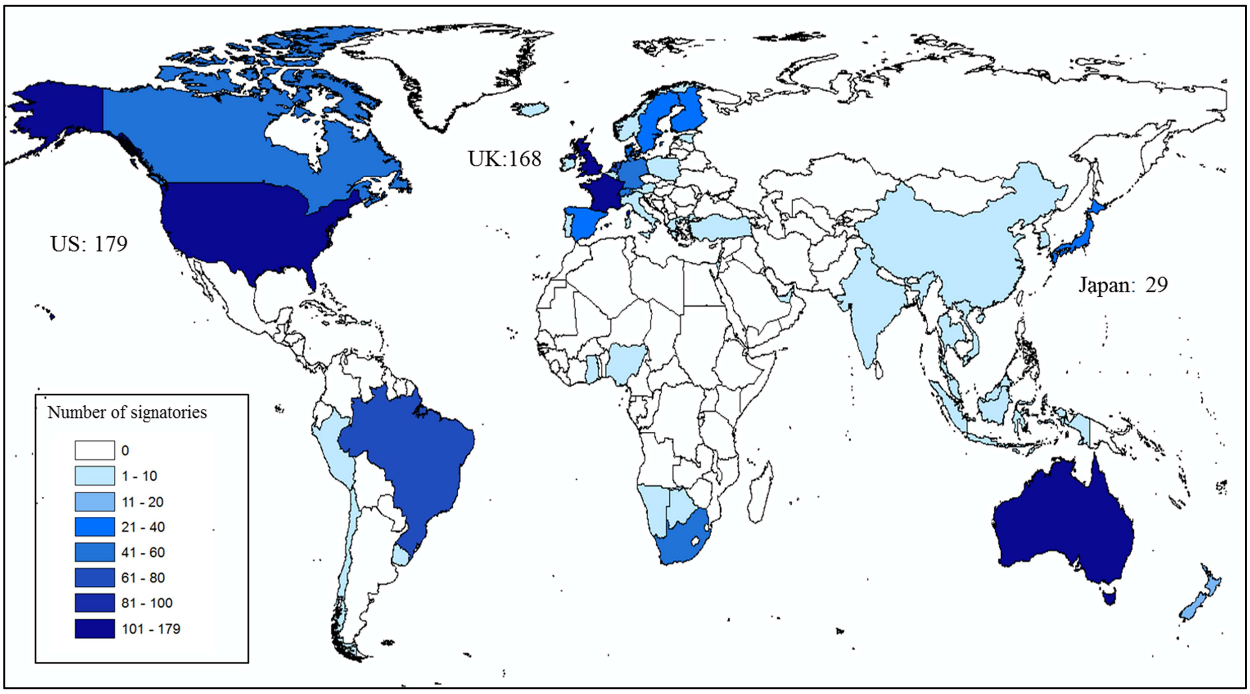
Moldoveanu 2003).

International initiatives such as the United Nations Principles for Responsible Investment (UNPRI) support the translation of responsible investment principles into practice and provide a platform to coordinate collaborative engagement. By November 2013, the total number of signatories to the UNPRI is 1,214, including asset owners, investment managers, and professional service partners, with total assets under management of approximately USD 40 trillion. Figure 2.1 shows the geographical spread of signatories of UNPRI. It is observed that the signatories are concentrated in North America, Europe, and Oceania. The US has the largest number of signatories, that is 178, whilst the UK has the second largest signatories in number, 167 signatories. Japan has only 29 signatories, much smaller than those in the US, UK and Europe despite the size of the market, the world's third largest economy[1].

This geographically uneven spread of signatories of UNPRI shows the different values and identities of local institutional investors in responsible investment embedded in local settings, which matters to global investors' geographical engagement strategy across societies (Bauer *et al.* 2013). In Japan, only a limited number of local institutional investors are committed to responsible investment. Hence, the main investors that engage with Japanese firms for improvement on ESG issues are global institutional investors. Responsible investment has appeared in Japan only since foreign ownership increased in the early 1990s, whilst there had been a close tie between local firms and the main banks.

1 By November 2015, the total number of signatories increased to 1,411. Nonetheless, there has not been a significant change in the geographical spread of signatories in the world. The US has 246 signatories, and the UK has 204 signatories, whilst Japan still trails behind with only 36 signatories (UNPRI 2015).

Figure 2.1. Geographical spread of signatories of UNPRI



Source: UNPRI (2013).

Especially after the bubble economy burst, the growing foreign ownership is attributed to increased investment by Anglo-American pension funds, such as the California Public Employees' Retirement System (CalPERS) from 1991 to 1997 (Shirota 2002). In 1993, CalPERS mainly targeted Japan as one of the priority countries to improve corporate governance with Japanese shares consisting of 45% of the portfolio, and voted against the management proposals of more than 200 Japanese firms by proxy voting (Jacoby 2007). Nonetheless, for CalPERS, trying to change the Japanese corporate governance system was 'a culturally sensitive international program', because it could be construed as a form of cultural imperialism, trying to promote the adoption of the US governance style without legitimacy and in a hostile manner (Jacoby 2007: 264). Even though CalPERS decreased its ownership in Japan due to diversification of its portfolio, activist funds started to exercise their voice publicly in the

Japanese market around 2003 (Miyajima and Hoda 2012). The trend of activist funds in public engagement diminished due to the low success rate of public engagement in a hostile manner by 2008, and private engagement activities are increasingly important in Japan. The recent implementation of the Japanese Stewardship Code in 2014 will also accelerate the importance of private engagement.

In line with increasing foreign ownership and private shareholder engagement in the Japanese market, Japanese firms have developed dialogues with foreign investors for their global reputation management. Since the global financial crisis of 2008, some large Japanese firms have suffered from deterioration in profits as well as corporate governance problems, whilst the decline in the international reputation of Japanese firms was catastrophic. In particular, 2011 is recorded as one of the worst years of Japanese corporate history with several corporate scandals and the earthquake. These scandals focused the attention of foreign investors on Japanese firms, and created a suspicious atmosphere around Japanese corporate governance as a whole. The Great East Japan Earthquake in March 2011 and the meltdown disaster at the Fukushima nuclear power plants revealed how poorly equipped the governance structure of Tokyo Electric Power Company (TEPCO) was to manage the accident, which was compounded by the Democratic Party of Japan's (DPJ) political inability to control them. The domestic supply chain of large Japanese exporters was also affected by the earthquake. For example, the supply chain of Toyota ceased operations, though production had resumed by July 2011 (Toyota 2011). In October 2011, Olympus' accounting scandal, exposed by a foreign former CEO, caused that firm's stock price to plunge. The Tokyo Stock Exchange decided to keep the listing of Olympus despite the accounting fraud of USD 1 billion, as a result of shareholder protection over maintaining the certain quality and legitimacy of the stock exchange (Yasuda 2012). It is argued that the characteristically Japanese corporate governance scandals tend to happen when managers try to show good financial performance in terms of protecting the profitability of the company or division rather than for their own individual profit, which stems from the organisational culture of Japanese companies (Ohira *et al.* 2013).

2.5. Policy convergence in the recent corporate reform in Japanese political economy

Policy convergence is a powerful force in changing local practices originating in a specific constellation of socioeconomic, political, and cultural circumstances (Dixon 2011b). National governments play a key role in policy convergence towards global standards (Hebb and Wójcik 2005). The power of global finance accelerates policy convergence and transforms local systems by breaking down local institutional complementarities (Hall and Thelen 2009), even though there are cases where local standards better fit the local context than global standards do. The transportability of best practices sparked a discussion on how local government changes local policies, and what the impact is on local firms of policy convergence towards global standards.

Historically, Japanese politics has been dominated by the LDP since the party's foundation in 1955. From the end of the Koizumi administration (2001-2006) until the beginning of the second Abe administration in 2012, the prime minister changed every year, and this instability caused policy incoherence during that time. The other major party, the Democratic Party of Japan (DPJ) was in power from 2009 to 2012, but it was ousted after mishandling the crisis after the earthquake and Fukushima nuclear power plant incident in 2011. In 2012, the second Abe administration advocated a new economic policy mix in order to end economic stagnation and macroeconomic problems, which is referred to as ‘Abenomics’ and consists of three arrows: (i) ‘bold monetary policy aimed at eliminating the deflationary mindset’ (ii) ‘flexible fiscal policy aimed at igniting the dampened economy’, and (iii) ‘Japan Revitalization Strategy’ (Prime Minister of Japan and His Cabinet 2014a). The LDP’s victory in the election in December 2014 gave the LDP and its coalition 326 seats out of 475 seats of the House of Representatives, which is a great opportunity for the successful implementation of the third arrow of Abenomics, after the prior implementation of the first and the second arrows (Nikkei 2014b).

The third arrow of Abenomics aims at corporate reform, which leads to policy convergence to global standards. The key policy measures include restoring Japan’s earning power by enhancing corporate return on equity (ROE) and realising sustainable economic growth, cultivating human resources by promoting a greater participation of women and foreigners, and reviving long-idle industries by supporting regional communities (Prime Minister of Japan and His Cabinet 2014b). In particular, improving Japanese corporate productivity and changing the Japanese corporate sector by enhancing corporate governance is one of the first key policy measures to restore Japan’s earning power. Table 2.1 summarises the key policies of corporate reform. For gaining long-term profitability and global competitiveness, in response to the original growth strategy in 2013, the Japanese version of the Stewardship Code was introduced in 2014 to enhance engagement between institutional investors and companies. In one of the ‘Three Action Plans’ to revitalise industry by accelerating structural reform, the Plan aims to restore the level of private capital investment to that of before the financial crisis, JPY 70 trillion per year, within the next three years. In terms of progress made in the implementation of the strategies, the revised Companies Act and the Japan Stewardship Code are key milestones. The

Table 2.1. Key policies of corporate reform under the Third Arrow of Abenomics

Year	Month	Major policies of corporate reform under Abenomics
2012	Dec	Abe re-elected
2013	Jan	Abenomics and its 3 Arrows announced
	Feb	2nd Arrow implementation: Flexible Fiscal Spending
		JPY 10.3 trn fiscal stimulus announced
	Apr	1st Arrow implementation: Bold monetary policy
	Jun	**3rd Arrow implementation: Growth and reform policies**
		- Japan Revitalization Strategy (original)
	Aug	The First Council of Experts Concerning the Japanese Version of the Stewardship Code
	Oct	Action Plan to Implement the Growth Strategy
	Nov	The Panel for Vitalizing Financial and Capital Markets
2014	Jan	**JPX Nikkei Index 400**
		- ROE driven new index fund by Tokyo Stock Exchange
	Feb	**Japan Stewardship Code implementation**
		- Stewardship responsibilities to Japanese institutional investors
	Mar	**Government Pension Investment Fund (GPIF) Reform**
		- Use of JPX Nikkei Index 400
	Jun	**Companies Act amendment**
		- Introducing a new corporate governance structure
		- New rules on outside directors
		- First major amendment since the enactment in 2006
		Japan Revitalization Strategy (Revised)
		- Corporate reform as a key strategy
	Aug	**Ito Review final report published by METI**
		- Enhancing institutinoal investors' engagement with companies
		- 'Japanese-style ROE management' with mid/long term ROE growth
		- Critisising short-termism
		The First Council of Experts Concerning the Corporate Governance Code
	Dec	The Third Abe Cabinet started
		- 4 female ministers were appointed among 19 ministers
2015	Jun	**Japan Corporate Governance Code implementation**

Source: Prime Minister of Japan and His Cabinet (2014a); Financial Services Agency (2015a); METI (2014).

Corporate Act was revised in June 2014, in order to require ‘comply or explain’ principles of listed Japanese companies, in terms of the appointment of outside directors. In February 2014, the Stewardship Code was launched, which detailed the stewardship responsibilities of institutional investors including proxy voting and engagement. The final report of the Ito Review compiled by the Ministry of Economy, Trade and Industry (METI) in August 2014 documented key issues for Japan’s sustainable growth. It recommends ‘Japanese-style ROE management’ in which Japanese companies generate ROE higher than 8% in an effort to receive recognition from global investors. It also documents the importance of enriching dialogue and engagement between investors and companies (METI 2014).

Further, Abenomics also emphasises enhancing corporate governance and the reform of public pension funds as the most important policy measures, as documented in the revised version of the Japan Revitalization Strategy in 2014. To this end, the Japanese Corporate Governance Code was established on existing rules and guidelines by the Tokyo Stock Exchange, as well as the OECD Principles of Corporate Governance. A council of experts was established for a new draft of the Code by the time of the general shareholders’ meetings in June 2015, which promoted a decrease in cross-shareholdings (Prime Minister of Japan and His Cabinet 2014a).

On the other hand, the Government Pension Investment Fund, Japan (GPIF) has the world’s largest single pool of pension assets, which was JPY 131 trillion (USD 1.2 trillion) as of September 2014 (GPIF 2014b) and is the central target of the pension reform. An OECD working paper in 2010 criticised the governance of the GPIF, arguing that it should be independent from the Ministry of Health, Labour, and Welfare (MHLW), as it was shown to have influenced staffing and had an unclear role in the approval of the asset allocation of the

GPIF; hence promoting the existing conservative governance structure of low profile and low risk that under-utilises the potential of the fund (Stewart and Yermo 2010).

In the latest reform, the GPIF strengthened its governance structure and revised its asset mix, and the government will develop the necessary law amendments as a consequence. The JPX Nikkei Index 400, which is a new stock index based on higher ROE, cumulative operating profit, and market capitalisation (Tokyo Stock Exchange 2015), was launched prior to the GPIF reform, and the Index was employed as one of the passive funds for equity investment by the GPIF. The domestic and overseas equity weight increased from 12% to 25%, whilst domestic bonds weight decreased from 60% to 35% and overseas bonds weight increased from 11% to 15% (GPIF 2014c). The reform of the GPIF partly contributed to achieving high stock prices - the total market capitalisation of the first section of the Tokyo Stock Exchange increased to JPY 510 trillion in November 2014 from JPY 300 trillion in 2012 (Nikkei Asian Review 2014). Nevertheless, critics warn that the higher asset allocation on stocks could harm the balance sheet of the Fund due to market volatility (Japan Times 2014), whilst US assets will be the biggest benefactor of the GPIF reform, due to more than double its target allocation of foreign stocks.

Finally, reinforcing human resources capabilities is a critical action plan of the third arrow of Abenomics, in particular, promoting the active social participation of women. Table 2.2 shows the proportion of female directors by GMI Ratings in 2013. Japan has only 1.1% of female directors. It is one of the second lowest proportions among 45 countries surveyed, with this figure not increasing much from 2009 to 2013. This proportion is much less than Scandinavian countries, where Norway has 36.1%, as well as other countries like the US with 14% and the UK with 12.6% of female directors. It was big news for Japanese society when Toyota Motor

Corporation announced a change in its top management to include female (as well as foreign) directors in March 2015 to pursue boardroom diversity (Toyota 2015)[2]. Japan also has the lowest proportion of female members of parliament among OECD countries, which was 8.1% as of October 2014 (Sankei 2014), whilst the UK has 23%, the US has 18%, and the Scandinavian countries have more than 40% of female members (IPU 2014). The government takes a view that increasing women's participation in the policymaking process will lead to expanding female employment or the appointment of female directors (Prime Minister of Japan and His Cabinet 2014a). 4 female ministers were appointed among 19 ministers in December 2014 in the Third Abe Cabinet.

As such, corporate reforms through Abenomics provided Japanese firms with greater scope for change in the process of policy convergence to, and transfer of, global corporate governance practices. Although the change in Japanese corporate governance arose in a bottom-up manner, the change has occurred too slowly for most local firms. Too much co-ordination in Japan retarded institutional adjustment and reform (Witt 2006) without any top-down initiatives. The convergence of policies related to corporate governance, including the Stewardship Code and the Corporate Governance Code, can be argued as a policy transfer of 'best practices' (Guillen 2000), whilst the diversity of governance systems stems from local institutional constraints (Roe 1994; Roy 1997). Abenomics seems to support convergence to global standards of corporate governance and provide local firms with a means to break with the past in a top-down manner, even though path-dependent characteristics from the era of rapid economic growth remain valid.

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[2] Nonetheless, the female executive lasted only 90 days in the job and resigned due to a drug-related arrest in July 2015 (Bloomberg 2015).

Table 2.2. Proportion of female directors by country

Ranking	Country	% of Women on boards	Increase (2009-2013)	Area	# of companies
1	Norway	36.1%	0.4%	Europe	30
2	Sweden	27.0%	3.2%	Europe	44
3	Finland	26.8%	3.3%	Europe	27
4	France	18.3%	9.3%	Europe	101
5	South Africa	17.9%	2.6%	Africa	59
6	Denmark	17.2%	3.2%	Europe	24
7	The Netherlands	17.0%	3.8%	Europe	35
8	Israel	15.7%	2.2%	Middle East	16
9	New Zealand	15.1%	3.0%	Oceania	10
10	Germany	14.1%	3.6%	Europe	89
11	Australia	14.0%	5.6%	Oceania	212
11	United States	14.0%	n/a	N. America	1,489
13	Poland	13.6%	5.1%	Europe	21
14	Canada	13.1%	0.7%	N. America	145
15	Turkey	12.7%	2.7%	Middle East	27
16	United Kingdom	12.6%	4.1%	Europe	410
-					
19	Thailand	9.7%	-1.2%	Asia	26
20	Hong Kong	9.5%	1.3%	Asia	98
-					
-					
43	Korea	1.9%	0.4%	Asia	106
44	**Japan**	**1.1%**	**0.2%**	**Asia**	447
45	Morocco	0.0%	0.0%	Africa	2

Source: GMI (2013).

Notes: Number of companies refers to the companies surveyed by the GMI research in 2013.

2.6. Conclusion

The findings and research gaps from each section of this chapter are inter-related, and highlight the importance of research on financialisation and its impact along with intense socioeconomic and political globalisation. Section 2.2 on economic geography outlined the potential role of global finance as the major driver in the decomposition of local institutions. The section also mapped out the weaknesses of the VoC approach and explored the concepts of informal institutions and culture. Section 2.3 on Japanese capitalism and institutional features presented the growing diversity of organisation among firms in the transition from CME to LME, whilst the economic success of Japan is largely due to traditional local institutional complementarity. The diversity of firms derives from the extent of adaptation of global systems, which is the result of increasing pressure by foreign investors. In Section 2.4 on the shareholder engagement literature, it was argued that this literature is concentrated in Anglo-American and European cases, and not much attention is paid to other geographies, even though recent Japanese corporate governance issues highlighted the necessity of developing dialogues with foreign investors for protecting firms' international reputation. Finally, Section 2.5 documented the latest policy reform which has led to increasing policy convergence to best practices, and emphasised the importance of shareholder engagement and of developing dialogues between Japanese firms and investors.

The literature review of this chapter identified several gaps in the literature. First, geography of finance and shareholder engagement literature features the power of global finance, but the limitations of global institutional investors have not yet been much explored. Hence, a question remains how powerful global investors can be in a remote country like Japan among other stakeholders. Second, within the geography of finance literature, as a market that is geographically remote and culturally distant from the Western world, greater attention is needed on Japan and other countries similar to it. The empirical case of the interplay between global investors and Japanese firms fills a gap in the shareholder engagement literature, by providing new perspectives outside the Anglo-American and European world. Third, political economy and corporate governance literature have not been much explored from informal perspectives, such as informal institutions and culture. Whilst the majority of the literature tends to focus on formal institutions (Aoki *et al.* 2007), the importance of informal perspective is emphasised by North (1990); hence, further research incorporating informal institutions fills the gap of the VoC approach, as pointed out by Dore (2003).

In order to approach these research gaps, this chapter identified several pertinent research topics, and the thesis will explore them through research on Japanese firms as empirical cases. First, the process of change in local firms' corporate governance practices should be studied from the perspectives of shareholder activism, engagement, and policy convergence towards global standards. Japanese firms and their corporate governance systems are in transition and they are diverse (Aoki *et al*. 2007), whilst policy convergence is conducted under Abenomics. Second, the strategy of global investors on engagement needs to be analysed, especially with remote firms that are embedded in local institutional complementarity. Japanese firms are not familiar with engagement activities by global investors, and exploring the efficiency of engagement with distant firms will reveal the limitations of global institutional investment. Third, how remote firms respond to global finance, and the nature of the influence of engagement activities among other stakeholders should be analysed from both formal and informal perspectives. Japan has a unique institutional environment, and this thesis seeks to explore the norms of Japanese firms, how they are maintained and persist, due to culturally derived informal constraints, in accordance with North (1990).

This thesis attempts to fill the gaps in the extant literature and approaches the research topics by analysing the interplay of economic actors across space, especially between global investors and local firms, by utilising analytical tools and concepts deployed from economic geographers. Ultimately, it contributes to a proper understanding of diverse capitalist development across disparate political economies in various streams of literature.

CHAPTER 3 | Corporate governance and shareholder activism in Japan: transformation in the face of incremental ownership structure change?

3.1. Introduction

The uneven character of capitalist development has been seen in the process by which globalisation reshapes political–economic geographies and by which different degrees of engagement with global finance result in geographically diverse institutional responses. In particular, how companies respond to the power of global finance has been increasingly important to a proper understanding of local and spatially diverse capitalist development across disparate social and political economies (Dixon 2011a). The growth of the power of global institutional investors has transformed the balance of power between owners and managers, with many investors questioning local environmental, social and corporate governance (ESG) standards issues (Hawley and Williams 2000; Clark and Hebb 2004; Clark *et al.* 2008). Under the forces of the global financial markets, existing corporate governance systems have been evolving, which means that the previously accepted stylised facts of two broad systems in the early stage of international comparative studies of corporate governance – namely, the Anglo-American and continental European models – is not taken for granted anymore (Gugler *et al.* 2004; Bauer *et al.* 2008; Jackson 2009). Most notably, some elements of the Anglo–American system, such as an increased focus on short-term profit maximisation, are becoming more important for large continental European firms (Bauer *et al.* 2008; Clark and Wójcik 2007).

An increased emphasis on Anglo-American shareholder value had influence in different forms of shareholder activism, where active shareholders try to change the status quo through exercising their ‘voice’ (Gillan and Starks 1998; Hirschman 1970). Shareholder activism can contribute to mitigating and monitoring managerial agency problems (Bebchuk 2005; Harris and Raviv 2008). While there have been different varieties of shareholders and engagement (Hawley and Williams 2000), the evolutionary process of shareholder activism has continued (Gillan and Starks 2007). The emerging presence of global institutional investors and various forms of shareholder engagement raise questions about how shareholder activism progresses and how corporate governance systems are transformed. In particular, who are the active shareholders and what kind of agendas are pursued by them? How has the corporate governance system been transformed and what are the determinants of characteristics of Japanese corporate governance systems with reference to existing institutions?

In exploring these questions, Japan provides an example of an institutional environment where organisational diversity and corporate governance systems are evolving. The historical evolution of complex institutional interdependencies in Japanese firms have been studied previously (Aoki *et al.* 2007). Japanese forms of corporate governance have started to change since the ‘bubble’ economy burst in the 1990s, while the features of Japanese firms such as cross-shareholdings and the main banking system have undergone changes (Jackson and Miyajima 2007). To this end, the corporate ownership structure has drastically changed, with an increasing proportion of shares owned by investors who aim to maximise investment profit, such as foreign investors. Owing to increasing ownership by such investors and their role as shareholders, it is no longer possible to describe Japan’s corporate governance system as a stakeholder-oriented economy (Aoki *et al*. 2007; Aguilera and Jackson 2010). Even though shareholders are key actors in many analyses of corporate governance systems in Anglo–American economies, shareholder activism and engagement is an under-investigated topic in research on Japanese corporate governance. In this chapter shareholder activism in Japan is analysed; in particular, shareholder activism through public means, i.e., shareholder proposals and proxy voting. Further, evidence from recent developments in Japanese corporate governance will be provided to support the diversity of capitalist development, as well as to examine the determinants of corporate governance reforms in Japan's institutional environment.

The following section describes the theoretical background and historical evolution of Japanese corporate governance systems as well as their changing ownership structures. Section 3.3 explores recent trends in shareholder activism in Japan by shareholder proposals and proxy voting through an analysis of data from the 2007–2011 time period, and identifies the actors and agendas in shareholder activism. Section 3.4 discusses empirical tests and results on the determinants of Japanese corporate governance characteristics with a focus on their ownership structure. Finally, Section 3.5 draws together concluding thoughts.

3.2. Theoretical background and evolution of Japanese corporate governance and ownership

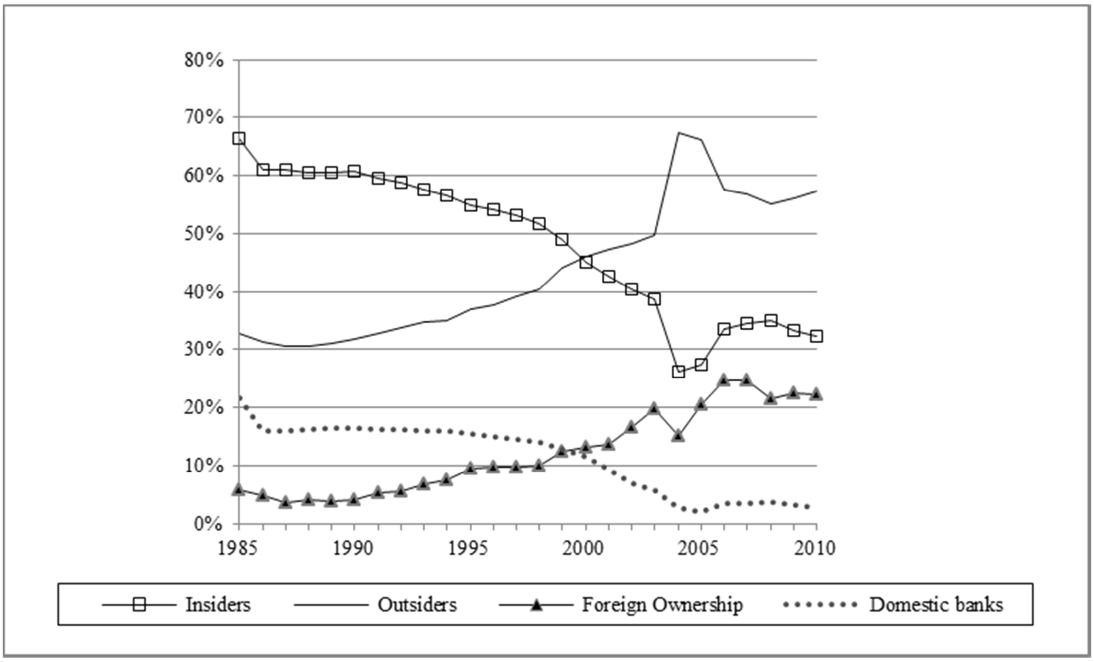
Institutions might be seen as a focal point of actors where they play a game, while actors define their identities and motivations within an institution based on interdependencies with other existing institutions (Aoki 2001; Jackson 2010). Corporate governance is a structure of rights and responsibilities where different actors or institutions interact within various rules (Aoki

1994, 2001; Aguilera and Jackson 2003; Jackson and Miyajima 2007). The rules of the game in an institution can be defined legally, and the various actors have their own motivations to play the game, which differ both geographically and over time. As a result, the degree of institutionalisation is different because of actors playing different games with their own strategies and their non-identical nature. Owing to such different sets of actors embedded in different institutional settings (Granovetter 1985), the actors' strategies towards institutions must be interpreted empirically (Jackson 2010). Traditionally, corporate governance has been studied in the agency theory between owners and managers, where the corporate ownership structure is different across societies over time. The difference in ownership has influenced shareholders' ability and activism, and the motivating forces of various investors have been shaped differently. Therefore, although complex and changing patterns of actors are important for understanding institutional change, shareholders and their values cannot be categorised into a homogeneous manner in different national institutional contexts, which rest upon different organisational forms and shareholder activism (Jackson 2010).

The Japanese economic success up to the 1990s has been attributed to the nature of national institutions such as lifetime employment and a rational banking system (Aoki 1988, 1990; Sako 2007). Those unique features have had a strong influence on the country's corporate governance system (Aoki 1988), such as interlinked relationships among the main banks providing stable shareholding without any direct control by an important institutional shareholder. The stakeholder-oriented corporate governance approach is reflected in the long-term business relations between companies and their suppliers (Jackson 2009). In particular, the stable shareholding relationships contributed to providing quasi-inside information among a group of companies, called *Keiretsu* (McGuire and Dow 2009). *Keiretsu* are often considered a set of companies grouped around large banks, such as Mitsui, Mitsubishi and Sumitomo, as well as sub-companies created around parent companies, such as Toyota, Honda and Hitachi (Lincoln *et al.* 1996; Isobe *et al.* 2006). Aoki (1990) argued that *Keiretsu* contribute to maintaining long-term relationships with companies' suppliers, customers and financiers, which leads to reduced agency costs, thus providing financial and strategic flexibility. The member companies of *Keiretsu* maintain complex and close operational, financial and personal ties, through business transactions within and across industries, cross-shareholdings as well as interlocking board members, where the managers of one firm have controlling stakes in other firms (Douthett and Jung 2001; McGuire and Dow 2009). Furthermore, until the mid-1990s financial crisis in Japan the ownership structure of *Keiretsu* companies was characterised by highly concentrated equity holdings within the same *Keiretsu* groups (Johnston and McAlevey 1998; Isobe *et al.* 2006), with share-holding ranging from 23 to 42% (Gerlach 1992; McGuire and Dow 2009).

With this historical background, the characteristics of the share ownership structure of Japanese companies had been described as a system of 'insider' control, with strong relationships with banks and low levels of foreign ownership (Miyajima and Nitta 2011). Insider ownership refers to ownership based on long-term business relationships, and on shareholder rights that are not utilised in a hostile manner, such as cross-shareholdings (Miyajima and Nitta 2011). Figure 3.1 is compiled from the data from the Tokyo Stock Exchange (2011a) to show long-term ownership structure trends in Japan from 1985 to 2010 by insiders, outsiders, domestic banks and foreign shareholders. The categories employed by Miyajima and Nitta (2011) were utilised, namely, the ownership by insiders is broken down into the total ownership by city or regional banks, life and non-life insurers and other financial institutions or firms. For the most part, such insiders are motivated primarily by the desire to maintain good business relationships. On the other hand, outside owners are those whose major incentive for ownership is to maximise investment profits, namely, individuals, foreigners, domestic investment trusts and domestic pension trusts.

Figure 3.1. Long-term ownership structure trends in Japan: 1985–2010



Source: Survey of Stock Distribution (Tokyo Stock Exchange 2011a), Miyajima and Nitta (2011), and Miyajima and Hoda (2012).

Notes: This figure is generated by following Miyajima and Nitta (2011) and Miyajima and Hoda (2012) to report the long-term trend of ownership by insider, outsider, domestic banks (city or regional banks) and foreign shareholders. The ownership by insiders is broken down into the total ownership by city or regional banks, life and non-life insurers and other financial institutions or firms; the ownership by outsiders is broken down into the total ownership by individuals, foreigners, investment trusts and pension trusts.

The majority of ownership had been by insiders until the beginning of the 1990s when the Japanese economic bubble burst, and started to decrease dramatically subsequent to the bank crisis in 1997. Shortly thereafter, the percentage of outside investors exceeded that of insider investors. Among them, the cross-shareholdings ratio had decreased from the level of 15% in 1996 to 9% in 2004, and the shares of banks tended to be sold off, owing to the need to hedge risk from worsened bad-loan problems (Miyajima and Nitta 2011). The deregulation of financial markets and the internationalisation of accounting rules since the beginning of the 2000s accelerated the decrease of share ownership by domestic banks. Ownership by outsiders, including foreign investors, has increased since 1990 along with the internationalisation of financial markets. A dramatic increase of ownership by outsiders and decrease by insiders is observed from 2003 to 2005. This is mainly due to the implementation of regulations regarding the control of share ownership by banks in 2002 under the Bank for International Settlements (BIS) regulations, which carried forward the selling of shares owned by banks (Miyajima and Nitta 2011). Foreign ownership came close to 25% in 2006, compared with the level of 1990 at 4%. For a few years since 2007, when the sub-prime mortgage crisis started, ownership by outsiders and foreign investors decreased, but the level has been rather stable since. From 2005 to 2008, ownership by insiders showed a moderate increase. This is partly owing to the resurgence of cross-shareholdings for strategic partnership in defence against hostile takeovers, while there had been a trend of hostile takeovers and shareholder proposals by both domestic and foreign activist funds (Miyajima and Nitta 2011; Nomura Institute of Capital Market Research 2008). The trend of shareholder proposals will be explored in Section 3.3.

As such, the growth in ownership by outsiders has had an impact on the levels of shareholder activism in Japan. The Japanese traditional corporate governance system is typically insider oriented, where insiders hold shares for maintaining long-term business relationship without exercising voice through public means. However, a drastic change in ownership structure and the increasing importance of foreign investors has started to impact Japanese companies. The growth in ownership by outsiders has had an impact on the levels of shareholder activism through the submission of shareholder proposals as well as the exercise of proxy voting by institutional investors.

3.3. Shareholder activism and institutional investors

Shareholder participation in corporate governance, in particular initiating shareholder proposals and proxy voting, is a useful means of mitigating and monitoring agency problems (Bebchuk 2005; Harris and Raviv 2008). The use of shareholder proposal is a formal means for activist shareholders to pursue their agendas in corporate governance (Gillan and Starks 2000), as well as for social activists to bring social and environmental agendas into the public spotlight (Clark *et al.* 2008).

However, Japanese institutional investors are generally reluctant to engage with investee companies. This attitude is reflected in the number of Japanese signatories to the United Nations Principles for Responsible Investment (UNPRI), a voluntary investor initiative to incorporate corporate ESG issues. Among 1,009 institutional and investment managers, 22 signatories are based in Japan, compared with 134 signatories in the US and 131 in the UK in 2012 (UNPRI 2012). Most significantly, Japanese public pension funds are almost absent as active shareholders. The Government Pension Investment Fund (GPIF) in Japan is the largest single pool of pension assets in the world; with USD 1.5 trillion in assets under management, and provides a good indicator of the characteristics of public pension funds in Japan: more than half of its assets are managed as domestic bonds (GPIF 2011)[3]. The majority of assets of public and corporate pension funds in Japan such as GPIF are normally managed by external asset managers. Thus, the exercise of voting rights is directed by the fund manager under discretionary agreements, not by the pension fund itself (SIF-Japan 2009; GPIF 2011). Despite its size, GPIF had not implemented a clear policy for proxy voting, and it had not shown any interest in responsible investment until 2014.[4]

3.3.1. Trends in shareholder proposals

Recent trends in submitting shareholder proposals in Japan provide a picture of the level of shareholder activism in Japan. The frequency of shareholder proposal submissions in Japan is much lower than that in the US and the success rate is almost zero. The number of proposal submissions in Japan is 98 proposals per year (the average of the 5 years from 2007 to 2011, according to data by the Institutional Shareholder Services, ISS), while it accounts for 279 proposals per year in the US (Renneboog and Szilagyi 2009). Shareholder proposals are modestly successful in the UK and continental Europe, in particular when concerning board member changes and raising major governance concerns (Cziraki *et al.* 2010); however, shareholder proposals in Japan tend to be rejected, with a majority in disagreement (Investment Trust Association Japan 2011).

[3] GPIF later changed its asset allocation under reform by the Abe administration in 2014, and domestic bonds weight decreased to 35% (GPIF 2014c). (See Chapter 2)
[4] The latest reform of GPIF under the Abe administration in 2014 is detailed in Chapter 2 of this thesis. (See Section 2.5)

In analysing shareholder proposals, this chapter studies the data obtained from ISS, which consists of 490 shareholder proposals submitted to 79 companies over a period of 5 years from 2007 to 2011 in Japan. Table 3.1 is compiled to present the distribution of proposals by industry and by category across the sample period, both in total and by year. The proposals are categorised into four types: environmental issues; corporate governance issues; social issues and multi-issues, which contain a variety of ethical concerns. The total number of firms that received shareholder proposals is much smaller than the total number of firms. It indicates that more than one proposal was submitted to the same companies or they received proposals repeatedly in different years. The distribution by proposal type shows that environmental proposals are only submitted to a limited number of electric power companies. No drastic change was seen with the yearly distribution to electric power companies in 2011 despite the controversy centred on Tokyo Electric Power Company after the Fukushima crisis, and a similar number of proposals have been submitted since the crisis as were in the period before the crisis. The majority of social and multiple proposals are submitted to the electric power and railway industries. The majority of proposals regarding environmental and social issues have been traditionally submitted by shareholder groups campaigning against nuclear power to several regional electric companies or victim groups of railway accidents to some railway companies (SIF Japan 2009, 2011), and Japanese institutional investors have never intervened in those issues.

From Table 3.1, it can also be observed that the governance issue is the only category where proposals are widely spread across industries. A drastic increase can be seen in the number of governance issues from 2010 to 2011, in manufacturing and real estate, which can be attributed to some individual investors' submission of a large number of proposals to a limited number of companies. The highest number of proposals was submitted to electric power companies, followed by the manufacturing, technology and railway industries. The contents of the proposals are similar in different industries, such as the election or removal of directors, increasing final dividend or disclosure of individual directors' compensation levels. Many governance-related proposals to electric power and railway companies are submitted by similar groups of shareholders to those that submitted social and environmental proposals, asking for the removal of directors who could be obstacles for their ultimate goals on social and environmental issues. Most of the proposals related to governance issues are submitted by individual investors, with only a limited number of proposals having been submitted by institutional investors.

Table 3.2 summarises the number of shareholder proposals submitted by foreign and domestic non-individual investors. Non-individual investors submit proposals only on corporate governance issues, and have never intervened in social and environmental issues. The total number of proposals submitted by foreign investors has been decreasing since 2007, and there are almost no recent proposals. Shareholder proposals submitted by non-individual investors in Japan are mainly from foreign institutional investors. Most of them are foreign activist funds, and their interventions are motivated by a drive towards greater economic efficiency, such as increasing dividends or the abolition of anti-takeover measures. In 2007, a US activist hedge fund, Steel Partners, submitted 11 proposals to 6 companies, but almost all of the proposals were rejected despite their large number. However, since 2008, foreign activist funds have been less active, partly owing to a cash shortage caused by the financial crisis, as well as a shift in their activism towards tactical negotiations after repeated defeats in the shareholder proposals of hostile demands in previous years (Atsumi and Partners 2009).

Table 3.1. Total number of firms and shareholder proposals by industry affiliation, and shareholder proposals by category, 2007–2011, with distribution by year

Industry	Number of firms	Proposal type: Environmental	Governance	Social	Multiple	Total	By year: 2007	2008	2009	2010	2011
Electric power	7	119	63	13	15	210	46	47	37	43	37
Manufacturing	7		52	4		56	5	8	11	9	23
Technology	9		45			45	2	6	1	16	20
Railway	3		33	10	1	44	9	11	11	9	4
Media & telecommunications	11		20	1		21	14	5	2		
Construction	3		20			20	2	5	3	4	6
Real estate	6		20			20	2	2	1		15
Consumer goods	3		16			16	6	9		1	
Wholesale	5		15			15	1	3		5	6
Basic materials	8		13			13	5	1	3	1	3
Financials	5		13			13	1		1	3	8
Retail	5		8			8				2	6
Others	7		9			9	3	1	4	1	
Total	79	119	327	28	16	490	96	98	74	94	128
						Environmental	26	22	20	26	25
						Governance	64	66	43	61	93
						Social	5	4	8	5	6
						Multiple	1	6	3	2	4

Source: Own calculation from data obtained from ISS.

Table 3.2. Trend of shareholder proposal submissions by non-individual investors in Japan, 2007–2011

	By foreign investors		By domestic investors		Total	
	Number of proposals	Number of firms	Number of proposals	Number of firms	Number of proposals	Number of firms
2007	21	12	2	1	23	13
2008	10	4	6	2	16	6
2009	2	2	2	2	4	4
2010	2	2	0	0	2	2
2011	0	0	0	0	0	0

Source: SIF-Japan (2009, 2011); Sumitomo Trust and Banking (2011).

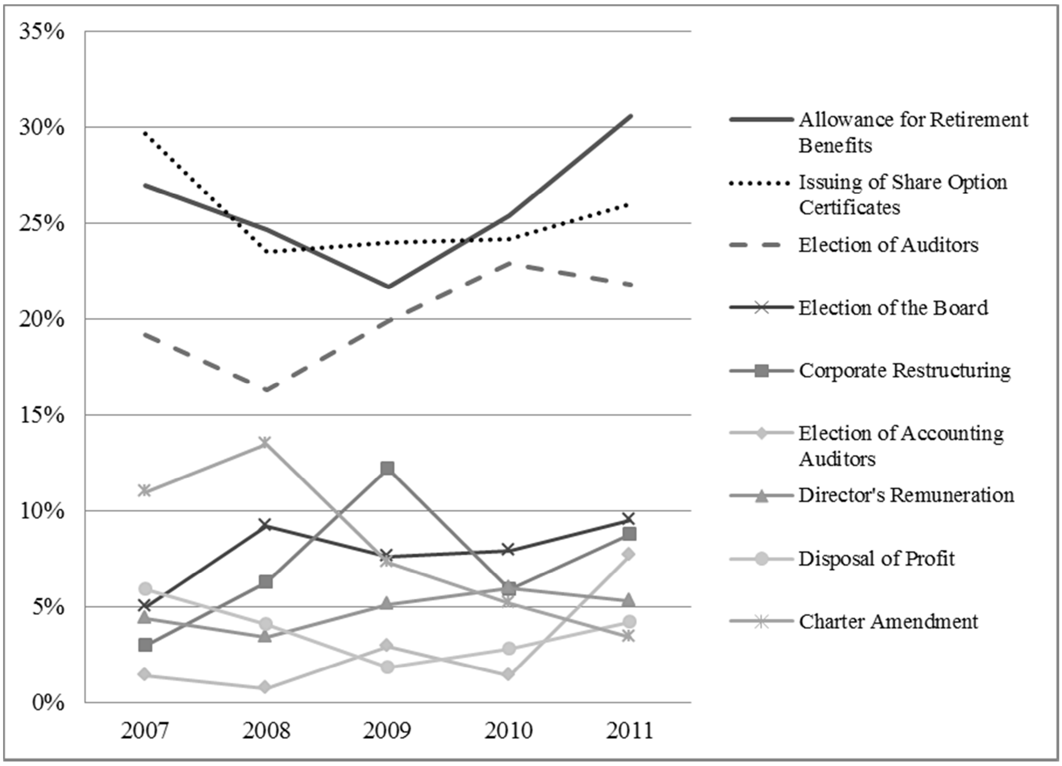
Active shareholders in Japan differ from that in the US, where a group of social activist investors intervene in major firms through shareholder proposals, with their shareholder engagement strategies focused on social and environmental issues (Clark *et al.* 2008). In Japan, both domestic and foreign institutional investors do not actively engage in the agenda setting of major companies' annual general meetings through shareholder proposals, and in particular, domestic institutional investors are almost absent in exercising their voice. The more general point is that the limited number of active shareholders leads to a narrow agenda setting through shareholder proposals. Agenda setting by activist funds is only about governance issues with the aim of economic efficiency. Meanwhile, environmental issues are raised by environmental civic groups against nuclear power, and therefore the environmental agenda is limited to nuclear power-related issues specific to a relatively smaller number of companies. By contrast, in the US, actors such as public pension funds often sponsor shareholder proposals on corporate governance (Gillan and Starks 2000), and social activists submit social and environmental proposals across industries, including on broader issues such as sustainable reporting, human rights policy amendments and lobbying expenditures disclosure (ICCR 2012).

3.3.2. Trends in proxy voting by institutional investors

While shareholder activism through submitting shareholder proposals is not common practice for institutional investors in Japan, domestic institutional investors such as pension funds, fiduciary trust companies, and life insurance companies started to be active in proxy voting due to their increasing share ownership (Miyajima and Hoda 2012). In general, manager proposals tend to gain the majority of approvals by proxy voting; however, there have been some cases of rejection since 2005 on proposals about business mergers, amendment of articles to increase the number of shares authorised and election of the board, due to opposition by the largest shareholders.

Figure 3.2 shows the percentage of proxy voting by discretionary investment companies exercised as disagreements on management’s proposals. The majority of disagreements on management’s proposals by discretionary investment companies relate to corporate governance issues, and the major topics of disagreement, comprising more than 20% of the disagreements in 2011, are related to capital efficiencies, such as allowance for retirement benefits and the issuing of share option certificates, as well as the independence of auditors. Proxy voting related to allowance aims to provide appropriate incentives to managers, but many institutional investors have a policy of proxy voting against allowances for retirement (Miyajima and Hoda 2012), which causes a higher level of disagreement.

Figure 3.2. Proxy voting exercised as disagreement on management's proposals by discretionary investment companies in Japan, 2007–2011



Source: Japan Securities Investment Advisers Association (2011).

Notes: The graph shows the percentage of proxy voting by discretionary investment companies exercised as disagreement on management's proposals.

Different categories of investors tend to employ different proxy voting strategies. Domestic institutional investors tend to oppose corporate governance issues in the case of problems in financial performance such as return on equity, while foreign investors tend to exercise proxy voting without depending on financial performance (Ishida 2012). On average, 60% of foreign investors in the Japanese capital market exercised their proxy voting rights (Sumitomo Trust and Banking 2011). Many foreign institutional investors in Japan have an agreement with a proxy advisory group, ISS, and the ISS's policy impacts directly on the proxy voting of foreign investors in Japan. In 2012, ISS changed its policy regarding standards for the independence and transparency of corporate governance, recommending filing protest votes to the board in cases where a company does not have any outside directors (ISS 2012); therefore, stricter policies on proxy voting on the issue of board independence by foreign investors is expected. Nevertheless, the current practice of proxy voting does not directly impact changes in Japanese corporate governance, because foreign investors are still in the minority. For example, in the case of Olympus, the board members that were proposed by management after the scandal, at the extraordinary shareholder's meeting in 2012, were all approved due to majority approval by Japanese institutional investors. Even though an attempted comeback of the former (foreign) CEO, who had previously resigned, was in general preferred by foreign investors, he was not able to gain support from domestic institutional investors. It is not easy for foreign investors as minority shareholders to directly impact corporate governance through the proxy-voting process under the current system and share ownership structure in Japan, although there have been cases of rejection of management proposals on the election of the board owing to opposition by the largest shareholders, including foreign investor such as Steel Partners in 2008.

In total, different categories of investors have their own strategies to exercise their voice. The recent presence of local institutional investors in Japan is very weak in shareholder activism through the submission of shareholder proposals. Nonetheless, they do exercise proxy voting for monitoring corporate governance issues, as shown in the votes relating to capital efficiency or to the independence of the board being protested by more than 30% of institutional investors. Considering the introduction of stricter policies by ISS, proxy voting by foreign institutional investors on the topic of independence of the board is likely to become increasingly a commonplace as a protest against corporate governance practices in Japan, even though there are still barriers to the power of such investors as minority shareholders under current frameworks and practices.

3.4. The determinants of corporate governance structural reform

With its traditional insider-oriented corporate governance and strong employee relations, one of the biggest corporate governance issues in Japan has been a lack of independence of the board of directors. Under the traditional statutory auditor system, the board of directors consists of insiders without any outside directors, and it is not mandatory to adopt an independent board of directors. The Corporate Code reform in 2002 enhanced companies' organisational flexibility to decide their governance structures (Gilson and Milhaupt 2004), allowing them to implement the committees system, where directors are responsible for management oversight and executive managing directors conduct business operations. This system is inspired by the Anglo–American corporate governance system; in theory it provides a greater level of board independence, and the implementation of this system is mainly aimed at attracting more capital by foreign investors.

As a consequence of the flexible regulatory framework, a range of divergent corporate governance regimes have been developed. However, the traditional statutory auditor system has been slow to change. Implementing outside directors is the most common corporate governance reforms for Japanese companies, but some are still sceptical about the independence of the board because of the varying definitions of outside directors. Table 3.3 shows the attributes of outside directors by the number of companies which have at least one outside director. From the table, it can be observed that in many cases even when directors are classified as being outside directors, they are not necessarily completely independent. It is more common for outside directors to be interlocking board members (57.9% of the total companies with outside directors) or currently working for other companies (47.7%). Moreover, 17.1% of the companies have at least one outside director from their major shareholder. Among companies which have parent companies, it can be observed that the major attributes of outside directors are related to their parent companies, which account for 44.5%, as well as receiving remuneration from parent companies or related companies (31.0%). Similar to the trend when including companies without parent companies, it is common for outside directors to be interlocking or working for other companies.

Table 3.3. Attributes of outside directors

Attributes of Outside Auditors	Total		With Parent Companies	
From Parent Company	69	8.0%	69	44.5%
From Affiliate Company	111	12.9%	11	7.1%
Being a Major Shareholder	147	17.1%	30	19.4%
Being an Interlocking Director	499	57.9%	49	31.6%
Working for Other Companies	409	47.4%	52	33.5%
Close Family Member	21	2.4%	4	2.6%
Receiving Remuneration from Parent Company etc.	51	5.9%	48	31.0%

Source: Corporate Governance Information Service (Tokyo Stock Exchange 2012).

Notes: This table shows the attributes of outside directors by the number of companies which have outside directors among listed companies on the First Section of the Tokyo Stock Exchange in 2012. The figure shows the number of companies which have at least one outside director, which are then categorised into the listed attributes. 'Total' includes companies implementing at least one outside director (n = 862). 'With Parent Companies' includes those companies that are with parent companies (n = 155). Multiple answers were allowed to be applied to multiple categories (Tokyo Stock Exchange 2012).

3.4.1. The determinants of corporate governance characteristics

The analysis in this section will complement the contemporary work by employing the latest cross-sectional samples of Japanese firms, with a focus on analysing relations between corporate governance models and company characteristics, especially with ownership structure. Further, governance characteristics of companies that have received shareholder proposals related to governance issues will be examined, an exploration of which has not been attempted by many studies.

Regarding board characteristics, previous studies have shown that companies are more eager for corporate governance reforms when they have greater levels of foreign ownership (Miyajima 2007) and the company size is larger by sales (Saito 2011). Therefore, it is expected that companies with higher ownership by foreign investors and with larger sales will tend to implement a committees system as well as outside directors. It is also expected that if domestic institutional investors have a similar preference for investing in companies with higher levels of governance reforms, then they should also show similar results in the relations between ownership by domestic institutional investors and governance structure. Miyajima (2007) also suggests that companies are more receptive to corporate governance reforms as the proportion of stable shareholders decreases. Therefore, it is expected that committees systems and outsider auditors are implemented among companies with a lower proportion of stable shareholders.

With respect to the relationship between shareholder proposals and governance reforms, one of the major aims of activist shareholders has been to appoint more outside directors (Gillan and Starks 2007), because monitoring by outside directors is one of the mechanisms used by shareholders to alleviate agency problems (Weisbach 1988). Therefore, it can be expected that if shareholder proposals are aimed at mitigating agency problems by urging them to reform their governance structure by implementing outside directors, those proposals are submitted to companies whose governance structures remain traditional, i.e. without any outside directors. Nevertheless, it is often difficult to attribute the increase of outside directors to a particular shareholder action, and it is even harder to assess whether the change would contribute to maximising investment profits (Cziraki *et al*. 2010).

3.4.2. Data

To obtain samples of companies whose ownership and governance structure differ, the sample of Japanese companies is taken from relatively large companies which are listed on the First Section of the Tokyo Stock Exchange (TSE) and whose information is available on the Corporate Governance Information Service by the TSE as well as Kaisha Shikiho by Toyo Keizai in 2012, the total being 1663 companies. With a focus on corporate governance systems, the samples can be divided into three groups, namely, the committees system, the statutory auditor system with at least one outside director and the statutory auditor system without outside directors. Further, as measures of the board structure, outside director ratio, which is the average percentage of outside directors out of all of the board members, as well as the board size and the total number of board of directors, are employed.

In variable specification, the explanatory variables are employed based on methodologies used in work by Linck *et al.* (2008) and Guest (2008), which study the determinants of characteristics of the board in the US and UK. The measure of the firm size by sales is Log-Sales, which is the logarithm of consolidated sales. For the measure of operating performance, return on assets (ROA) is employed, which is the ratio of net income divided by total assets. As a proxy for firm complexity, firm age, debt dependency rate and overseas sales are used. Log- FirmAge is the logarithm of the years since the company's registration, DebtDependency is the interest-bearing debt divided by total assets, and OverseasMarket is scored by overseas dependency such as consolidated overseas sales ratio. To proxy for potential private benefits by managers, free cash flow is employed (Linck *et al.* 2008; Saito 2011). FCF is the free cash flow scaled by total assets, as applied by Lehn and Poulsen (1989). To proxy for stable ownership, ownership by blockholders is employed. As a measure of ownership, percentage of ownership by the investment trust, the pension trust, and foreign investors are used. A dummy variable is employed if a company has implemented poison pills, which is a tactic for takeover defence issued by the board members, to proxy for control over shares by the board. As a measure of receiving shareholder proposals related to corporate governance issues, a ShareholderProposal dummy is utilised to see if the company has received such shareholder proposals within the past five years.

Table 3.4 presents descriptive statistics for sample firms on firm characteristics, ownership characteristics, board structure and other characteristics. A committees system has been implemented by only 41 companies (2.5%) among all the listed companies on the First Section of the Tokyo Stock Exchange. The rest of the companies have adopted a statutory auditor system. Outside directors are implemented by 812 companies (51%) of the companies with statutory auditor system. It is observed that the companies with a committees system consist of relatively larger companies, and indeed they include the largest companies in Japan such as

Sony, Toshiba and Hitachi. It is also observed that the larger the company (as measured by the total consolidated sales) is, the less traditional the corporate governance system tends to be. In addition, foreign ownership is much greater among companies employing a committees system when compared with companies using the statutory auditor systems. Blockholder shareholder ownership is also larger in committees system companies than in others. This is reflected by the fact that among all of the 41 companies with committees, 10 of them consist of companies from the Hitachi *Keiretsu* group, and more than 50% of the ownership of each of those companies is held by their parent company, Hitachi Ltd. Therefore, to capture the characteristics of companies with a committees system except for Hitachi group companies, governance characteristics are divided into companies with a committees system, companies with a committees system except for Hitachi groups and a statutory auditor system with and without outside directors. Hitachi group has 900 subsidiaries, including 550 of them overseas, and 10 of the largest Hitachi group companies in Japan, including the parent company, have implemented a committees system (Hitachi Ltd. 2012a). The range of corporate governance reforms undertaken by some Hitachi (*Keiretsu*) group of companies is diverse compared with other *Keiretsu* groups. Since 1982, Hitachi Ltd. was also listed on the New York Stock Exchange (NYSE), the standard of which is one of the strictest in the world, to diversify its capital-raising methods, promote the trade of shares in the US and raise its awareness. Nevertheless, in 2012, it announced the voluntary delisting of its shares owing to increased trading in Japanese stock markets as well as the small trading volume of its shares on the NYSE (Hitachi Ltd. 2012b).

Table 3.4. Descriptive statistics

Variable	Total		Committees System		Statutory Auditor System with Outside Directors		Statutory Auditor System without Outside Directors	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Number of Observations	*n= 1,663*		*n= 41*		*n= 812*		*n= 810*	
Panel A – Firm Characteristics								
Assets (JPY Billion)	1,056	99	3,857	554	1,466	131	502	76
Sales (JPY Billion)	388	95	1,180	419	472	118	267	80
ROA (%)	2.42	1.96	2.15	1.62	2.54	2.01	2.32	1.95
FCF	0.03	0.03	0.02	0.03	0.03	0.03	0.03	0.03
OverseasMarket	1.35	0	2.24	1.00	1.38	0	1.31	0
DebtDependency (%)	21.80	18.41	20.78	18.81	22.78	19.45	20.84	17.87
FirmAge	63.00	59.23	63.00	62.15	62.00	57.95	63.00	60.36
Panel B – Ownership								
Investment Trust_Own (%)	3.72	3.00	4.34	4.00	3.84	3.10	3.57	2.90
Penstion Trust_Own (%)	2.28	1.80	3.13	2.90	2.29	1.90	2.22	1.70
Foreign_Own (%)	12.83	9.00	26.10	21.80	13.82	10.40	11.17	7.30
Blockholder_Own (%)	48.09	46.30	49.99	41.60	47.90	46.30	48.18	46.35
Panel C – Board Structure								
BoardSize	8.82	8.00	9.07	9.00	9.29	9.00	8.33	8.00
Proportion of OutsideDirectors (%)	11.49	6.67	50.34	50.00	20.99	18.18	0	0
Panel D – Others								
PoisonPills (Dummy)	0.23	0	0.15	0	0.26	0	0.20	0
ShareholderProposals (Dummy)	0.03	0	0.10	0	0.04	0	0.01	0

Notes: The table shows summary statistics for corporate governance structures. The sample includes companies listed on the First Section of Tokyo Stock Exchange, whose information is available on Corporate Governance Information Service (Tokyo Stock Exchange 2012) and Kaisha Shikiho (Toyo Keizai 2012), giving a total of 1663 companies. Committees System is companies which have a committees system as of 2012. Statutory Auditor System with Outside Directors includes companies which have a statutory auditor system with at least one outside directors as of 2012. Statutory Auditor System without Outside Directors includes companies which do not have any outside directors. Panel A summarises firm characteristics. Sales is consolidated sales. ROA is the ratio of net income divided by total assets. FCF is free cash flow scaled by total assets (followed Lehn and Poulsen 1989; Linck, Netter, and Yang 2008). OverseasMarket is a score of overseas dependency such as consolidated overseas sales ratio; 0–10%:0, 11–20%:1, 21–30%:2, 31–40%:3, 41–50%:4, 51–60%:5, 61–70%:6, 71–80%:7, 81–90%:9, 91–100%:10. DebtDependency is the interest-bearing debt divided by total assets. FirmAge is years since the registration of the company. Panel B reports ownership characteristics. Investment Trust_Own is percentage of ownership by investment trust. Pension Trust_Own is percentage of ownership by pension trust. Foreign_Own is percentage of ownership by foreign investors. Blockholder_Own is the percentage of shares by top ten largest shareholders and by board members, as well as own shares. Panel C summarises board structure. Board size is the total number of board of directors. The proportion of Outside Directors is average percentage of outside director out of all the board members. Panel D reports other characteristics. PoisonPills is a dummy variable that equals 1 if the company has implemented poison pills, and otherwise equals 0. ShareholderProposals is a dummy variable that equals 1 if the company has received shareholder proposals related to corporate governance within the past five years, and otherwise equals 0.

3.4.3. Determinants of board characteristics

In the analysis of determinants of board characteristics, logit models and OLS regressions are employed in which the committees system, the committees system excluding Hitachi subsidiaries, outside directors and poison pills are estimated via logistic regressions, while the outside director ratio and board size are estimated via OLS regressions. The results of the regression are shown in Table 3.5.

In the committees system regression, it is shown that the committees system has a positive relationship with sales, overseas market, pension trust ownership, foreign ownership, blockholder ownership and shareholder proposals dummies, all of which are statistically significant. Comparing this with the results of companies with a committees system excluding Hitachi subsidiaries, it shows a similar pattern of positive or negative relationship, and the differences are in statistical significance in sales, overseas market and blockholder ownership. As expected, companies with larger foreign ownership tend to implement a committees system. Further, as seen in the positive relationship with sales, many of the companies that implemented a committees system are among the largest listed companies. As a result, pension trust ownership has a positive relationship with the implementation of a committees system, because in general, Japanese pension trusts tend to invest in passive management portfolios, thus the largest companies with a committees system tend to be chosen for an investment.

Further, in the regression of outside directors and proportion of outside directors, there is evidence that sales and foreign ownership are positively related to companies with outside directors and a higher proportion of outside directors, as expected. The proportion of outside directors has a negative relation with the firm age and board size. It indicates that the proportion of outside directors tends to be low among old companies. In the regression of board size, it is observed that board size is positively related to sales, firm age, poison pills and shareholder proposals dummies, and negatively related to overseas market. This implies that among older larger companies with smaller overseas sales, the size of the board is relatively big, and they tend to exert their control over shares by implementing poison pills. Also, shareholder proposals tend to be submitted to large companies, and the board size of those companies tends to be large. Further, from the regression of poison pills, it can also be observed that companies with smaller ownership by stable shareholders tend to implement poison pills to take control over shares.

Regarding the relationship between business performance and governance structure, it is shown that ROA has a positive relationship with implementation of committees system and outside directors; however, none of them is statistically significant. This implies that companies with good business performance do not necessarily reform their corporate governance system. Further, none of the relationships with FCF is statistically significant. Also, regarding ownership by stable shareholders, even though it is expected that a higher percentage of stable shareholders has a negative relationship with governance reforms, the result does not provide a statistically significant relationship, except for companies with a committees system and poison pills. The evidence indicates that ownership by stable shareholders does not necessarily impact corporate governance characteristics. The positive relationship between the committees system and blockholder ownership is because of the implementation of the committees system by Hitachi subsidiaries with a large proportion of stable shareholders.

Table 3.5. Determinants of corporate governance characteristics

	Committees System	Committees excluding Hitachi Subsidaries	Outside Director	Proportion of Outisde Directors	Board Size	Poison Pills
LogSales	.828 **	.477	.473 ***	1.769 *	2.397 ***	-.182
ROA	.002	.080	.000	-.007	.040	.032
FCF	-5.146	-3.863	-.467	-6.073	-1.314	1.012
OverseasMarket	.143 *	.113	.013	.139	-.092 **	-.011
DebtDependency	-.008	-.012	.007 **	.054 **	-.006	-.008
LogFirmAge	1.679	1.526	-.269	-4.183 **	1.472 ***	1.573 ***
Investment Trust_Own	-.034	-.107	.022	.041	-.032	.030
Penstion Trust_Own	.315 **	.403 **	-.088 **	-.268	-.104	.079
Foreign_Own	.048 ***	.071 ***	.016 **	.253 ***	.004	-.012
Blockholder_Own	.069 ***	.029	.006	.052	-.001	-.052 ***
PoisonPills dummies	-.002	.108	.249 *	.488	.551 **	-
ShareholderProposals dummies	1.652 *	1.652 *	1.221 ***	4.385 *	1.108 *	.009
BoardSize	-	-	-	-.291 **	-	.057 **
OutsideDirectorRatio	-	-	-	-	-.016 **	.004
Adjusted R-squares/ Pseudo R-squares	.239	.251	.069	.065	.193	.172

*Notes: This table shows the result of regressions of corporate governance characteristics. Similar to Linck et al.(2008) and Guest (2008), OLS regressions and logit regressions are used. The committees system, the committees system excluding Hitachi subsidiaries, outside directors and poison pills are estimated via logistic regressions. Outside director ratio and board size are estimated via OLS regressions. Significance at the 1, 5 and 10% levels are indicated with ***, ** and *, respectively. LogSales is the logarithm of consolidated sales, and LogFirmAge is the logarithm of the years since the company's registration.*

As expected, foreign ownership has a positive relationship with governance reforms, both with the implementation of a committees system and outside directors, as well as with the proportion of outside directors. On the other hand, it is observed that the relationship between governance reforms and ownership by domestic institutional investors, both investment trusts ownership and pension trusts ownership, are not always positive and not statistically significant. It indicates that the preference of ownership of domestic institutional investors by considering governance characteristics is not always similar to that of foreign investors. No pattern is observed between ownership by domestic institutional investors and governance structure; by contrast, the proportion of foreign investors has a positive relationship with governance reforms.

Finally, shareholder proposals dummies show a positive relationship with corporate governance characteristics, including the implementation of a committees system and outside directors, as well as a higher outside director ratio, all of which are statistically significant. Because of the cross-sectional data applied in the regression, the result does not capture the time-series impact of receiving shareholder proposals on governance structural change, even though the success rate of shareholder proposals is almost zero. However, the result implies that shareholder proposals in the past five years tend not necessarily to be submitted to companies whose governance structures remain traditional. Considering the hypothesis, which expects that shareholder proposals aimed at corporate governance structural reforms would be submitted to companies whose governance structure remains traditional, the positive relationship between the submission of proposals and companies which implemented governance reforms implies that the aim of submission of shareholder proposals is not necessarily to reform governance structure.

In summary, it seems that Japanese corporate governance systems have changed in a number of ways, as companies undertake different levels of reform depending upon their complex institutional environment and ownership structure. Foreign investors seem to play an important role in the changes which are occurring; however, the persistence of traditional Japanese corporate governance structures has been seen as well: outside directors are not yet completely independent, and the committees system has not become widespread. Half of the large listed Japanese companies with traditional corporate governance systems tend to be old firms with lower foreign ownership, and they keep the most traditional corporate governance system without any outside directors on the board. From the regression analysis, it is found that ownership by domestic institutional investors does not always relate to corporate governance characteristics; on the contrary, foreign investors' ownership has a positive relationship with companies with outside directors. It is also found that shareholder proposals on governance issues tend not always to be submitted to companies with a traditional board structure. That is, the submission of shareholder proposals does not so often aim to reform the board. In other words, mitigating agency problems by corporate governance reforms such as appointing outside directors is not always the major motivating force of shareholder activists in Japan. It is related to the absence of institutional investors in the Japanese market who exercise voice not only for investment profits but also for broader ESG issues.

3.5. Conclusion

This chapter has analysed the influence of ownership structural change on shareholder activism and corporate governance structural reforms. By focusing on analysing shareholder activism through shareholder proposals and proxy voting in Japan, as well as the trends and determinants of board characteristics of Japanese firms, this chapter has contributed the following findings to research on corporate governance and shareholder activism.

First, in this chapter is argued that the presence of global and local institutional investors is very weak in shareholder activism in Japan through shareholder proposals, and as a consequence, only narrow agendas are set by a limited number of shareholders. The agendas on corporate governance tend to be only in the self-interest of individual investors or activist funds. The proposals on environmental and social issues are mostly around anti-nuclear power issues by some environmental civic groups, which can be attributed to the Japan-specific historical background. Unlike in the US, social investors cannot yet be observed in Japan, and broader proposals on ESG issues have not been set through shareholder proposals. On the other hand, proxy voting by institutional investors has started to be actively exercised on governance issues, and it is expected that proxy voting by foreign institutional investors will become stricter on corporate governance issues, in particular those regarding independence of the board.

Second, it is suggested that firms have undertaken a higher degree of change in corporate governance, such as by implementing the committees system, inspired by the Anglo–American corporate governance system, particularly among larger listed firms with a higher percentage of foreign ownership. However, despite such changes, governance reforms have been often undertaken in such a way that much of the traditional Japanese insider-oriented style has been maintained, and many of the outside directors are not always independent, while appointment of outside directors is the most requested corporate governance issue by foreign investors (Tokyo Stock Exchange 2011b).

Finally, this chapter shows that shareholder proposals are not necessarily submitted in companies without any governance reforms, and mitigating agency problems by board structural change is not the main force motivating activist shareholders in Japan. While a vast number of Japanese listed companies keep their traditional corporate governance style, especially among old firms, without the strong presence of local institutional investors in active engagement in Japan, issues of corporate governance of the largest Japanese companies will continue to be an issue because of the still not insignificant global economic size of the largest Japanese companies.

This chapter has focused on shareholder activism by public means, such as the submission of shareholder proposal and exercising proxy voting by institutional investors. One limitation of this chapter is that the potential impact of other means of engagement, such as private engagement activities conducted behind the scenes has not been included in the scope. Considering the recent Japanese corporate governance reforms among large companies, despite the trend of institutional investors not submitting shareholder proposals, it is expected that other means of engagement by institutional investors play a role in impacting corporate governance reforms in Japan. Therefore, further research is needed to explore the significance of other means of engagement and their impact on corporate governance reforms.

To conclude, the findings of this chapter suggest the importance of empirical interpretation of actors' strategies towards institutions in different environments, particularly when analysing corporate governance reforms and shareholder activism. Shareholders and shareholder activism cannot be explained in a homogeneous manner across societies over time, because they are shaped differently in different ownership structures and embedded in relation with other institutions. This chapter has studied Japan's corporate governance reforms and shareholder activism, and argued that the local institutional investors play a weak role in shareholder activism by public means. The diversity in the transformation of Japanese corporate governance can be argued in the context of supporting uneven capitalist development, where different degrees of engagement lead to diverse responses in corporate governance reforms. Under the continuing strong influence of traditional paradigms within existing institutions, Japan seems to follow its own path in its corporate governance change, being transformed in a number of ways. While companies in Japan have not always been required to undertake the voice of shareholders, it is likely that there will continue to be an external pressure by foreign investors for Japanese companies to take further into consideration their standard and value, and the legitimacy of the Japanese corporate governance system will continue to be challenged.

CHAPTER 4 | Institutional shareholder engagement with Japanese firms

4.1. Introduction

The growing presence of global institutional investors has brought with it an increase in instances of active ownership. In particular, by engaging with firms on environmental, social, and governance (ESG) issues, many institutional investors are increasingly committed to responsible investment (Clark and Hebb 2004; Dimson *et al*. 2015). Active shareholders have traditionally exercised their voice through public means such as shareholder proposals (Gillan and Starks 2000; Clark *et al*. 2008; Saito 2012: Chapter 3 of this thesis) or class-action lawsuits (Bauer and Braun 2012). However, there are also other forms of shareholder engagement which are conducted privately with firms behind the scenes and this sort of engagement features mainly Anglo-American and European institutional investors. The topic of private engagement is still a relatively new area of research in the shareholder engagement literature due to a scarcity of data: private engagement activities are normally conducted confidentially either bilaterally between a large institutional investor and an investee firm (Bauer *et al.* 2013), or collectively with other investors (Dimson *et al*. 2015). In particular, how large global institutional investors engage privately on ESG issues with geographically remote firms is an under-investigated topic. This chapter begins to fill this gap in the literature by studying the private shareholder engagement activities of a large UK-based institutional investor with Japanese investee firms.

This chapter explores cross-border shareholder engagement strategies with firms in Japan, by using a data set on engagement on ESG issues provided by a large UK asset manager (hereafter referred to as 'the institutional investor'), and analyses the engagement data with Japanese firms from 2006 to 2012. The chapter aims to address the following questions: what kind of engagement strategies do global institutional investors use when engaging with remote firms like those based in Japan? How do Japanese target firms respond to engagement activities?

This chapter contributes to the literature on shareholder engagement. Dimson *et al*. (2015) and Bauer *et al.* (2013) use information on the engagement activities from the same institutional investor as is used in this chapter. Whereas Dimson *et al*. (2015) investigate the engagements in a US context; Bauer *et al.* (2013) investigate a set of engagements with a global sample of firms, including Japanese firms. In that regard, this chapter is one of the first attempts to focus solely on engagement activities in a non-European and non-Anglo-American context. The contents of each engagement activity are also followed over several years.

The findings of this chapter can be summarised as follows. First, the main target firms of engagement activities are large firms with global operations, and corporate governance issues are the highest priority topic in the engagement with Japanese firms. Second, the target firms of engagement activities of the institutional investor in geographically remote spaces tend to be large with global brand names. This is theoretically underpinned by the home bias effect due to transaction, coordination, and information costs, as well as the familiarity of investee firms. Third, face-to-face contact is an important means of engagement, especially in a country where target firms are embedded in a different institutional environment with local investors that are not active in ESG issues. Such local firms are not familiar with responding to engagement by global investors, and the local firms' organisational structure and language also matters to the means of engagement.

The Japanese market provides a relevant research environment for analysing this topic for two reasons. First is the size of the market: Japan is an important country for engagement activities in Asia, and it is the largest financial market outside of the Western world. Second, Japan is a prominent case of a coordinated market economy (CME) which is shifting towards a liberal market economy (LME) (Hall and Soskice 2001; Sako 2007). Studying the engagement between global investors and Japanese firms contributes to the comparative capitalism literature by analysing the role of global investors in the transition. The Japanese financial market is exposed to foreign investors, with approximately 27% in the Tokyo Stock Exchange (TSE) (2014a). Historically, domestic institutional investors in Japan have not been active shareholders, and private engagement is relatively new for Japanese firms. The early stage of private engagement in Japan is demonstrated by a foreign pension fund, the California Public Employees' Retirement System (CalPERS), which had a strong presence as a foreign shareholder in the 1990s. CalPERS's experience shows that informal interactions with Japanese firms can achieve better results than public engagement, however, engagements by foreign investors could be a 'culturally sensitive' issue (Jacoby 2007), where there is a persistence in maintaining their unique governance systems. Recently, the Japanese government introduced the Japanese Stewardship Code to address the importance of dialogue between firms and investors in pursuance of international competitiveness of the private sector in Japan in 2014. Yet, despite the growing importance of shareholder engagement in Japan, the existing literature neglects private engagements with Japanese firms by foreign institutional investors except for Bauer *et al.* (2013). A significant amount of research has been conducted on Japanese corporate governance (see for example Aoki *et al.* 2007; Jackson 2009), whilst the majority of literature on shareholder engagement with Japanese firms remains focused on events involving hostile funds (Hamao *et al*. 2011) or public engagement through proxy voting and shareholder proposals (Saito 2012: Chapter 3 of this thesis).

This chapter is subject to some limitations. The analysis of this chapter is based on the data given by a specific institutional investor. Whilst it gives the deeper scope of analysis by following the contents and means of engagement, and supporting the findings by interviews, other investors might have different engagement strategies. The difficulty of gaining data comes from the nature of the topic of private engagement activities, which is conducted confidentially behind the scenes, and this chapter is one of the first attempts to challenge the data collection of this topic. Further, the analysis of this chapter is based solely on engagements by the institutional investor with investee firms from Japan, which implies that the findings for European and Anglo-American institutional investors are limited to the Japanese market. Nonetheless, this chapter tries to bring broader theoretical contributions based on the case of Japan, underpinned by literature.

This chapter is organised as follows. Section 4.2 presents a literature review and develops the research hypotheses. Section 4.3 provides some background of the Japanese institutional environment. Section 4.4 describes the methodology and data used in the analyses. Section 4.5 presents the results of the analyses of the engagement data. Section 4.6 then presents the results of the interviews conducted. Finally, Section 4.7 discusses the findings and concludes the chapter.

4.2. Literature review and hypotheses development

Hirschman (1970) provides a framework for understanding the nature of market power held by customers, which can usefully be extended to shareholders. According to Hirschman, customers can express their dissatisfaction in one of two ways: either through exit or the exercise of ‘voice’. Exercising voice is more costly than exit, and depends on the benefits exceeding the costs. The choice of target firms is critical for the successful exercise of voice. According to some findings in the behavioural finance literature, investors tend to prefer companies with familiar characteristics (Huberman 2001) and locally headquartered firms (Coval and Moskowitz 1999; Bodnaruk 2009), because of informational asymmetries between local and non-local investors (Kang and Stulz 1997). In general, a home bias effect is seen in that foreign ownership is strongly biased towards firms with a greater international presence or a greater deal of export business (Kang and Stulz 1997), as well as towards large firms with high liquidity (Kang and Stulz 1997; Grullon *et al*. 2004; Ferreira and Matos 2008).

Distance creates difficulties in interactions between actors across space due to differences in economic practices, institutions, and languages (Grinblatt and Keloharju 2001; Portes and Rey 2005). Similarly, the differences in social norms and culture disturb frequent economic interactions (North 1990; Williamson 2000; Rauch 2001) between actors across space, because of the high-transaction costs in international equity transactions (French and Poterba 1991; Lewis 1999). In transaction cost theory, one of the characteristics of transaction costs is the concept of transaction-specific investments (Williamson 1979). As information processed by foreign investors is different in language, corporate environment, and financial reporting standards (Beneish and Yohn 2008), transactions with foreign firms are often more complicated and require greater coordination costs than do those with domestic firms, such as transaction-specific human resources (Williamson 1979).

It is expected that home bias effect will be observed in the characteristics of target firms. It is expected that engagement activities with firms embedded in a geographically remote country with unique socioeconomic and political institutions (Granovetter 1985) such as in Japan, may require highly specific transactions and coordination. The difficulty of engagement in Japan as a market historically inhospitable to foreign involvement was experienced by CalPERS during the 1990s, when engagement activities consisted largely of different types of coordination than their engagements in the US (Jacoby 2007). Accordingly, the first hypothesis can be stated as follows:

> *H1.* The institutional investor's engagement activities with locally embedded firms in remote places (such as Japan) are biased to large firms with global brand names.

As the institutional investor is conducting private shareholder engagement activities on behalf of several asset owners, this relationship sometimes gives rise to agency conflicts. Asset owners (principals) and fund managers (agents) have different horizons, information, and incentives (Ang 2012). Asset owners are often reluctant to engage more actively due to high-upfront costs, whilst the benefits are gained only over the long-term (Williams *et al.* 2011). Hence, engagement activities are often outsourced to asset managers, such as to the institutional investor investigated in this chapter. Such asset managers can also be expected to allocate their resources in a cost-efficient manner with respect to the requisite human capital for strategic asset allocation and appropriate information infrastructure (Clark and Monk 2013). Indeed, engaging with firms and maintaining dialogue incurs costs, and these costs do not bring automatic financial returns where the proportionality of costs and results are compared (Dutch Pension Funds 2007).

This can be explained as one of the typical agency issues of information asymmetry between principals and agents (Jensen and Meckling 1976). Even though providing all available information would contribute to mitigating agency issues, fund managers need to prioritise their engagement activities partly by taking into consideration their own incentives with limited resources. Therefore, it is expected that engagement activities are conducted strategically in a cost-efficient manner. The institutional investor is expected to choose the target firms of engagement from a group of firms which are sensitive to ESG issues, i.e., they are in industries with intensive ESG issues, or they are keen to improve ESG policies proactively or because of ESG-related scandals.

Further, it is also expected that the institutional investor engages with firms with which it has already had contact before, because this helps to develop continuous dialogue with lower costs by using existing networks. A model of ‘pipelines’ also provides a relevant concept when analysing knowledge intensive industries like finance. ‘Pipelines’ are trans-local linkages through which knowledge flows and interaction occurs (Bathelt and Glückler 2011). They are not created automatically and need to be planned beforehand by targeting certain goals. Therefore, particular investments are required to establish pipelines (Bathelt *et al.* 2004). Launching trans-local pipelines also means establishing new trust, which again involves a substantial amount of time and costs (Lorenz 1999). Hence, the second set of hypotheses is as follows:

H2a. The institutional investor focuses strategically on engaging with ESG-sensitive firms.

H2b. The institutional investor engages with target firms in a continuous process.

Given the importance of pipelines, face-to-face contact enhances trust by transmitting complex and context-dependent messages with certain costs by building a relationship bond, which is not possible by other means of communication such as e-mail (Storper and Venables 2004). Despite all the costs of coordination, face-to-face contact is still vital, particularly where information is rapidly changing and imperfect, such as in the financial industry. Face-to-face contact can provide a means of deep and rapid feedback and can mitigate free-rider problems, which are not possible by other means of communication (Storper and Venables 2004). The importance of face-to-face contact can be applied to engagement activities by foreign investors when they engage with remote firms. Appealing for more urgency in the implementation of improved ESG policies requires consideration of context-dependent responses in complex environments. Establishing trust by face-to-face contact contributes to engagement activities in culturally sensitive contexts as well as developing dialogues with immediate feedback.

Moreover, as has been stipulated in a corporate finance context by Grossman and Hart (1980), it can be argued that the effective execution of engagement activities also entails free-rider problems. Other investors will equally benefit from the engagement activities of a particular institutional investor, and there is no additional return to the investor that incurred the costs of engagement (Clearfield 2005). In the early 2000s, one of the reasons why CalPERS decided to adopt a less aggressive engagement style with Japanese firms was due to its reluctance to bear free-rider costs as well as the high cost of specific research and engagement activities such as meetings (Jacoby 2007). In this context, collaborative engagements with other institutional investors started to be conducted by emphasising the legitimacy and urgency of their engagement, supported by international initiatives such as the United Nations Principles for Responsible Investment (UNPRI) (Gond and Piani 2012). Therefore, the third set of hypotheses can be stated as follows:

> *H3a.* As a means of engagement, the institutional investor has a propensity to engage with target firms via face-to-face meetings for effective engagement.
>
> *H3b.* As a mean of engagement, the institutional investor coordinates collaborative engagement with other investors to avoid free-rider problems.

These three hypotheses are tested in Sections 4.5 and 4.6 to examine the engagement activities of the institutional investor in Japan.

4.3. Japanese firms and institutional environment

As discussed at length in the Varieties of Capitalism literature (Hall and Soskice 2001), Japan is a prominent case of a CME which is shifting towards an LME (Sako 2007). The greater organisational diversity among local firms can be observed in the shift of an economy from one system to another (Streeck and Thelen 2005; Lane *et al.* 2007). In conditions of local institutional complementarity (Aoki and Dore 1994; Aoki 2001), some firms change under the pressure exerted by global forces by breaking with their past and path dependence, while others have the persistence to maintain their traditional corporate governance systems in line with the institutional environment in which they are embedded. Global finance plays a role in converting local corporate governance towards global standards with Anglo-American norms.

Historically, Japanese firms had unique corporate governance systems supported by stable shareholders and strong interlinked relationships with the country's main banks among a group of companies called *Keiretsu* (Aoki 1988, 1990). *Keiretsu*, such as Sumitomo, Mitsui, and Mitsubishi retain close ties in their operations, finance, and human resources, which are complex across industries (Douthett and Jung 2001; McGuire and Dow 2009). As such, traditional Japanese firms used to have high levels of ownership by 'insider', i.e. high levels of cross-shareholdings and low levels of foreign ownership. Hence, shareholder rights are not often exercised in an active or hostile manner because ownership is based on long-term business relationships (Miyajima and Nitta 2011). Even though this pattern of ownership and governance style continued until the 1990s, recent Japanese corporate governance systems have become more diverse (Aoki *et al*. 2007). Ownership by foreign investors increased during the 1990s, when Anglo-American institutional investors such as CalPERS started to enlarge their investments abroad, in particular in the UK and Japan (Shirota 2002; Miyajima and Hoda 2012), whereas ownership by Japanese banks decreased drastically.

To illustrate some of these corporate governance features, Table 4.1 shows the evolution of the proportion of outside directors and the trend in ownership by foreign investors and domestic banks in Japan from 1994 to 2013. Foreign ownership increased to 27% in 2013, a dramatic increase from 4% in 1990. The number of firms appointing outside directors has been increasing over time: the number of firms appointing outside directors in 2013 was 182, which is much larger than in other years. This is mainly because of the new proxy voting policy by a proxy advisory group, the Institutional Shareholder Services (ISS), to oppose firms' top executives unless the board includes at least one outside director (ISS 2012). To this end, some of the largest and most well-known Japanese firms, such as Toyota, Sumitomo Corporation, and

Kyocera, finally nominated outside directors in 2013.

Table 4.1. Long-term trends of ownership structure and proportion of foreign directors

	Outside Directors				Ownership	
	# of firms with outside directors	# of total listed firms	Proportion	Increased # of firms with outside directors	Foreign ownership	Domestic banks
1994	-	-	-	-	7.4%	15.9%
1995	-	-	-	-	9.4%	15.4%
1996	-	-	-	-	9.8%	15.1%
1997	-	-	-	-	9.8%	14.6%
1998	-	-	-	-	10.0%	14.0%
1999	-	-	-	-	12.4%	12.8%
2000	-	-	-	-	13.2%	11.5%
2001	-	-	-	-	13.7%	9.4%
2002	-	-	-	-	16.5%	7.0%
2003	-	-	-	-	19.7%	5.7%
2004	487	1,610	30.2%	-	15.0%	2.7%
2005	582	1,664	35.0%	95	20.5%	2.1%
2006	682	1,744	39.1%	100	24.6%	3.5%
2007	759	1,726	44.0%	77	24.7%	3.5%
2008	775	1,723	45.0%	16	21.5%	3.6%
2009	787	1,698	46.3%	12	22.5%	3.1%
2010	806	1,672	48.2%	19	22.2%	2.8%
2011	857	1,668	51.4%	51	22.8%	2.7%
2012	908	1,676	54.2%	51	24.3%	2.9%
2013	1,090	1,752	62.2%	182	26.9%	2.8%

Source: Japan Association of Corporate Directors (2014); Tokyo Stock Exchange (2014a).

Notes: The data of outside directors by the Japan Association of Corporate Directors has been available only since 2004. The data in 2013 is the total of the Tokyo Stock Exchange and the Osaka Stock Exchange because of their integration in July 2013.

As such, the growth in foreign ownership started to impact Japanese corporate governance reform and the overall level of shareholder activism. For foreign investors, corporate governance is a fundamental issue in the Japanese market. Appointing outside directors is the most frequent request by foreign investors (Tokyo Stock Exchange 2011b), and foreign investors actively exercise proxy voting with strict standards for the independence of corporate boards (ISS 2012). Under the current regulatory framework, adopting an independent board of directors is not mandatory[5]; hence, the level of corporate governance reform depends on each firm's ownership structure and complex institutional environment (Jackson and Miyajima 2007).

Regarding shareholder proposals, Saito (2012: Chapter 3 of this thesis) notes that most shareholder proposals are submitted by individuals or foreign activist funds. However, the success rate is almost zero. Social investors such as those found in the US are not yet observed in Japan, and proposals on social and environmental issues are mostly on anti-nuclear power issues by some civic groups, some of which were submitted even before the Fukushima nuclear power plant disaster in 2011. Therefore, the number of institutional shareholders who actively engage with firms through shareholder proposals in Japan is limited. The peak in the level of proposals by foreign investors occurred in 2007, when activist hedge funds submitted 11 proposals to 6 companies (SIF Japan 2011); however, the global financial crisis and repeated hostile defeats in shareholder proposals made foreign investors less active in submitting shareholder proposals.

As such, Japanese local institutional investors are not active in exercising their voice in ESG issues through public means, whilst Japan has the world's largest public pension fund, the Government Pension Investment Fund (GPIF). The GPIF has not been active in shareholder engagement and its governance was criticised by the OECD (Stewart and Yermo 2010). It signed up for the Japanese Stewardship Code, which was implemented in 2014, along with more than 180 institutional investors in Japan (Financial Services Agency 2015b). Nonetheless,

[5] Nonetheless, the latest Japanese Corporate Governance Code in 2015 started to require listed firms to encourage the pursuance of independence of one third of the board.

it is still unknown how active the GPIF and other domestic institutional investors will be in private engagement activities. Hence, a lot of Japanese firms are not familiar with ESG engagement through both private and public means, which is explained by the changing institutional environment in Japan, without active shareholders to engage with investee firms on ESG issues.

4.4. Methodology and data

This chapter employs a multi-method approach to analyse engagement activities by the institutional investor. Both qualitative and quantitative research methods help to obtain a more comprehensive and robust understanding (Mingers 2001) and to enrich the understanding of specific issues by using qualitative methods as support for quantitative methods (Plewis and Mason 2005). Hence, in addition to quantitatively analysing unique engagement data sets given by the institutional investor as explained below, in-depth semi-structured interviews were also conducted as a supplement for understanding the results of the quantitative analysis.

For the quantitative analysis, a unique data set of the institutional investor's engagement activities has been obtained. The institutional investor is UK-based and has a long history of active engagement. It is considered one of the oldest and largest specialists in responsible investment, and it engages with firms on ESG issues on behalf of its client asset owners. On behalf of 25 institutional investors, the institutional investor had approximately USD 100 billion in assets under management at the end of 2012 (Bauer *et al.* 2013). The data set comprises the full record of the communications, including details on the personnel involved from both the institutional investor and the counterpart firms; the different methods of contact, including e-mails, letters, phone calls, and meetings; and the contents of engagement. Further, the engagement data were also obtained from internal documents such as meeting notes, reports to clients and investors, and web sites. There are two studies so far which used a similar data set from the same institutional investor as this chapter: Bauer *et al.* (2013) study the geography of shareholder engagement by analysing the engagement record with global firms, whilst Dimson *et al.* (2015) study engagement with public US firms. The institutional investor manages its clients' assets with a major commitment to ESG investment by providing engagement activities with investee firms all over the world and promoting sustainable business practice on ESG issues.

The sample firms of the data consist of engagement activities with all the Japanese firms that have been labelled as a 'priority' firm at least in one year over the sample period. In total, this makes 26 firms from 2006 to 2012. Priority firms can be considered as a set of firms for which immediate ESG engagement activities are required. The institutional investor has set up a yearly priority list of firms for engagement since 2006. In doing so, the institutional investor takes into consideration ESG issues of the highest importance to both the institutional investor and its clients. In general, priority firms are chosen from those in the institutional investor's own investment portfolio and in collaboration and in-depth discussion with its clients. This chapter focuses on studying those firms that are classified as the highest importance for conducting engagement activities. The list of priority firms is modified every year; therefore, some firms can remain in the list for some years, others can drop out, and new firms can be included. Further, the content and outcomes of all engagement activities are reported to the clients quarterly and annually; this is the same information that is used in this chapter. Hence, it is assumed that the engagement data on the priority list of firms is trustworthy, as the priority firms are similarly treated in Dimson *et al*. (2015) and Bauer *et al.* (2013).

The full record of engagement information of priority firms from 2006 to 2012 has been coded to create a set of panel data. The institutional investor raises specific ESG issues in every engagement activity, and they are classified into corporate governance, social, and environmental areas with sub-categories. The full detail of ESG areas and their sub-categories are taken from Bauer *et al*. (2013) and are defined in Annex 4.A. The specific topics raised during the engagement activity with target firms are recorded as 'objectives'. The objectives are raised upon the institutional investor's request for a change or raising awareness of the ESG practices of target firms; therefore, several objectives are normally raised within one contact with a target firm. Objectives are subcategorised into the following ESG groups: corporate governance, sustainability management and reporting, business ethics, human rights, labour standards, public health, environmental management, ecosystem services, and climate change. On the other hand, the institutional investor also reports the success of engagement activities. The successful outcomes of engagement are recorded as 'milestones', and they can directly correspond to the topics of the objectives raised before[6]. Over the period between 2006 and 2012, 530 objectives, 45 milestones, and 169 contacts are identified in the data set.

Firm-level data are retrieved from a CD-ROM of Kaisha Shikiho (Toyo Keizai 2013), which is the best-known data source on Japanese companies, as well as each firm's annual security report. By following the literature, the characteristics of target firms which have been found to be related to corporate ESG issues, such as firm size, financial performance, ownership structure,

[6] Milestones are recorded when the institutional investor was able to achieve an improvement in a particular ESG area that the institutional investor was engaging on with an investee firm.

and board structure (Bauer *et al*. 2013; Dimson *et al.* 2015) are focused on in the analysis. Firm size is measured by the natural logarithm of the firm's total assets (logtotalasset). For financial performance, a target firm's sales growth (salesgrowth) is controlled to examine the impact of past performance on the engagement strategies with Japanese firms, as its significance is seen in shareholder proposals and engagement activities with global firms (Bauer *et al.* 2011, 2013). A variable to control for the target firm's leverage is also constructed, which is in turn calculated by total debt to total assets (leverage), and Tobin's Q (tobinsq), which is calculated by dividing the sum of total assets and market value minus book value by total assets by following Ferreira and Matos (2008) and Bauer *et al.* (2013). The measures for ownership structure, foreign ownership (foreign_ownership) and proportion of outside directors (proport_outside_ directors), examine the characteristics of ownership of target firms. A variable of target firms' ESG-related big scandals is also created. The scandals of each target firm is identified on the database Factiva, by searching ESG-related scandals of target firms both in English and Japanese media (scandaldummy). The variable is created by investigating the selected media articles' headlines on the basis of a keyword index of target firms if they are related to major ESG scandals.

4.5. Analysis of engagement data

This section analyses the engagement data with Japanese firms by the institutional investor, and tests the hypotheses which are developed in Section 4.2.

4.5.1 Characteristics of target firms

To begin with, the characteristics of target firms in Japan are examined. Table 4.2 presents descriptive statistics of target firms. The mean of total sales of target companies from 2006 to 2012 is JPY 5,697 billion, which is approximately 10 times as large as the average sales of all the listed companies in the first section of the TSE (see Annex 4.B). Further, the mean stake owned by foreign investors (foreign_ownership) is 28%, which is more than twice as much as the average stake in all of the listed companies, which is 13%. Whether target firms are big global brand names has also been examined, by creating a dummy variable (brand_dummy), which equals one if the company's brand ranked within the top 500 global brand by a ranking agency, the Brand Finance, each year from 2006 to 2012, and zero otherwise. The table shows that 44.9% of observations are ranked within the top 500 global brands.

Table 4.2. Descriptive statistics of target firms

	Obs.	Mean	Median	Min	Max	St. Dev.
Total sales	169	56,967	33,947	1,710	262,892	57,295
Total assets	169	59,431	39,838	1,406	325,748	63,188
Total debt	169	40,772	22,823	618	201,104	43,268
Book value	169	17,393	12,389	448	118,695	21,188
Market value	168	26,688	17,183	1,356	272,555	35,468
Number of board members	167	13.790	13.000	6.000	30.000	4.877
Number of outside directors	167	2.275	2.000	0.000	13.000	2.552
number_objectives	175	3.029	1.000	0.000	25.000	4.485
number_milestones	168	0.268	0.000	0.000	4.000	0.612
leverage	169	0.665	0.700	0.218	0.950	0.163
tobinsq	168	1.229	1.117	0.904	2.690	0.318
salesgrowth	167	0.015	0.031	-0.671	0.460	0.137
proport_outside_directors	167	0.171	0.154	0.000	0.867	0.185
foreign_ownership	167	0.280	0.270	0.100	0.528	0.090
brand_dummy	156	0.449	0.000	0.000	1.000	0.497
Scandaldummy	182	0.203	0.000	0.000	1.000	0.402
scandal_G	182	0.110	0.000	0.000	1.000	0.313
scandal_S	182	0.088	0.000	0.000	1.000	0.283
scandal_E	182	0.038	0.000	0.000	1.000	0.192

Notes: JPY100 million for total sales, total assets, total debt, book value, market value.

Table 4.3 displays a summary of the number of ESG objectives by industry and by topic. Out of the three engagement categories, it can be observed that a much higher proportion of objectives are raised in corporate governance issues than other categories. It accounts for 44.9% of total objectives raised, followed by social issues and environmental issues, which is 32.1% and 23.0% respectively. These results are consistent with the findings from Bauer *et al.* (2013). Regarding the industry of the target firms, trading companies and distributors receive more objectives than others, at 22.3%, whilst 54.2% of them are in governance issues. As major trading companies in Japan belong to the *Keiretsu* groups, this implies that their governance systems remained traditional, and that is why they receive such a large number of objectives on governance issues. Electronics companies receive the second largest number of objectives by industry, followed by automobile companies, and they receive the highest proportion of objectives in social issues. It is possible that these relate to labour standards issues in factories along global supply chains, for example in Southeast Asia. Similarly, textiles and apparel industries also receive many objectives in social issues, such as labour standards issues in factories, for example in Bangladesh. The electric utilities industry has a high number of objectives in governance, which can be associated with the governance issues of Tokyo Electric Power Company (TEPCO) following the 2011 Fukushima crisis. Firms from the tobacco industry receive many objectives in health issues, which are associated with social issues.

These findings are consistent with hypothesis H1, that major target firms in Japan are limited to the largest firms with high visibility in global operations and big brand names, which have a higher proportion of foreign ownership. As the data consists of only engagement activities in Japan, it is not possible to compare this characteristic of target firms with that in other countries; however, this kind of characteristic is typically seen in the portfolio with the home bias effect, as underpinned by the extant literature.

Table 4.3: Statistics on number of objectives by industry

			Governance		Social		Environmental	
Industry	# objectives	% of total	# objectives	*% in industry*	# objectives	*% in industry*	# objectives	*% in industry*
Trading Companies & Distributors	118	22.3%	64	*54.2%*	29	*24.6%*	25	*21.2%*
Leisure Equipment & Products and Consumer Electronics	112	21.1%	38	*33.9%*	46	*41.1%*	28	*25.0%*
Automobiles	49	9.2%	14	*28.6%*	23	*46.9%*	12	*24.5%*
Real Estate	44	8.3%	13	*29.5%*	14	*31.8%*	17	*38.6%*
Auto Components	36	6.8%	16	*44.4%*	13	*36.1%*	7	*19.4%*
Oil & Gas	35	6.6%	19	*54.3%*	8	*22.9%*	8	*22.9%*
Computers & Peripherals and Office Electronics	32	6.0%	15	*46.9%*	7	*21.9%*	10	*31.3%*
Electric Utilities	28	5.3%	17	*60.7%*	6	*21.4%*	5	*17.9%*
Tobacco	17	3.2%	9	*52.9%*	7	*41.2%*	1	*5.9%*
Health Care Equipment & Supplies	16	3.0%	12	*75.0%*	4	*25.0%*	0	*0.0%*
Steel	15	2.8%	9	*60.0%*	2	*13.3%*	4	*26.7%*
Textiles & Apparel	11	2.1%	3	*27.3%*	7	*63.6%*	1	*9.1%*
Construction & Engineering	11	2.1%	6	*54.5%*	3	*27.3%*	2	*18.2%*
Beverages	5	0.9%	3	*60.0%*	1	*20.0%*	1	*20.0%*
Retailing	1	0.2%	0	*0.0%*	0	*0.0%*	1	*100.0%*
Total	**530**	**100%**	**238**	-	**170**	-	**122**	-
%	***100%***		***44.9%***		***32.1%***		***23.0%***	

4.5.2 Trend of objectives and milestones

Having investigated the characteristics of target firms, the trend of objectives and milestones can now be analysed. Table 4.4 presents the evolution of objectives and milestones, as well as engagement success in Japan over time. As seen in Table 4.3, the largest number of objectives is in governance issues, and it can be observed that the largest number of milestones is also in corporate governance issues, followed by social and environmental issues. Regarding the milestones-per-objective ratio, governance has the highest ratio, at 10.5%, which is higher than social and environmental issues. This suggests that governance engagements are more successful than social and environmental issues. It might also be inferred that the institutional investor's strategies for engagement with Japanese firms are focused mainly on corporate governance issues, as well as social issues, whilst environmental objectives are pursued relatively infrequently.

By year, there are more objectives in 2009 and 2010 than in prior years, and the number moderately decreased in 2011 and 2012. The number of milestones does not change much, and the highest number of milestones is in 2011. It is expected that more firms improved ESG issues due to the big Japanese corporate scandals that happened in 2011, such as the Fukushima nuclear power plant disaster.

4.5.3 Determinants of intensity of raising objectives

Table 4.5 presents the empirical results showing the determinants of the intensity of raising objectives. A Tobit regression is used with the dependent variable as the total number of

Table 4.4: Evolution of engagements and success rate per topic

				Governance			Social			Environmental		
Year	# objectives	# milestones	*milestones-per-objective ratio*	# objectives	# milestones	*milestones-per-objective ratio*	# objectives	# milestones	*milestones-per-objective ratio*	# objectives	# milestones	*milestones-per-objective ratio*
2006	44	6	*13.6%*	28	3	*10.7%*	13	3	*23.1%*	3	0	*0.0%*
2007	33	4	*12.1%*	15	2	*13.3%*	14	2	*14.3%*	4	0	*0.0%*
2008	63	6	*9.5%*	17	2	*11.8%*	35	2	*5.7%*	11	2	*18.2%*
2009	102	7	*6.9%*	35	5	*14.3%*	31	1	*3.2%*	36	1	*2.8%*
2010	122	7	*5.7%*	74	5	*6.8%*	30	2	*6.7%*	18	0	*0.0%*
2011	82	11	*13.4%*	40	5	*12.5%*	20	4	*20.0%*	22	2	*9.1%*
2012	84	4	*4.8%*	29	3	*10.3%*	27	0	*0.0%*	28	1	*3.6%*
Total	**530**	**45**	***8.5%***	**238**	**25**	***10.5%***	**170**	**14**	***8.2%***	**122**	**6**	***4.9%***
Time trend t-stat	2.78	0.53		2.03	0.75		4.04	-0.59		1.2	1.17	
significance	***	-		**	-		***	-		-	-	

*Notes: For the time trend analysis an OLS regression approach is adopted for testing for the time trend. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively. The dash indicates statistically not significant.*

Table 4.5: Intensity of raising objectives

VARIABLES	Model 1	Model 2	Model 3	Model 4
logtotalasset	3.670***	3.135**	3.480***	4.165***
	(0.004)	(0.013)	(0.007)	(0.002)
leverage	-6.019	-5.232	-5.064	-3.620
	(0.136)	(0.192)	(0.200)	(0.350)
tobinsq	-3.859	-3.012	-2.712	-0.342
	(0.120)	(0.224)	(0.268)	(0.894)
salesgrowth	-8.453**	-8.278**	-7.562*	-3.649
	(0.040)	(0.042)	(0.061)	(0.392)
proport_outside_directors	7.647**	6.037*	6.693*	6.525*
	(0.023)	(0.078)	(0.051)	(0.053)
foreign_ownership	13.744*	11.134	9.309	10.005
	(0.071)	(0.146)	(0.224)	(0.184)
priorityfirm_t	-1.551	-1.597	-1.698	-1.481
	(0.168)	(0.152)	(0.124)	(0.174)
number_objective_t1		0.233*	0.232*	0.181
		(0.070)	(0.067)	(0.155)
scandaldummy_t_t1			-1.408	-1.523
			(0.231)	(0.188)
d06_08				-3.803**
				(0.042)
d10_12				-1.011
				(0.512)
Constant	-18.706**	-16.376*	-18.108*	-24.610**
	(0.047)	(0.080)	(0.053)	(0.012)
Observations	157	157	157	157
Pseudo R-squared	0.060	0.065	0.067	0.074

*Notes: This table shows the result of Tobit analysis, and the dependent variable is the number of objectives raised at a given firm in a given year. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively. P-values are presented in parentheses. Each independent variable is as follows:'logtotalasset' indicates the natural logarithm of firm's total asset; 'leverage' indicates firm's leverage, which is calculated by total debt to total assets; 'tobinsq' indicates a firm's Tobin's Q, which is calculated by dividing the sum of total assets and market value minus book value by total assets; 'salesgrowth' indicates a target firm's sales growth from t-1 to t; 'proport_outside_directors' indicates a firm's proportion of outside directors; 'foreign_ownership' indicates a firm's foreign ownership;'priorityfirm_t' indicates if a firm is in the institutional investor's list of priority firm of engagement in the given time t; 'number_objective_ t1'indicates the number of objectives raised to a given firm in year t-1; 'scandaldummy_t_t1'indicates if a firm has ESG related scandals in a given year, t, and the year before, t-1; 'd06_08' takes value 1 in the years 2006 to 2008 and 0 otherwise; 'd10_12' takes value 1 in the years 2010 to 2012 and 0 otherwise.*

objectives that a target firm receives in a given year, following Bauer *et al.* (2013). Throughout all the models, firm size has a significant positive impact on the number of objectives raised with a firm. That is, the institutional investor tends to raise significantly more objectives at the larger companies among the target firms. In Model 1, foreign ownership shows a significant positive effect, which implies that firms with higher foreign ownership tend to receive more objectives. This could be explained by the fact that the institutional investor expects a higher chance of success at firms with other foreign shareholders, which are easier to convince to take 'collective' action. Sales growth (salesgrowth) shows a negative impact on the number of objectives throughout the models, and this effect is statistically significant in most of the models. This suggests that a firm tends to receive more objectives if the firm's financial performance is poor. The number of objectives raised the year before (number_objective_t1) shows a positive impact on the engagement intensity, but is not always statistically significant. This suggests that engagement by the investor is generally continuously conducted every year. The board structure (proport_outside_directors) is also statistically significant throughout all the models.

Table 4.6 displays the empirical analysis of the determinants of engagement intensity by ESG topic. In each Model 2, time effects and a scandal dummy in each ESG topic are additionally controlled for separately. Overall, the results of Table 4.6 are similar to the previously documented results for the entire sample. It is found that firm size as measured by total assets has a positive impact with statistical significance throughout the models in each ESG topic. Similar to Table 4.5, sales growth has negative impact on the intensity of raising objectives of governance, but not on the environmental engagements. This suggests that bad financial performance tends to trigger engagement activities on governance, but not on environmental issues. The proportion of outside directors is not statistically significant in the governance andenvironmental models, whilst it is significant in the social model, which drives the result of Table 4.5. It indicates that if a firm has a higher proportion of outside directors, it tends to receive more objectives in social issues, implying that firms which have a better governance structure do not necessarily have better practices in social issues. Furthermore, past engagements exhibit a positive impact on the number of corporate governance objectives raised but not on the number of environmental or social objectives. This finding can be construed as determining the results of Table 4.5.

This indicates that engagement activities on governance tend to be conducted continuously, whereas activities on social and environmental issues are not. In both Tables 4.5 and 4.6, a dummy variable controlling scandals is statistically insignificant throughout the models. This finding could imply that a firm's ESG-related scandals do not always trigger engagement activities with Japanese firms. One possible explanation could be that the institutional investor is already engaging on issues which could lead to particular ESG scandals, which makes ex-post ESG engagements redundant. This finding contradicts the finding of Dimson *et al.* (2015), which mentions the significance of public events.

The findings from Tables 5 and 6 are thus only partly consistent with the second set of hypotheses, H2a and H2b. It is hypothesised in H2a that the institutional investor strategically conducts engagement activities with firms which are in sensitive industries in social or environmental issues. However, the results indicate that ESG scandals are not a significant determinant for the engagement intensity. Further, even though it had been assumed that engagement activities are conducted in a continuous manner in H2b, it is shown that the frequency of past engagements affects the intensity of objectives raised depending on the issue; engagement activities are conducted in a continuous manner on governance issues, but not necessarily on social and environmental issues.

Table 4.6: Intensity of raising objectives by subject (ESG)

VARIABLES	Governance Model 1	Governance Model 2	Social Model 1	Social Model 2	Environment Model 1	Environment Model 2
logtotalasset	1.584**	1.907**	1.943**	1.741*	1.898**	2.477***
	(0.037)	(0.014)	(0.021)	(0.058)	(0.019)	(0.002)
leverage	-0.597	0.284	-2.921	-2.964	-6.943***	-4.437*
	(0.791)	(0.901)	(0.252)	(0.247)	(0.007)	(0.059)
tobinsq	-1.445	-0.568	0.886	0.789	-7.700***	-4.186*
	(0.327)	(0.719)	(0.562)	(0.638)	(0.001)	(0.051)
salesgrowth	-7.754***	-5.956**	-0.818	-1.065	3.198	6.842**
	(0.001)	(0.018)	(0.756)	(0.711)	(0.236)	(0.013)
proport_outside_directors	1.704	1.897	5.841**	6.138***	1.085	1.373
	(0.376)	(0.334)	(0.010)	(0.007)	(0.567)	(0.439)
foreign_ownership	4.924	4.617	3.379	3.908	4.053	3.771
	(0.257)	(0.290)	(0.499)	(0.448)	(0.370)	(0.377)
priorityfirm_t	-0.444	-0.326	-1.801**	-1.862**	-0.844	-0.920
	(0.479)	(0.601)	(0.016)	(0.014)	(0.198)	(0.134)
number_objective_t1	0.132*	0.097	0.097	0.107	0.092	0.063
	(0.066)	(0.181)	(0.229)	(0.201)	(0.174)	(0.324)
d06_08		-0.550		-0.710		-4.087***
		(0.608)		(0.565)		(0.000)
d10_12		0.839		-1.271		-1.826**
		(0.357)		(0.234)		(0.021)
scandal_G_t_t1		-0.574				
		(0.470)				
scandal_S_t_t1				0.519		
				(0.616)		
scandal_E_t_t1						-1.745
						(0.195)
Constant	-10.191*	-13.908**	-14.498**	-12.451*	-1.639	-8.628
	(0.071)	(0.020)	(0.022)	(0.068)	(0.778)	(0.136)
Observations	157	157	157	157	157	157
Pseudo R-squared	0.074	0.081	0.079	0.083	0.128	0.175

*Notes: This table shows the result of Tobit analysis, and the dependent variable is the number of objectives raised to a firm in governance, social and environmental issues in a given year. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively. P-values are presented in parentheses. Time effects and scandals in each topic are controlled in Model 2, i.e.,'scandal_G_t_t1', 'scandal_S_t_t1', 'scandal_E_t_t1' indicates if a firm has scandals in governance, social, and environmental issues respectively for a given year, t, and the year before, t-1. The definitions of the remaining variables are given in Table 4.5.*

4.5.4 Means of engagement

Table 4.7 shows the summary of the different means of engagement by the number of instances of contact. Engagement activities are divided into two categories: individual and collaborative engagement. Individual engagement is conducted only by the institutional investor, whilst collaborative engagement is conducted in collaboration with other investors. As for individual engagement, it is observed that meetings, which include 39 contacts in total, are the most popular form of engagement, followed by e-mail and letters. It can be also seen that the number of meetings with the target firms drastically decreased from 7 in 2007 to 4 in 2008, as well as from 6 in 2009 to merely 2 in 2010. This implies that even though the institutional investor engaged with a certain number of firms in 2007 and 2009 via direct meetings, they are not continuously engaged in the following year via meetings. Outreach letters are sent to a group of companies, and the contents are the same for all the companies. This form of contact is as high as 64 instances, which is 38% of the total engagements.

The institutional investor mainly used the least costly – and presumably least effective – means to engage with target firms, such as by outreach letter or e-mail, which implies that engagement activities are conducted in a cost-efficient manner. However, the most frequent form of engagement is via meetings, even though these are more expensive to conduct. Holding meetings enables the establishment of a closer individual relationship with the target firm's counterpart as a pipeline, and it contributes to exchanging information and developing dialogue. Hence, the findings are consistent with hypothesis H3a. Nonetheless, due to the high cost of coordinating meetings, it would seem likely that meetings occur no more than once per year per target firm because of the limited resources of the institutional investor.

On the other hand, collaborative engagements are organised much less frequently than individual engagement, but they have been coordinated a few times per year since 2010. Regarding collaborative engagement, the means vary from meetings to letters and phone calls; nevertheless, meetings are the most frequent means of communication. Hence, these findings are consistent with hypothesis H3b that collaborative engagements are conducted in engagement activities with Japanese firms, even though they are limited in number.

Table 4.7: Summary of means of individual and collaborative engagement: 2006-2012

	Individual Engagement							Collaborative Engagement			
Year	Meeting	Email	Letter	Phone Call	Seminar	Other	Outreach Letter	Meeting	Phone Call	Letter	*Total*
2006	7	6			2	1					*16*
2007	7	4	3				1				*15*
2008	4	8	1				3	2		1	*19*
2009	6	6	4	2	1		18				*37*
2010	2	4	5	2			20	2			*35*
2011	7		3	2			13		1	1	*27*
2012	6		2			1	9	1	1		*20*
Total	*39*	*28*	*18*	*6*	*3*	*2*	*64*	*5*	*2*	*2*	*169*
% Total	*23%*	*17%*	*11%*	*4%*	*2%*	*1%*	*38%*	*3%*	*1%*	*1%*	*100%*

4.6. Results of interviews

For this chapter, five interviews were conducted. The interviews were conducted over a yearlong period, between January 2013 and January 2014, with managers from institutional investors and a UK-based ESG service provider as well as one of the directors from the largest Japanese trust company. The two managers from institutional investors are former and current personnel who have engaged with Japanese firms via the institutional investor. Further, the manager from the UK-based ESG service provider is a Japanese analyst, who is personally involved in the engagement upon request by its client asset owners. Finally, the director from the largest trust company is in charge of advising Japanese firms on how to respond to engagement activities by foreign investors.

For interviews, an exploratory and interpretive approach is adopted (Bondy *et al.*2012) in order to identify the background and the procedures for engagement activities. Conducting semi-structured interviews helps to capture the experience and interpretations of relevant actors (Keats 2000), and it is also relevant to approach a particular topic about which little is known (Bondy *et al.* 2012). The interviews lasted one hour on average. The interviewees were mainly asked about the results of the quantitative analysis of this chapter. Out of five interviews, two were conducted with the same ESG service provider as repeated interviews (Lazarsfeld *et al.* 1944).

4.6.1 Japanese firms' unfamiliarity with different means of engagement

According to the interviews with the manager from the institutional investor, exchanging e-mails could be one of the most effective and cost-efficient ways of engagement in the USA and Europe, but this was not the case with Japanese companies. Whilst firms are obliged to respond to public engagements, traditional Japanese firms like TEPCO are not always ready to respond to private engagement by global institutional investors without realising the significance of such engagement. For example, it seems that TEPCO failed to respond to private engagement activities by one of the world's largest pension funds, the Algemeen Burgerlijk

Pensioenfonds (ABP) in the Netherlands. Even though ABP contacted TEPCO to ask for a meeting in 2012, with a follow-up letter in the following year, TEPCO failed to respond to them, which led ABP to take the rare step of selling a position of EUR 18 million in January 2014 (Financial Times 2014).

The interview with the UK-based Japanese researcher from the ESG service provider, who was personally involved in engagement with TEPCO, confirmed its unfamiliarity with responding to private engagement. He communicated with the Corporate Planning Department of TEPCO by e-mail in Japanese as well as via a letter in English on its environmental security concerns. TEPCO responded to the e-mail with a long message written in Japanese, mentioning that due to the intervention by the national government they were not permitted to disclose any information to any individual enquiries until the announcement of the official master plan. On the other hand, no reply was made to the letter written in English. Hence, a researcher from the ESG service provider mentioned that it was reasonable to expect that TEPCO was not ready to respond to many letters written in English from all over the world.

Japanese companies are generally not responsive to letters or e-mails in English. Further, according to the institutional investor, most Japanese target firms do not reply to outreach letters. Firm size seems to matter to how responsive a given firm is to written forms of engagement, because larger firms have more resources to allocate to responding. However, even large firms are not necessarily keen to develop dialogue with global investors. Fundamentally, very few employees of global institutional investors speak Japanese, and the counterpart Japanese companies in Japan do not always know how to respond to letters or e-mails written in English from a foreign institutional investor.

Japanese firms' unfamiliarity with responding to engagement activities also stems from their corporate organisational structure. Many Japanese firms are not organised to respond to ESG engagements by foreign investors, in particular by letter. Generally, engagement letters by global investors are sent to CEOs by name, and hence these letters do not tend to go to the department of investor relations (IR) which is familiar with communications with foreign investors, but to the general affairs or legal department, which is quite domestic and wherein it is quite possible that almost no one is able to understand a letter in English. The organisation of Japanese companies tends not to be structured so as to give a proper response to ESG engagement by foreign investors, and the department responsible for this function depends on the internal organisational structure of each company, and may include the departments of IR, CSR, general affairs, or legal. As such, in the case of TEPCO, it is expected that its Corporate Planning Department was trying to be in charge of responding to engagement activities, even during structural change in 2011 and 2013, but it seems that it did not have enough human resources to respond to foreign investors. As such, an organisation's structural issues can also be categorised as one of the reasons why Japanese firms are not good at responding to engagement letters.

The results of the interviews support the research hypothesis H3a in that they reveal the importance of face-to-face meetings with Japanese firms, because Japanese firms are not good at responding to engagement by letter, and the means of engagement matters to the response from target companies.

4.6.2 Target firms and collaborative engagement

The target firms of engagement activities tend to be chosen from among the investee firms of asset owners, and the firms in their portfolio tend to be large global firms, including those chosen in the responsible investment benchmark indices. This causes the concentration of most funds in the largest companies. This explains in part why the large firms are likely to be selected for priority target engagement, which supports hypothesis H1. The institutional investor does not always manage to respond to each corporate scandal involving their target firms. This can be due to the limited human resources devoted to the tracking of ESG-related events, which suggests that engagement activities are conducted in a cost-efficient manner. This confirms the result of the quantitative analysis, which is partly inconsistent with hypothesis H2a.

Regarding collaborative engagement, the analysis focuses only on target firms, but it was confirmed in interviews that collaborative engagements were also conducted with public authorities, such as the TSE, Ministry of Economy, Trade, and Industry, the Financial Services Agency, and the Japan Business Federation, on market-wide governance issues at the policy level. Through collaborative engagement, it is possible for foreign investors to hold meetings with top executives or regulatory bodies, with lower coordination costs for individual investors than individual engagements. These collaborative engagements are in general organised by international initiatives such as the Asian Corporate Governance Association (ACGA) or UNPRI, and investors are able to speak with higher levels of staff in firms or regulatory bodies.

The collaborative engagement activities with related authorities were conducted with about 15-20 other investors, and they become more powerful by increasing the amount of assets under management, which allows their voice to be heard louder and more effectively by the company than individual investors acting alone. They ask for stricter regulation or market-wide changes of corporate governance, because they considered corporate governance issues in the Japanese market as fundamental problems. These authorities were open to the feedback from foreign investors in general, because they hope to attract more foreign investors to the Japanese market. This result also supports hypothesis H3b by emphasising the power of collaborative engagement.

4.7. Discussion and conclusion

This chapter analysed how private engagement by a global institutional investor is conducted with locally embedded firms in Japan, and what this suggests about Japan's transition from a CME to an LME. This chapter developed the theoretical underpinnings of economic geographic approaches by taking into account the embeddedness of firms, and examined a UK asset manager's private shareholder engagement strategies on ESG issues with Japanese firms over the period 2006-2012. The key findings are as follows.

First, the research results revealed that global institutional investors strategically engage with geographically remote firms by focusing on the topic of market-wide issues, such as corporate governance issues in Japan. This chapter clarified the role of global investors in diffusing global standards of ESG issues, in particular corporate governance issues in Japan. The corporate governance issues of the largest Japanese firms are the most important engagement topic for global investors, who try to diffuse global governance standards by interacting with the largest local firms across industries. This focus of private engagement on corporate governance has not been mentioned in the literature following Jacoby (2007). Many target firms of engagement are large firms with global operations in industries sensitive to the environmental or social issues. Governance issues are continuously engaged with, and form the highest priority engagement topic.

This finding contributes to the literature on comparative corporate governance, where the specific role of global investors has not been much in the spotlight in non-Anglo-American countries. By highlighting the role of engagement activities by global investors to create more diversity among Japanese firms between target and non-target firms of engagement in the shift from CME to LME, this chapter contributed to the literature on comparative capitalism by providing an empirical example of how Japanese firms and markets change. Given Japan's institutional settings, foreign institutional investors can be the only actors that are able to engage informally with Japanese firms by setting up various ESG agendas.

Second, this chapter revealed that engagement activities of the institutional investor are limited to the largest firms with high visibility in the market, a finding which is underpinned by the theory of home bias effect (Kang and Stulz 1997). This finding suggests that engagement activities are conducted by avoiding transaction-specific costs (Williamson 1979), such as information costs for specific firms, due to the limited resources of the investor. Local institutions matter to local firms, and greater effort is required on the part of external actors to encourage convergence towards LME such as the global investor, especially when local firms are embedded in the local institutions of a CME. In line with the literature on transaction cost economics, transaction-specific coordination occurs when global investors engage with remote firms embedded in local institutional settings with different languages and organisational structures. The high-specific cost of coordination prohibits frequent interactions between global and remote actors across space.

In these instances, agency issues might occur between asset managers and asset owners where engagement activities are conducted in a cost-efficient manner. It is found that the institutional investor engages with firms from a cost-efficiency perspective, as seen in the high proportion of outreach activities whose effectiveness remains to be questioned, although the cost is much less than engaging with individual firms. Outreach activities consist of almost 40% of the total objectives raised, and they are less costly than engagement activities with individual firms, because outreach does not require the costs of collecting firm-specific information on ESG-related issues, as well as the costs of coordination for engagement activities.

Third, it is shown that face-to-face communication is critical for communicating with Japanese firms on ESG issues due to its efficiency, even though the cost of coordination prevents frequent engagements via meeting, and meetings are held on only an annual basis. The result also revealed that collaborative engagements are also coordinated through collaborations with international initiatives, such as ACGA and UNPRI. Collaborative engagement is more powerful than individual engagement due to the impact of the market in terms of the increased amount of assets under management, and so it is possible to interact with authorities or top management in trying to impact market-wide issues.

This finding contributes to the literature on shareholder engagement. There have been no previous attempts to analyse the means of engagement in the extant literature. For effective engagement activities, establishing individual relationships with the counterpart of target firms is critical as a pipeline for gaining information and developing dialogue in a continuous manner. This chapter provides a better understanding of the interactions between global and local actors by suggesting the importance of face-to-face communications, especially when global investors need to mitigate informational frictions when engaging with locally embedded firms. Particularly in such cases, face-to-face contact facilitates the transmission of complex and context-dependent messages by building an interpersonal relationship bond (Storper and Venables 2004). This can be especially important when local firms are not used to being engaged by local investors. The selection of the means of engagement is critical for effectiveness, and should be adjusted to the local context because of sensitivities around engagement activities for firms which are not willing to change in their institutional complementarity.

Finally, this chapter revealed that there was a gap between global investors' motivation for engagement and Japanese firms' readiness to respond. Japanese firms are not familiar with responding to engagement activities. The findings are also in agreement with the argument that distance creates difficulties in international interactions due to differences in economic institutions, practices, as well as cultural issues such as languages. The embeddedness of firms in the local context matters to the awareness of engagement, because they are not used to being engaged by local investors on ESG issues in their domestic institutional environment. Japanese firms are not used to the concept of engagement activities, and they are not aware of the importance of developing dialogue with global investors, because of local firms having been embedded in the local institutions in which local investors are not active investors. Further, fundamental language issues matter for Japanese firms when trying to respond to foreign investors. This issue of the readiness of locally embedded firms to respond to engagement should gain more attention in the shareholder engagement literature.

In conclusion, this chapter emphasises the importance of global institutional investors' understanding of local firms and institutions for efficient engagement. This chapter analysed the case of Japan, where shareholder engagement by local institutional investors is not yet common amongst local firms, and many of the traditional Japanese firms do not realise the significance of engagement by large foreign institutional investors. Ultimately this chapter provides further evidence for the special role of global institutional investors in pursuing continuous dialogue with local firms in promoting global ESG standards. Nonetheless, they are still in the process of searching for the best ways of pursuing engagement activities more efficiently.

Annex 4.A. Categorisation of objectives and milestones

Corporate Governance

1 Corporate Governance
- Audit and control
- Board structure
- Remuneration
- Shareholder rights
- Other

2 Sustainability Management and Reporting
- Disclosure and reporting
- Governance of sustainability issues
- Stakeholder engagement
- UNGC compliance
- Other

3 Governance (Old)
- Bribery and Corruption
- Corporate Governance
- Environmental Management Reporting
- Transparency and Performance

Social

4 Business Ethics
- Bribery and corruption
- Political influence
- Responsible marketing
- Whistle-blowing systems
- Other

5 Human Rights
- Community relations
- Security
- Privacy and free expression
- Weak governance zones
- Other

6 Labour Standards
- Health and Safety
- Supply chain labour standards
- Diversity
- ILO core conventions
- Other

(Social cont'd)

7 Public Health
- Access to medicines
- HIV/AIDs
- Nutrition
- Product safety
- Tabacco
- Other

8 Social (Old)
- HIV/AIDS
- Human Rights
- Labor Standards

Environmental

9 Environmental Management
- Environmental standards
- Pollution control
- Product opportunities
- Supply chain environmental standards
- Waste and recycling
- Other

10 Ecosystem Services
- Access to land
- Biodiversity management
- Water
- Other

11 Climate Change
- Climate change strategy
- Biofuels
- Emissions management and reporting
- Strategy
- Other

12 Environment (Old)
- Biodiversity
- Climate Change

Source: Bauer *et al.* (2013).

Annex 4.B. Characteristics of target firms and TOPIX

Column A: Target firms

	2009			2010			2011		
	Obs.	Mean	Median	Obs.	Mean	Median	Obs.	Mean	Median
Total Sales	26	59,900	38,534	26	49,273	29,783	26	54,208	36,593
Total Assets	26	57,091	41,494	26	58,670	38,955	26	59,515	39,838
Foreign ownership	26	0.25	0.25	26	0.27	0.25	26	0.28	0.27

Column B: TOPIX (All the listed firms in the 1st TSE)

	2009			2010			2011		
	Obs.	Mean	Median	Obs.	Mean	Median	Obs.	Mean	Median
Total Sales	1,482	4,105	991	1,490	3,586	873	1,502	3,824	933
Total Assets	1,626	10,590	1,011	1,639	10,850	1,002	1,607	10,349	975
Foreign ownership	1,684	0.12	0.08	1,697	0.13	0.09	1,702	0.13	0.09

Source: Tokyo Stock Exchange (2013a); Toyo Keizai (2013).

Notes: JPY 100 million for total sales and total assets. Column A shows total sales, assets and foreign ownership of the institutional investor's target firms. Column B shows total sales (excluding financial industry), assets, and foreign ownership of TOPIX, which is for all of the listed firms in the First Section of the Tokyo Stock Exchange, which is available on the data source from Toyo Keizai (2013).

CHAPTER 5 | The interplay between Japanese firms and the stakeholders on sustainable fisheries: the case of collaborative shareholder engagement

5.1. Introduction

Global firms are increasingly being called upon to take into account their environmental, social, and corporate governance (ESG) issues in their operations all over the world. In seeking sustainability along their global supply chains, large firms' growing impact on natural resources accelerates interventions by various stakeholders, such as consumers, environmental non-governmental organisations (NGOs), multi-level regulatory bodies, the media, and institutional investors. In particular, global institutional investors conduct engagement activities privately on ESG issues with global companies across societies informally and confidentially. Their engagement activities include remote firms embedded in the local political economy, and diffuse global standards across industries around the world.

When local institutional investors are not active shareholders and thus tend not to engage on ESG issues either publicly or privately, engagement activities by global institutional investors are focused on a small number of the country's largest firms with higher foreign ownership, and the major topic of engagement tends to be concentrated on corporate governance issues with less attention given to environmental or social issues (Bauer *et al.* 2013; Clark *et al.* 2015: Chapter 4 of this thesis). The importance of investors' engagement activities in bringing ESG issues to the attention of some local firms raises the question as to whether large firms with inactive local investors have enough opportunities to be aware of their non-governmental issues.

In particular, it is critical to investigate this issue in traditional industries with lower ownership by global investors, because it is expected that the firms in such industries have a lower level of public scrutiny by global actors.

This chapter approaches the issue exploring Japanese firms. Japan is a country which is both geographically and culturally remote from the Anglo-American world and Europe (Hofstede 1984). Traditionally, Japan is a coordinated market economy (Dore 2000; Hall and Soskice 2001), which is characterised by weak shareholder rights and blockholder ownership (La Porta *et al.* 1998) and by heavily relying on non-market mechanisms with relational constricting (Hall and Soskice 2001). Although Japan is in transition to a liberal market economy, local institutional investors in Japan are not active in engaging on local firms' ESG issues (Saito 2012: Chapter 3 of this thesis), and there is almost no interaction between local investors by public means, especially on environmental and social issues in Japan.

This chapter focuses on resource-intensive industries which have been led by Japanese firms, because there is an urgency for such industries to establish sustainable policies and practices due to natural resource scarcity. Hence, this chapter explores the fisheries industry by focusing on Japanese firms with high exposure to fish products and their sustainable fisheries policies. It has the lowest proportion of foreign ownership in Japan. Japan is the second largest consumer and importer of seafood in the world after the US (FAO 2011a). Japanese firms' involvement in the fisheries industry is also an important topic from a political economy perspective, because Japan has been criticised by the international community and the media for its overfishing of marine resources, including several endangered species such as bluefin tuna. Some media outlets reported that one of the largest Japanese trading firms, Mitsubishi Corporation, once dealt with

40% of the world's bluefin tuna trade (Independent 2009). Typically, listed firms in the fisheries industry tend to be involved in the trade of fish rather than their catch. Hence, supply chain management and the establishment of proper sourcing policy is important for protecting marine resources as well as maintaining a sustainable supply of seafood in the future.

This chapter analyses the fisheries industry and the interplay between global stakeholders and local firms in Japan on sustainable fisheries policies, focusing on the collaborative engagement by global institutional investors in 2011. Through the United Nations Principles for Responsible Investment (UNPRI), 20 global institutional investors conducted engagement activities to promote sustainable fisheries policies with firms all over the world, including those in Japan. The investors engaged with several Japanese firms due to the importance of the Japanese fisheries market, even though Japanese firms in the fisheries industry have the lowest foreign ownership among listed firms on the Tokyo Stock Exchange (Tokyo Stock Exchange 2013b). The shareholder engagement literature has been developed for the most part on the basis of research conducted in an Anglo-American or European context; hence, this chapter aims to fill a gap in the literature by analysing Japanese firms' responses to engagement by global institutional investors. The main data for the analysis was collected through in-depth interviews with the leading Japanese firms which dominate the world's fisheries supply chain, and international NGOs active in fisheries in Japan, namely, Greenpeace Japan and WWF Japan. This chapter explores the following research questions: How do Japanese firms interpret global stakeholders on sustainable fisheries policies? In particular, how do Japanese firms respond to global investors' collaborative engagements in the fisheries industry, whose level of foreign ownership is low?

The key contributions of this chapter are as follows. First, this chapter argues that geography and industry are important for local firms' responses to stakeholders because firms are embedded in their local institutional settings. Hence, this chapter, within the context of stakeholder theory, provides evidence that bolsters the findings in Chapter 4 of this thesis, that stakeholders' understanding of local context is essential in seeking influence on local firms. Second, the empirical analysis demonstrates that global investors' collaborative engagement can be triggered by frequent media coverage, and explains the role of the media to facilitate multi-party interactions among various stakeholders for collective action. This finding contributes to the literature on shareholder engagement by introducing collective action theory to collaborative engagement. Third, this chapter argues that the topic of engagement matters to the influence on local firms. This finding also contributes to the literature on shareholder engagement, by arguing that shareholder engagement on the issues related to firms' reputational risk has limited influence on local firms because shareholder engagement is not conducted in public.

The structure of this chapter is as follows. Section 5.2 discusses the theoretical background of this chapter. Then, Section 5.3 describes the data used and methods. Section 5.4 illustrates fisheries industries and the institutional environment in Japan, such as ownership of the Japanese fisheries industry and sustainable policy, as well as external pressures like NGOs and media. Section 5.5 provides the details of the collaborative engagement by global investors on sustainable fisheries issues, followed by Section 5.6, which provides the analysis of the case study of Japanese target firms and non-target firms of the engagement. Finally, Section 5.7 concludes with findings and implications.

5.2. Literature review: sustainable supply chain and the shareholder engagement

In stakeholder theory, it is argued that firms should manage their relationships with stakeholders that can affect or be affected by the achievement of the objectives of the firm (Freeman 1984). When a firm makes moves to improve the sustainability of its operations beyond compliance, this is often driven by the inputs of various stakeholders impacting on critical corporate resources (Pfeffer and Salancik 1978), because of reputational or ethical reasons (Khemani and Shapiro 1993). Each stakeholder employs different tactics to influence firms and has different motives for pushing for sustainability (Klandermans 2004). Their identities are shaped in various institutional settings in which they are embedded (Granovetter 1985; Powell and DiMaggio 1991; Grabher 1993).

The perspective of supply chain management provides an analytical framework on the sustainable fisheries at market and stakeholder level, wherein the external and internal driving forces for and barriers to improving companies' sustainable supply chains are examined (Hervani *et al*. 2005; Walker and Jones 2012). In supply chain management literature, the major external driving forces for sustainable supply chains involving stakeholders can be compliance with international or national governmental regulations, as well as pressures by the media, consumers, and NGOs (van Huijstee and Glasbergen 2010). Also, some activist groups damage the reputation of target firms by using the power of mass media (den Hond and de Bakker 2007) or consumer boycotts (Friedman 1999). These external driving forces play important roles especially when goods are globally traded and the advocacy of supply countries is poor (Muller *et al.* 2012). Some external barriers to sustainable supply chains can be consumers' expectation of lower prices (Orsato 2006), and insufficient government regulations (Porter and van der

Linde 1995) that do not encourage firms to seek sustainable supply chain management. On the one hand, as internal driving forces for or barriers to sustainable supply chains, they are mainly issues inside the company that do not involve stakeholders. The major internal driving forces can be supported by corporate culture and CSR practices (Hughes 2005; Meehan *et al*., 2006), competitive strategies and managing reputation or minimising risk (Clark and Hebb 2005). On the other hand, internal barriers include the issue of cost of policy change (Min and Galle 2001), a lack of strategy and management commitment, or organisational reluctance (Min and Galle 2001; Greer and Bruno 1996).

Another strand of literature, that on shareholder engagement, provides theoretical underpinnings at the investor and firm level, and sheds light on the interplay between global investors and Japanese firms. The role of global institutional investors in the financial marketplace has been increasingly important for corporate sustainability (Clark and Hebb 2005). They are active shareholders and they conduct engagement activities on ESG issues with large global firms all over the world, both publicly and privately (Bauer *et al.* 2013; Dimson *et al.* 2015). In particular, recent literature argues that geography matters to global investors' strategy to engage with firms all over the world, and it suggests a home bias effect (Kang and Stulz 1997) in engagement activities, whereby global investors tend to engage more with firms in a country where they are located (Bauer *et al*. 2013; Clark *et al.* 2015: Chapter 4 of this thesis).

The impact of global investors' engagement activities has often been analysed from the perspective of stakeholder salience (Gifford 2010; Hebb *et al*. 2011) in terms of stakeholders' legitimacy, power, and urgency (Mitchell *et al*. 1997). Collaborative engagement by global investors is considered to further enhance stakeholder salience (Gond and Piani 2012), because collective action contributes to binding individual stakeholders together to formulate a common identity and interest (Rowley and Moldoveanu 2003) by combining various sources of power and coordinating resources (Gillan and Starks 2000, 2003). Theoretically, collaborative actions provide benefit or satisfaction by achieving a common goal or purpose by excluding no one in the group, even though the costs of the collaborative actions are not distributed evenly because collaborative actions are not automatically organised (Olson 1965: 15). Stakeholder activism can be led by collaborative initiatives, which are created through the interactions among multi-stakeholders (Rowley 1997). This mechanism of interaction is called a learning-action network (Starik and Rands 1995; Clarke and Roome 1999), where the process of influencing firm behaviour is not through bilateral relations but rather in complex multilateral contexts (van Huijstee and Glasbergen 2010).

This chapter fills the gap by exploring the dynamics of collaborative shareholder engagement, as well as interactions between stakeholders and firms. There is a gap in the shareholder engagement literature when it comes to how remote firms respond to stakeholders, especially when the identities of stakeholders and firms are shaped in different geographical spaces. Further, there is not so much study on shareholder engagement yet, due to the difficulty to collect the data because of confidentiality requirements. Whilst the role of global institutional investors for improving ESG issues is increasingly important, remote firms' response to shareholder engagement has not been explored in the literature. As the identities of firms and stakeholders are shaped by the local institutional environment (Powell and DiMaggio 1991) and industry contexts (Schurman 2004), firms are expected to interpret the same stakeholder differently across industries and societies.

5.3. Data and methodology

This chapter takes a qualitative approach to the investigation of the research questions by adopting a case study approach. It has been argued that the case study approach is a suitable option when analysing a topic for theory building (Eisenhardt 1989). A case study-based approach can contribute to analytic generalisation, and extend theories which ‘benefit from the prior development of theoretical propositions’ (Yin 1994, 2003). This chapter adopts multiple case studies. Conducting cross-case analysis allows analytic generalisation by increasing refinement of the conceptual framework (Eisenhardt 1989; Yin 2003). Further, a grounded theory approach is applied, because it formulates propositions from existing theory, rather than testing hypotheses (Strauss and Corbin 1990).

Data collection was conducted by a multi-method approach, which can ensure accuracy and triangulate research findings (Eisenhardt 1989; Yin 1984). In total, 18 in-depth interviews were conducted between 2013 and 2014 (see Table 5.1); these consisted of 7 interviews with Japanese firms, 4 with international environmental NGOs, 1 with an academic, and 6 with institutional investors in both Japan and the UK. All the interviews with Japanese firms were conducted in their respective headquarters in Tokyo. In order to put a spotlight on foreign investors among stakeholders, which conducted the collaborative engagement on sustainable fisheries through the UNPRI, three UK-based investors who led and participated in the engagement activities were identified. A purposive sampling method (Glaser and Straus 1967) was utilised for the detailed cases. This method was chosen because of the difficulties in finding a population to participate, as most of the large Japanese fisheries firms are not willing to participate in interviews. Some might argue that random sample selection should be used for theory testing research (Cook and Campbell 1979). However, because it adopts a multiple-case study approach, the purposive sampling method used here is consistent with this chapter's goal of exploring the theoretical similarities and differences underpinning different cases.

15 leading Japanese trading, retail, and food firms with high exposure to fish products were contacted, and the four largest firms in each industry agreed to take part in the interview, namely, Trading Co., Retail Co., Fisheries Co. and Foods Co. In-depth semi-structured interviews conducted with managers from these four firms together comprise this chapter's multiple-case study. Even though the number of firms seems to be limited, they are the world's leading firms and dominate the global fisheries supply chain. For example, Trading Co. dominates the world's tuna market, Retail Co. deals with the largest amount of fish in the world as a retail company, and Fisheries Co. deals with the largest amount of fish in the supply chain in the world. These cases by target firms and non-target firms of collaborative engagement are studied in this chapter. In addition, interviews were also conducted with five investors both in Japan and the UK, two international environmental NGOs, and one international organisation. Further, an interview was conducted with an academic who used to represent the Ministry of Agriculture, Forestry and Fisheries of Japan (MAFF) to the International Whaling Commission (IWC) as well as serving as a chair of the Committee on Fisheries at the FAO. All the interviews were conducted face-to-face, except for one interview with an investor in the UK and one of the interviews with Trading Co., both of which were conducted via telephone conference.

Secondary data was also collected from a wide range of sources, including each company's website, annual financial reports, and environmental or CSR reports, as well as by sourcing policy papers, journal articles, and media coverage. In addition to the data collected from interviews, this secondary data supports the validity and reliability of the qualitative study (Yin 2003).

Table 5.1. List of interview participants

Industry / organisation	Title	Department or Division
Trading Co.	Manager	Press Relations Team, Corporate Communications
Trading Co.	Manager	CSR & Environmental Affairs Team, CSR & Environmental Affairs Department
Foods Co.	Manager	Finance & Investor Relations, IR Group
Foods Co.	Manager	Technology & Environment Planning, Technology Management
Fisheries Co.	Manager	Investor Relations & Public Relations
Fisheries Co.	Assistant Manager	Investor Relations & Public Relations
Retail Co.	Merchandiser	Seafood Department, Food Merchandising Planning
Investor A	Analyst	Governance & Responsible Investment
Investor B	Assistant Manager	Asia & Pacific & Emerging Markets
Investor C	Associate General Manager	Stock Transfer Agency Business Advisory
Investor D	Senior Research Analyst	Research
Investor E	Senior Analyst	Governance & Sustainable Investment
Investor E	Senior Analyst	Governance & Sustainable Investment
Greenpeace Japan	Campaign Manager	Senior Oceans Campaign
WWF Japan	Fishery and Seafood Project Leader	Conservation
WWF Japan	Seafood Officer	Conservation
Global Ocean Commission	Director	Global Engagement
Academics	Professor and former Executive Director	Marine Fisheries Research and Development Centre (JAMARC), the Fisheries Research Agency

5.4. Fisheries industries and the institutional environment in Japan

Maintaining marine fisheries sustainability is a critical global issue which has particular economic and ecological significance, as well as directly impacting the well-being of coastal communities (FAO 2011b). According to the Food and Agriculture Organization of the United Nations (FAO), many of the main fishery resources worldwide have been subject to a sharp decline due to overfishing, and more than 87% of marine fish stocks are estimated to be fully or over-exploited (FAO 2011b). Current national and international regulations are insufficient to stop overfishing, whilst the fisheries industry is a demand-driven market economy (Leadbitter and Benguerel 2014); hence, market-based efforts in seeking sustainable seafood are critical (Jacquet *et al.* 2010).

Japan is one of the most significant countries for fish consumption and import of high value fishes, like tuna. Fish consumption and international trade of fish by major countries in 2010 is displayed in Annex 5.A. Japan has the second largest total import value (see Column A) after the US, and its per-tonne import value is also one of the highest. Seafood is a more important source of protein for the Japanese population than for those of other major countries (see Column B). By volume, Japan is the third largest consumer of fish in the world in volume in 2010, consuming 6,901 thousand tonnes in total, coming after mainland China and India in volume (see Column C). Tuna is one of the highest-value fishes in the world (see Annex 5.B), and tuna and bonito account for 13% of the total value of Japanese imports (MAFF 2011). As such, Japan is the world's largest consumer of tuna, accounting for approximately one-third of the world total (MAFF 2008).

Some species of tuna, such as Southern bluefin and Atlantic bluefin, are on the Red List of Threatened Species by the International Union for Conservation of Nature (IUCN) due to diminishing stocks. According to Greenpeace Japan, Japan consumes 97% of the world's production of Southern bluefin tuna and 80% of Atlantic bluefin tuna (Greenpeace Japan 2013a). The number of Pacific bluefin tuna has also been decreasing drastically, mainly because of consumption by Japan; 70% of its total catch in the world is by Japanese ships, and many of those caught by Korean or Mexican ships are exported to Japan (MAFF 2012). Further, more than 90% of Pacific bluefin tuna are caught when they are still juveniles under one year old, which accelerates stock decline (MAFF 2012). Due to such overfishing of tuna, Japan has the greatest responsibility for fisheries sustainability.

The Fisheries Agency of Japan is responsible for regulating fisheries, but it has not implemented strong regulations to stop overfishing. Japan has adopted total allowable catches (TACs) since 1997. Under the TAC system, there is no limitation of catch size allocated to each ship, but rather ships are free to catch on a first-come, first-served basis. Hence, this system is particularly conducive to overfishing. Other countries like Norway, Iceland, and the US have implemented individual transferable quotas (ITQs) systems by allocating the annual amount of fish that a fisherman or fishing vessel can catch (Akiba 1997), which mitigates against overfishing and gives incentives for sustaining and optimising fishing timing and volume (Morgan 1997). There are also regional organisations to manage and regulate tuna resources, such as the International Commission for the Conservation of Atlantic Tunas (ICCAT). In addition, the Fisheries Agency of Japan announced an action plan to introduce measures for making clear the actual status of catches and reducing catches of juvenile tuna (MAFF 2012). Nevertheless, both international and national regulations on sustainable fishing are not strong enough to stop Japan’s overfishing of tuna.

5.4.1. Ownership of fisheries industry and sustainable fisheries policy in Japan

The Japanese financial market has an increasing ownership by foreign investors, which stood at 28% in 2013 (Tokyo Stock Exchange 2013c). Table 5.2 shows foreign ownership by industry in

Japan. It is shown that foreign ownership in the fisheries industry is the lowest among 33 industries. It is argued in the literature that foreign ownership is one of the most critical elements to change traditional corporate governance systems (Aoki *et al*. 2007) further towards global standards. Hence, it can be expected that a higher proportion of foreign ownership has the effect of improving environmental policies, including the sustainability policies of fisheries. Table 5.3 displays the list of fifteen Japanese firms with high exposure to seafood products, and their industries as categorised by the TSE. It can be observed that firms with a higher degree of foreign ownership tend to have higher sales. Among most of the fisheries companies (Fishery 2 to 10), the fisheries-related ownership is higher, ranging from 8% to 83%. This shows the traditional cross-shareholdings among fisheries industries.

It can also be observed that larger companies have a higher level of foreign ownership. All the firms with foreign ownership from 10% to 31% (Trading Co., Retail Co., Fishery Co., Trading 1, and Fishery 1), have their own CSR policies, as well as some kind of environmental policies or marine sustainability practices. They are not owned by fisheries-related shareholders, because they are large companies which own fisheries-related subsidiaries. As already mentioned, four firms agreed to participate in interviews for this research, and they are among the largest firms. It is observed that the fishing-related revenue of these four firms is smaller than other companies in the list, which is up to 34%. Trading Co. has the largest foreign ownership, and it has one of the best policies in the list, with its own environmental charter and sourcing policy of bluefin tuna. On the other hand, the foreign ownership of smaller firms (Fisheries 2 to 10) is much lower, from 0% to 7%. Among these nine firms, only five companies have general CSR policies, and most of them do not have any specific environmental policies or marine sustainability practices. The exception is Fishery 3, which has its own CSR policy and also established traceability of tuna and salmon. Nevertheless, it is a subsidiary of Trading Co., and it is expected that the traceability was established upon a request by Trading Co.

Table 5.2. Ranking of foreign ownership by industry in Japan

	Industry	Foreign ownership	# Listed Companies	Market Capitalization
1	Mining	36.3	6	23,847
2	Insurance	34.7	6	92,973
3	Real estate	33.6	45	165,252
4	Transportation Equipments	33.6	61	570,866
5	Electric Appliances	33.6	155	513,325
6	Oil & Coal Products	30.1	11	29,959
7	Precision Instruments	30.1	27	57,188
8	Pharmaceutical	29.2	39	200,376
9	Securities & Commodity Futures	28.9	21	71,094
10	Chemicals	28.7	129	233,764
11	Machinery	28.2	122	228,604
12	Banking	28.1	87	386,494
13	**Foods**	**28.1**	**70**	**171,626**
14	Information & Communication	27.9	117	432,309
15	Other Products	27.1	49	66,139
16	Other Financing Business	26.5	22	77,249
17	Rubber Products	25.5	11	44,712
18	Marine Transportation	25.5	9	16,079
19	Nonferrous Metals	25.4	23	43,385
20	**Wholesale Trade**	**24.8**	**145**	**189,499**
21	Construction	24.4	96	115,761
22	**Retail**	**23.1**	**164**	**236,457**
23	Service	22.7	120	137,932
24	Glass & Ceramics Products	21.3	33	44,858
25	Air Transportation	19.5	4	17,510
26	Land Transportation	19.4	38	154,092
27	Electric Power & Gas	19.3	17	89,212
28	Metal Products	19.1	37	35,549
29	Iron & Steel	18.5	32	79,538
30	Warehousing & Harbor Transportation Services	17.8	21	12,280
31	Textiles & Apparels	17.8	41	29,905
32	Pulp & Paper	11	11	13,843
33	**Fishery, Agriculture & Forestry**	**9.3**	**5**	**3,166**

Source: Tokyo Stock Exchange (2013b). (Market capitalisation – JPY 100 million)

Notes: This table shows foreign ownership, number of listed companies, and market capitalisation of firms listed on the first section of the Tokyo Stock Exchange as of March 2013.

Table 5.3. Japanese companies in fisheries business

	Trading Co.	Retail Co.	Fishery Co.	Foods Co.	Trading 1	Fishery 1	Fishery 2	Fishery 3	Fishery 4	Fishery 5	Fishery 6	Fishery 7	Fishery 8	Fishery 9	Fishery 10
Interview approval	Yes	Yes	Yes	Yes	No	No	-	No	No	No	No	No	No	-	No
Total annual sales (JPY 100 million)	201,263	52,061	8,097	4,381	40,146	5,308	3,040	1,652	1,640	1,460	1,240	1,113	991	890	445
Fishing related revenue	2%	n/a	34%	15%	n/a	100%	100%	100%	100%	100%	100%	69%	87%	100%	100%
Foreign ownership	31%	15%	10%	18%	27%	18%	0%	0%	2%	2%	5%	7%	3%	1%	0%
Fisheries related ownership	0%	0%	0%	0%	0%	1%	13%	82%	26%	8%	11%	7%	11%	23%	83%
Number of employees	66,000	91,600	12,300	6,600	16,500	10,500	1,300	790	600	2,700	200	1,100	250	200	200
CSR policy?	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	No	Yes	Yes	Yes	No	No	No
Environmental policy?	Environmental charter	Sustainability policy	Global Compact in 2010	General environmental policy	General environmental policy	General environmental policy	n/a	n/a	n/a	n/a	n/a	General environmental policy	n/a	n/a	n/a
Marine sustainability policy or practice?	Policy on sourcing Atlantic blue-fin tuna in 2010	Biodiversity and sustainable seafood (MSC)	Farming business	Ensuring annual fishing quotas	Tuna farming business	Biodiversity and farming business	n/a	Estabished tracability of tuna and salmon	n/a	Blue-fin tuna farming business	n/a	n/a	n/a	n/a	n/a
Target of global investor's engagement?	Yes	Yes	No	No	Yes (No response)	Yes (No response)	No	No	No	No	No	No	No	No	No

Source: Website of each company and Responsible Research (2011).

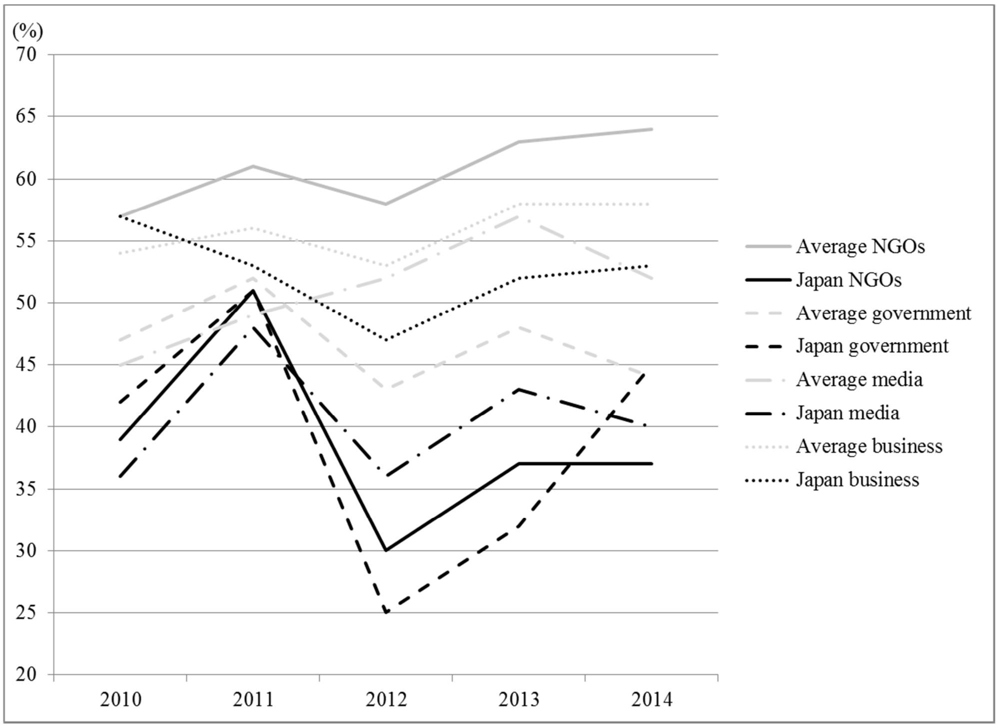
Notes: Trading Co., Retail Co., Fishery Co., Foods Co. refer to the companies interviewed for the case study. The fisheries related ownership of Fishery 4 is by a trading company. All the information is as of March 2013.

5.4.2. Major stakeholders of Japanese fisheries firms for sustainable fisheries: NGOs and media

This section approaches the role of NGOs and the media for sustainable fisheries policies. They are identified as the major external driving forces for sustainable supply chains in Section 5.2, along with consumers and governments. Greenpeace Japan is an international NGO, which mainly focuses on resource management and overfishing. The activities of Greenpeace Japan mainly target retail companies, because they assume that unless retailers change their seafood procurement policy, consumers will never become aware of the issue of sustainable fisheries, and fisheries or trading companies will not need to improve their fishing or sourcing policies. According to the interview with Greenpeace Japan, their main activities include pressuring the five major supermarket chains in Japan by ranking them for fish safety by taking into consideration traceability, information disclosure, legitimacy of products, and radiological contamination problems due to Fukushima issues.

On the other hand, WWF provides a link between companies and sustainable sourcing policies by promoting instruments to certify sustainably caught fish, such as the Marine Stewardship Council (MSC). They facilitate consumers to choose sustainable marine products by ensuring their proper fishing practices, including sourcing, harvesting, and traceability. According to the interviews, 80% of Pacific bluefin tuna is caught by Japan, of which almost 100% is consumed domestically. In the interview, WWF Japan mentioned that only recently, public opinion had been responding to the issue and media coverage has been also changing after the Washington Convention in 2010. Sustainable fisheries issues in Japan are more difficult to realise than in the Western world, because of the high volume of per capita consumption and the broad varieties of seafood.

Figure 5.1. Trust of NGOs, government, media and business in the world and in Japan



Source: Edelman (2014a).

Notes: Average refers to the global average of 27 countries surveyed for the Edelman Trust Barometer.

Even though these international NGOs in Japan are aware of the difficulties in establishing sustainable fisheries in Japan due to the volume and the varieties of fish consumed and are actively trying to remain involved with the sustainable fisheries policies of the private sector, these NGOs are not as influential as in other countries. Figure 5.1 shows the level of trust of NGOs, government, the media, and business in Japan and the world. The highest level of trust is the global average trust in NGOs from 2010 to 2014. On the other hand, Japan’s trust in NGOs is substantially lower; indeed, it is one of the lowest in the world. According to the Edelman Trust Barometer (Edelman 2014a), Japan's trust in NGOs is the lowest among 27 countries surveyed in 2014. In Japan, the highest level of trust is in business, especially after 2011, when the Great Earthquake occurred. Further, international NGOs in Japan have limited resources. Despite the size of the Japanese market, especially in fisheries, the proportion of Greenpeace Japan staff is 1% and WWF Japan is 1.2% of their respective organisations globally (see Annex 5.C). Hence, their activities are limited because of such limited human and financial resources.

Another external driving force for Japanese firms on sustainable fisheries issues is the media. In order to analyse trends in how the issues are reported in both English and Japanese, media coverage in both languages was examined in Table 5.4 and 5.5. Table 5.4 displays the number of documents on sustainable fisheries and tuna from 2007 to 2013, based on the data obtained by a database called Factiva. The table shows the number of instances of media coverage on fisheries and tunas from 2007 to 2013. The number of instances of media coverage on fisheries is filtered by the default topic of Factiva, such as ‘nature conservation’, and the number of coverage on tuna is filtered by ‘environmental news’, ‘nature conservation’, and ‘regulations and governmental policies’. It is observed that the amount of coverage on sustainable fisheries increased drastically from 2009 to 2010 both in English and Japanese, and remained at a similar level in 2011, 2012, and 2013. The media coverage of tuna had its peak in 2010 in environmental and nature conservation news, both in English and Japanese. In particular, coverage in English on nature conservation and tuna issues increased markedly from 165 documents in 2009 to 833 documents in 2010, and then decreased to 387 documents in 2013. Further, in March 2010, the 15th Conference of the Parties (CoP15) to the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) was held, and sustainable management of bluefin tuna in Atlantic and Mediterranean was on the agenda.

Hence, frequent media coverage on sustainable fisheries issues as well as on bluefin tuna issues occurred at this juncture.

Table 5.4. Media coverage on sustainable fisheries and tuna by year: 2007-2013

	Fisheries	Tuna		
Year	Nature conservation	Environmental news	Nature conservation	Regulations governmental policies
Column A: Media coverage in English				
2007	996	1,121	70	598
2008	1,228	1,021	110	513
2009	1,625	853	165	617
2010	4,282	1,307	833	912
2011	4,403	807	454	928
2012	4,379	712	369	854
2013	4,841	686	387	1,254
Column B: Media coverage in Japanese				
2007	23	57	5	75
2008	44	55	7	63
2009	101	116	49	72
2010	526	241	126	334
2011	508	178	40	87
2012	654	190	36	97
2013	654	192	37	138

Source: Factiva (2013).

Notes: The table shows the number of instances of media coverage (global and local newspapers, magazines, newswires, newsletters, trade journals, and transcripts) on fisheries and tuna covered from 2007 to 2013. The media coverage of fisheries is filtered by the default topics of 'nature conservation' in English and Japanese, and coverage on tuna is filtered by 'environmental news', 'nature conservation', and 'regulations and governmental policies'.

Table 5.5 shows the top 20 categories of media coverage on tuna by the total instances of coverage from 2007 to 2013 in English. Column A displays the categories of the media coverages in English and Column B in Japanese. It is observed that the category of media coverage on tuna has different trends between media in English and media in Japanese. In English, there are four issues related to sustainable fisheries. Regulation or government policy-related articles are ranked the 8th, environment-related news rank 11th, nature conservation issues rank 19th, and international relations issues rank 20th. On the other hand, in Japanese, there are only two issues related to sustainable fisheries, which are ranked lower than in English. Environmental news is ranked 14th, regulation and government policy issues are ranked 15th, and international relations issues rank 20th. This implies that Japanese media coverage focuses less on environmental or policy related issues than media in English. According to the interview with WWF Japan, media coverage in Japanese on decreasing amounts of catch of tuna tends to be reported in the context of price increase for consumers, whilst media in English tends to report it as diminishing marine resources.

Table 5.5. Categories of media coverage on tuna issues in English and Japanese: 2007-2013

Column A: Category of news on tuna in English			***Column B: Category of news on tuna in Japanese***		
Rank	Category	# of coverages	Rank	Category	# of coverages
1	Food/Drink	15,192	1	Political/General News	4,077
2	Political/General News	9,895	2	Television/RadioTranscripts	2,898
3	Corporate/Industrial News	6,436	3	Food/Drink	2,117
4	Recipes	6,122	4	Arts/Entertainment	1,896
5	Arts/Entertainment	5,441	5	Output/Production	1,863
6	Living/Lifestyle	4,907	6	Marketing	1,589
7	European Union	4,867	7	New Products/Services	1,529
8	**Regulation/Government Policy**	**4,644**	8	Commentaries/Opinions	1,352
9	Travel	4,538	9	Earthquakes/Volcanic Activity/Landslides	1,164
10	Nutrition	3,998	10	Education	948
11	**Environmental News**	**3,783**	11	Disasters/Accidents	941
12	Health	3,625	12	Conferences/Exhibitions	844
13	Press Releases	2,943	13	Capacity/Facilities	763
14	News Agency Materials	2,772	**14**	**Environmental News**	**724**
15	Domestic Politics	2,725	**15**	**Regulation/Government Policy**	**715**
16	External Markets	2,658	16	Facility Openings	673
17	Equity Markets	2,658	17	Pricing	666
18	Transcripts	2,444	18	Crime/Courts	628
19	**Nature Conservation**	**2,388**	19	Plans/Strategy	618
20	**International Relations**	**2,351**	**20**	**International Relations**	**615**

Source: Factiva (2013).

Notes: Column A shows the top 20 categories of media coverage on tuna by the total number of times covered from 2007 to 2013 in English, and Column B shows those in Japanese.

5.5. Collaborative engagement by global institutional investors on sustainable fisheries

In 2011, an institutional investor based in the UK (‘Investor A’) initiated a collaborative engagement on sustainable fisheries. Investor A coordinated the engagement through the UNPRI, and asked another UK-based institutional investor (‘Investor B’) to initiate jointly. Together the two investors led a collaborative engagement with 18 other investors in the UK, US, and Europe, with total assets of over USD 1.7 trillion. In order to identify critical issues in sustainable fisheries related to large firms, some conference calls were coordinated with NGOs, such as with Greenpeace, WWF, the MSC, and Global Ocean Commission. Afterwards, the group of 20 investors collaboratively wrote engagement letters to 41 retail, foods, and fisheries firms globally, including 4 Japanese firms, which were screened to have a certain level of exposure to seafood products. According to the interviews with Investors A and B, these target firms were identified by a broker investor and NGOs, which were leading firms of the sector, and they were not necessarily in the portfolio of their clients’ asset owners.

Through this collaborative engagement, investors were seeking to explore how firms respond to the risks associated with unsustainable fish sourcing practices. For institutional investors committed to socially responsible investment (SRI), it is important to understand the extent to which firms are exposed to and how they intend to manage the risks associated with over-fishing, because this requires a long-term business perspective. The investors had analysed target companies’ exposure to fisheries; however, there was not much information on how firms consider the impact of their fisheries-related business on reputation management or the security of supply in the future. Hence, the investors communicated with target firms on the potential materiality of their exposure to fisheries, including revenue related to fisheries, sourcing policies for fish at both the group-wide and individual firm levels, practices of the use of certifications of sustainable fishes such as MSC, and the companies’ views on further sustainable sourcing policies. According to Investor A, the collaborative engagement on sustainable fisheries was a fact-finding initiative. For target firms, the engagement was also a warning to make them aware that fisheries-related business can be a serious corporate reputational risk.

According to the interview with Investor A, the collaborative engagement was inspired by a 2010 UK television documentary on bluefin tuna issues and sustainable fisheries. The investor had been interested in the issue since 2009, when two documentary films were released about tuna overfishing and dolphin hunting respectively, partly criticising a particular Japanese company or Japanese fishing practices, which drew public attention. Investor A suggested the idea of a collaborative engagement to the UNPRI, and it agreed on the importance of sustainable fishing issues as a business risk. Then, other investors agreed to engage collaboratively. As seen in Table 5.4, the frequent media coverage on sustainable fisheries and bluefin tuna issues in 2010 created momentum for the legitimacy and urgency of engagement by institutional investors, because it is expected that their client asset owners are also aware of the issue through the media coverage. Furthermore, the frequent media coverage also contributed to creating a consensus with other investors for the collaborative engagement. Hence, the media can inspire investors to be actively engaged with companies, and frequent media coverage increases the legitimacy and urgency of engagement by facilitating consensus with other investors for a collaborative engagement.

As a result of this particular collaborative engagement, two-thirds of the target firms replied to the engagement letters, and one-third of responding companies provided the detailed information: 70% of them explained their sourcing policy at the group level, and among them, 40% had a clear sourcing policy for wild fish, and one-third had a commitment to adopt standards for farmed fish. According to Investor A, it would seem that more firms tend to reply to letters sent collectively than individually. In this instance, engagement letters were sent to four Japanese firms. Two of them responded to the letter, and Investors A and B conducted further engagement by conference call or meeting. The other two did not respond even after follow-up contacts. Overall, investors concluded that sustainable fisheries sourcing policies seem to be associated with the sustainable management strategy of the company and that implementing a group-wide sourcing policy should be the minimum standard to be considered sustainable.

5.6. The case of Japanese fisheries-related firms

5.6.1. Target firms of collaborative shareholder engagement: Trading Co. and Foods Co.

Trading Co. has annual sales of more than USD 200 billion, and belongs to one of the largest business groups in Japan. The group has businesses under the same brand name across several industries. Its corporate brand name is globally well known, and is ranked within the top 500 world's most valuable brands in 2014 (Brand Finance 2014). The foreign ownership of Trading Co. is 31% (see Trading Co. in Table 5.3), which is the largest among fisheries related Japanese firms. Some media sources report that this company controls 35 to 60% of the world's bluefin tuna supply, even though the company claims that the share is smaller than that. Further, it is also reported that the company catches as many bluefin tuna as possible and keeps them frozen in storage to control the market price, but it claims that the amount is decided by taking into consideration the amount suggested by the ICCAT Scientific Committee. Nevertheless, according to interviews, Trading Co. claimed that it had been catching the required amount for only a year, and that it catches bluefin tuna annually in Japan, so that the frozen duration is less than 12 months every year. Since 2005, Trading Co. established an original traceability system of tuna; when and where they were caught and how they were harvested with tracing tags and numbers, even though implementing this system was very costly. Trading Co. considers the issue of bluefin tuna as a serious risk to damage the reputation of the entire conglomerate:

> When the English-language media criticised us on the bluefin tuna issue, we consider it as a serious risk which could damage our corporate reputation and the group-wide brand image of our products, such as automobiles and electronics. Hence, this issue was internally discussed as a critical one at the management level. (Trading Co.)

As such, Trading Co. mentioned that the media was the most influential impact on the company, because it posed a direct risk to its corporate reputation, and the media coverage in English against Trading Co. and its bluefin tuna catch in 2009 led the company to establish its own sustainable practices the following year. For example, it started to annually examine approximately ten trading companies or suppliers on their practices of feeding, sourcing, and labour standards. Furthermore, it abandoned its joint venture companies for aquaculture in the Mediterranean, because it could also cause a serious reputational risk to itself and also for other group companies. Trading Co. issued an official statement on the sourcing of Atlantic bluefin tuna and its traceability in 2010. The policy change of ICCAT is partly initiated by the Fisheries Agency of Japan, and Trading Co. also requested the regulatory improvement in the official statement. Trading Co. mentioned that after the ICCAT regulations were strengthened, there was no need to implement additional independent corporate policies.

Trading Co. mentioned that apart from the media and NGOs, retail buyers and consumers also voiced critical perspectives of its supply chain. Foreign investors exercised almost no voice to Trading Co. on the issue of bluefin tuna, except for the collaborative engagement of 2011. Even though foreign investors conducted engagement activities on the bluefin tuna issue, they seemed not to be influential stakeholders by themselves for Trading Co.:

> We had a conference call with global institutional investors, and we explained our current sustainable environmental policy and tuna tracing system. After all, investors are not specialists of sustainable fisheries issues. Nonetheless, we believe that what they do is important because they are one of the important global stakeholder groups to pressure us to pursue sustainable policy together with others. (Trading Co.)

Further, the company's past experience of sustainability issues in its interactions with external actors engendered greater sensitivity in responding to stakeholders' exercise of voice. According to the interview with Academics, Trading Co. was once criticised by international environmental NGOs that one of its group companies in heavy industry seemed to be active in building whaling ships, which was an internationally sensitive environmental issue. WWF Japan also mentioned that Trading Co. had opportunities to be aware of environmental issues earlier than other fisheries-related firms when deforestation became a global issue, and its group companies were involved in business directly related to deforestation. Hence, it can be considered that these issues in the past made Trading Co. more sensitive than other firms to sustainable fisheries issues.

Trading Co. has a Japanese subsidiary with a large share of tuna with the same sourcing or tracing policies, whilst other fisheries-related subsidiaries in the UK have different policies, which could be better than those of the headquarters in Japan because of the higher level of scrutiny by the public and local international environmental NGOs:

> The sustainability policy of [Trading Co.] is better than other fisheries-related companies in Japan, but it is one of the worst by European or American standards. For example, its UK subsidiary has a better policy than does its headquarters (Trading Co.), but it was ranked one of the worst in the sustainable tuna sourcing policies by Greenpeace UK. (Greenpeace Japan)

WWF Japan mentioned that it tended to be a mainstream view, especially in the Anglo-American or European world, that a business with high reputational risk should be forced to suspend its operations. Hence, some say that bluefin tuna fishing should be suspended for some time. However, Trading Co. takes a different stance and considers it legitimate to remain in the market, even though its sourcing policy is not good enough by international standards:

> [Trading Co.] seeks to influence other Japanese tuna-related firms by remaining in the market, because they claim their current tuna tracing system is better than other Japanese competitors'. Even if [Trading Co.] stops its operations, Japanese consumers will maintain their consumption level of tuna provided by other firms. As such, [Trading Co.] has decided to remain in the market. (WWF Japan)

Whilst Trading Co. has high exposure to tuna fishing activities, Foods Co., another target firm of the collaborative engagement, does not. It is one of the largest food companies in Japan, with the majority of its sales in trading fish. It is not active in fishing activities and it does not deal with tuna. Foods Co. implements independent sourcing policies or uses MSCs of some species; however, it considers consumers to be sensitive to price and they are not familiar with MSCs yet.

Further, the company does not have any fisheries-related joint venture companies. Hence, the company has strict criteria when it has transactions with local companies in any country in terms of their environmental stance. Foods Co. is one of the target companies of the collaborative engagement by global investors, but it was not requested to improve any specific issues:

> We had a meeting with one of the global institutional investors (Investor B). We just explained our current practices, and we were not requested to improve any specific issues. We are still open to listening to them and their requests, even though we are not familiar with the concept of SRI and we have no idea why we are targeted by their engagement activities. (Foods Co.)

In Japan, large fisheries-related firms have strong connections with their suppliers, where the relationship between the companies and suppliers is long-term. According to WWF Japan, the suppliers of the Foods Co. have been providing the highest quality of seafood products, required by the Foods Co., and their long-term business relationship allowed such high quality control. Foods Co. exports products to the US, but US companies require a lower level of quality control than Japanese companies. For example, the supplier needs to measure the length of fish one by one for Japanese consumers because of their preference, whilst only the total weight is measured for US consumers. Hence, to be competitive in the unique Japanese market, the highest level of quality control, which has been established through the long-term relationship with suppliers, is critical. This characteristic of long-term business relationships with the suppliers and the strong tie between them keeps the Japanese fisheries industry traditional and unique.

5.6.2. Non-targeted firms of collaborative shareholder engagement: Fishery Co. and Retail Co.

Fishery Co. has never been engaged by foreign investors on fisheries policies. It is one of the world's largest suppliers of seafood, with control of whole value chains including fishing, aquafarming, trading, processing, and distribution. The proportion of sales from fishing activities accounts for only 2%, whilst trading or processing seafood accounts for the majority of its sales. 89% of its sales take place in Japan, whilst 5% are the US, 3% in Asia, and 2% in Europe. Fishery Co. accounts for 20% of Japan's supply of farmed bluefin tuna, 30% of octopus, which is imported from West Africa, and 16% of shrimp, which is imported from all over the world. It has one of the highest shares of tinned seafood in Japan, including a 90% market share for tinned salmon and an 80% market share of tinned crab. The company has its independent supply chain management within the group, and this lies within the purview of international regulation as well as the national regulations of each country of operation.

> Regarding Mediterranean bluefin tuna, we only trade those with ICCAT certificates with traceability. We used to have partnerships with local companies in Africa, but withdrew the business because the total amount of catch in the region decreased and became less profitable due to overfishing by firms all over the world. (Fishery Co.)

Only a limited number of competitive retailers remain in the market, because of consumers' preference for lower prices.

> Even though Wal-Mart only buys MSC seafood, it is not possible for us to do so unless Japanese consumers buy only fish with traceability. It is costly to establish sustainable sourcing practices, and also there has been no direct external pressure at all by anyone, including domestic or international NGOs or investors. (Fishery Co.)

Fishery Co. claimed that its operations comply with the international or national regulations of each country. Nevertheless, as it is costly to establish their own sustainable sourcing practices in developing countries, Fishery Co. only trades with trustworthy companies under stricter national or regional regulations than in other areas, such as Alaska or Norway. It avoids dealing with firms in developing countries with looser or no regulations due to high long-term risk, even though there are lower-cost firms trading in developing countries.

Another case of a non-target firm of the collaborative shareholder engagement is Retail Co., whose operating revenue is one of the highest in the retail industry in Japan. The company is a leading global retailer of seafood, and it has expanded its stores in China as well as in Southeast Asian countries. The company was ranked number one in Greenpeace Japan's supermarket ranking for fish safety in 2013 (Greenpeace Japan 2013b), and it is often considered to have one of the best practices of sustainable seafood, including the use of MSC. The company claimed that it responded to consumers' anxieties for food security. For example, the company implemented its own standards for nuclear contamination issues after the Fukushima incident in 2011. According to Greenpeace Japan, short-term views are dominant in business strategies among Japanese retail companies. Retail Co. is the first retailer in Japan to implement MSC standards in 2006, and currently selling 13 MSC certified products in 21 species in 1,200 stores all over Japan. Retail Co. has general CSR policies, including the use of MSC certification, which differentiates it from other competitors.

> It is often considered that the use of MSC by [Retail Co.] is a marketing strategy for differentiation from other retails. Hence, its competitors are not willing to follow a similar strategy because it is no longer a competitive advantage, even though it should be considered essential to a competitive strategy. (WWF Japan)

Retail Co. and the Fisheries Agency of Japan often exchange opinions for national sustainable sourcing policies. Retail Co. requests that the initiatives for sustainable supply chains should be initiated by the national government. Nevertheless, Retail Co. has not announced any specific marine sourcing policies, and its operations have been conducted under its sustainability and biodiversity policies since 2011. Retail Co. claimed that their sourcing policies were independent and not brought about by external pressures.

> Our sustainability policies are independent, and implemented in trying to respond to the voice of consumers, not because of the pressure by NGOs or the media. Our own examination system on radiological contamination of our seafood products was established also purely in response to consumers' voices. (Retail Co.)

Nevertheless, Retail Co. also sells fish that are at risk of extinction, including tuna and eel, even whilst it sells MSC products. They sell whale meat due to the demands by consumers in certain regions in Japan, where there is traditional demand for whale meat by local people. Hence, Retail Co. discusses this issue with Greenpeace Japan and decides the amount of whale meat they sell. It seems that there is a paradox for Retail Co. between its sustainable fisheries policy with the use of MSC and meeting the requests of consumers by selling endangered fish.

5.7. Discussion and conclusion

This chapter has examined Japanese fisheries-related firms and their stakeholders on sustainable fisheries issues, and highlighted a collaborative engagement by global investors on the issue. The industry-level analysis focused on corporate ownership, regulations, and the role of stakeholders such as the media and NGOs, whilst the firm-level analysis explored sustainable fisheries policies and the perceptions towards stakeholders of four firms dominating the world's fisheries supply chain. The key findings of this chapter are as follows.

First, this chapter argues that collaborative engagement by global investors with local firms can be triggered by frequent media coverage, and the process of collaborative engagement encourages multi-party interactions including various stakeholders, both of which can lead to higher levels of satisfaction of the clients of global investors. This argument is underpinned by collaborative action theory, that achieving the common goal of various stakeholders by acting collaboratively leads to greater benefits or satisfaction on their part (Olson 1965). The momentum created by the media on the sustainable fisheries issue increased the interest of other investors and facilitated multi-party interactions among stakeholders and established a learning-action network (Starik and Rands 1995; Clarke and Roome 1999), with various stakeholders including the UNPRI, NGOs and international organisations, rather than through bilateral relations between local firms and global investors (van Huijstee and Glasbergen 2010). As non-specialists of sustainable fisheries issues, global investors learned the critical issues for collaborative engagement from specialist organisations through the multi-party interactions. Increased public attention on sustainable fisheries was created by frequent media coverage. This collaborative engagement was inspired by a television programme on sustainable fisheries issues, with one of the institutional investors then initiating the collaborative engagement with the others. With the high level of public interest, the clients of global institutional investors, such as asset owners, are also expected to be interested in the topic. Hence, engagement activities on issues related to frequent media coverage can provide good impressions to clients by emphasising that engagement is properly conducted by responding to the trends of global business risk, and it leads to higher levels of client satisfaction. Nonetheless, collaborative engagement activities triggered by media coverage seem not to be continuous, and the number of firms investors engaged with in Japan seems to be quite limited despite the size of the seafood market. These issues are noted as limitations of collaborative engagement by global investors.

Second, the findings of this chapter examine new elements of the barriers to and driving forces behind establishing sustainable supply chains, as well as confirming those suggested in the existing literature. This chapter suggests that a business is given legitimacy via a comparison with competitors within a specific geographical context and that obtaining such legitimacy can be a barrier to establishing corporate sustainability policies at the global level. This argument is supported by the case of Trading Co., for which the concept of corporate sustainability is defined by comparison with its local competitors in Japan; better sustainable policy than others gives it legitimacy to remain in the market, even though it is not considered as sustainable at the global level. Further, it is confirmed that in the case of Japan consumers' preferences, for lower-priced fish and having little interest in sustainable sourcing, act as a barrier for sustainable policies.

On the other hand, this chapter suggests that the driving forces behind the establishment of sustainable policies can be a firm's sensitivities to risk management, as conditioned by the firm's past experiences. Such sensitivities also tend to be more acute in larger firms with a higher level of ownership by global investors, as illustrated in the case of Trading Co. The driving forces behind establishing corporate sustainable policies argued in the literature are also confirmed in this chapter. International NGOs are actively working on sustainability issues, even though their resources in Japan are quite limited. The media is quite influential in Japanese firms, especially when brand image is important like in the case of Trading Co., because it influences corporate reputation. The case of Retail Co. illustrates that corporate sustainable policies and practices can influence both consumers and fisheries firms and that they use sustainable policies as competitive strategies to differentiate from other retailers. Such strategic use of sustainable policies can be driving forces for establishing sustainable policies. Nonetheless, Retail Co. also sells seafood that are extinguishing, to meet the needs of local customers, hence all the seafood business of Retail Co. does not necessarily meet global standards, even though some of their products implement MSC. Thus, trying to meet the requests of consumers does not always help to establish sustainable policies because consumers may instead prioritise lower prices or the availability of some endangered species in accordance with traditional eating habits, potentially undermining firms' sustainability policies.

Third, the findings of this chapter suggest that geographic and industry context matters for the response to stakeholders by local firms and their influence on local corporate sustainable policies. The Japanese fisheries industry is embedded in the domestic corporate culture of long-term business relations with suppliers, and has a traditional ownership structure with cross-shareholdings where non-market mechanisms play an important role. It is also strongly connected to the local culture in terms of traditional eating habits. At the firm level, the findings show that ownership matters to firms' sustainability policies, where larger firms with a higher proportion of foreign ownership tend to implement more sustainable policies. Larger firms tend to have a higher level of public scrutiny, including from global shareholders, which leads firms to implement better sustainable policies. Larger firms with plentiful financial resources can pursue sustainable fisheries policies, even though it is costly, as seen in the case of Trading Co., which seeks to establish better sourcing policies than other local firms by establishing traceability or issuing official statements on its policies.

Further, the chapter's findings emphasise that the influence of stakeholders on local firms depends on their response to stakeholders, because local firms are embedded in the local context. In line with stakeholder theory, firms should manage stakeholders which influence them, and this chapter suggests that the influence of stakeholders depends on geography and industry. Since current national and international regulatory frameworks are not strict enough to realise sustainable fisheries, this issue is a matter of reputational risk for firms. Hence, among various stakeholders, the media is one of the most powerful stakeholders on the issue because it influences corporate image and public opinion. Global media covers sustainable fisheries more than the Japanese domestic media does, and the English-language media has a higher level of influence on Japanese firms like Trading Co. whose business operations are global, as the firm cares about their global brand and reputation. Further, the consumer voice is important for fisheries-related firms to improve their sourcing policies because it directly impacts retail firms, as Fishery Co. and Retail Co. mentioned in interviews conducted for this chapter. Nonetheless, the current major interest of Japanese consumers is in lower prices rather than sustainable sourcing. It seems that among stakeholders, international environmental NGOs have the highest level of interest in Japanese firms' sustainable fisheries policies. However, compared to other countries their influence in Japan is limited due to their limited resources and people's relatively lower trust in them.

Similarly, in terms of shareholder engagement, the chapter's findings suggest that the topic of engagement matters to the effectiveness of engagement with remote firms, because it matters to ownership and industry context. The nature of shareholder engagement is privately conducted as behind-the-scenes interactions. Hence, the process of engagement and contents of discussions are not normally announced in public, which does not influence corporate reputation. In Japan, where shareholder engagement is not familiar to local firms, they did not even understand why foreign investors were interested in sustainable fisheries policies even though they are not specialists in the issue. Even though Gond and Piani (2012) argue that collaborative engagement contributes to attracting managers' attention by enhancing more power, legitimacy and urgency, the influence of collaborative engagement on sustainable fisheries is quite limited even when engagement is conducted collectively, especially in a market where foreign investors are still minority shareholders like in fisheries industries in Japan. The Japanese fisheries industry is a traditional industry, and it still relies heavily on non-market mechanisms with long-term relationships between trading firms and suppliers with the lowest foreign ownership. As seen in the case of Trading Co. it is difficult for global investors to be familiar with the institutional settings of a remote market related to such industry in Japan.

Overall, this chapter provided an empirical analysis of perceptions by remote firms towards global institutional investors' collaborative engagement on sustainable fisheries, and argued the importance of their understanding of industry and geography. By so doing, this chapter demonstrated the response to stakeholders by local firms at the industry and firm levels in a country which is both geographically and culturally remote. It seems that there is still room for foreign institutional investors to collaboratively engage with remote firms more effectively for long-term business risks. Engagement activities by global institutional investors should be conducted by taking into account the different interpretations by remote firms depending on the local context in which they are embedded, as various stakeholders have different levels of influence on local firms depending on the identities shaped in the institutional settings in which they are embedded. The understanding of local context by global investors at firm and industry level will ultimately lead to more effective engagement with remote firms in the future.

Annex 5.A. Summary of fish consumption and international trade of fish by country in 2010

	Japan	USA	UK	Norway	Mainland China	India	**World**
Colum A: Total value of import and export (USD 1,000)							
Import total value	14,891,698	15,496,409	3,714,441	1,073,782	6,154,359	88,786	**111,131,490**
Proportion in the world	*13%*	*14%*	*3%*	*1%*	*6%*	*0%*	***100%***
Per ton import value	4.13	3.38	3.04	5.08	1.89	4.63	**2.61**
Export total value	1,945,488	4,661,329	2,411,149	8,819,050	13,267,746	2,559,255	**110,674,019**
Proportion in the world	*2%*	*4%*	*2%*	*8%*	*12%*	*2%*	***100%***
Per ton export value	3.28	2.83	2.76	2.95	1.79	3.03	**2.65**
Column B: Per capita supply and proportion of fish proteins							
Per capita supply *(kilograms)*	54.5	21.7	19.1	54.1	33.1	6.4	**18.9**
Fish/total proteins *(%)*	21.1	4.5	5.3	13.9	8.4	3.3	**0.1**
Colum C: Total volume of production and trade (tonnes)							
Production	4,903,173	4,702,325	823,063	3,683,302	52,153,182	9,343,819	**148,617,500**
Non food use	1,016,829	921,917	1,986	707,000	3,625,089	678,489	**19,903,576**
Imports	3,607,320	4,581,163	1,223,374	211,342	3,264,556	19,194	**42,560,699**
Exports	592,918	1,648,042	872,173	2,992,012	7,395,020	845,860	**41,733,069**
Total food supply	6,900,746	6,733,529	1,188,278	264,132	44,397,629	7,838,664	**130,094,268**

Source: FAO (2011a, b).

Annex 5.B. High value seafood production and their estimated value by species group in 2011 (order by highest value per ton)

Group of species	Capture			Aquaculture			Grand total		
	Volume (*1,000t*)	USD/t	Value (*USD million*)	Volume (*1,000t*)	USD/t	Value (*USD million*)	Volume (*1,000t*)	USD/t	Value (*USD million*)
Salmons, trouts, smelts	1,123	3,350	3,762	2,774	5,471	15,174	3,897	4,859	18,936
Shrimps, prawns	3,288	3,650	12,003	3,930	4,517	17,751	7,218	4,122	29,754
Crabs, sea-spiders	1,473	3,800	5,597	270	3,188	861	1,743	3,705	6,458
Founders, halibuts, soles	996	2,700	2,689	179	6,592	1,180	1,175	3,293	3,869
Abalones, winkles, conchs	132	6,100	807	395	2,239	884	527	3,209	1,691
Tunas, bonitos, billfishes	6,793	2,250	15,284	9	15,741	141	6,802	2,268	15,425
World total	93,494	1,196	111,791	62,700	2,077	130,234	156,194	1,550	242,025

Source: FAO (2011a, b).

Annex 5.C. Resources of international environmental NGOs: Global and Japan offices

International NGOs	Global	Japan office	% of Japan office
Greenpeace			
# of Staffs	2,400	24	1.0%
# of Individual supporters	2,800,000	5,000	0.2%
Income (EUR)	268,325,000	1,455,714	0.5%
WWF			
# of Staffs	6,000	69	1.2%
# of Individual supporters	5,000,000	42,000	0.8%
Income (EUR)	244,861,792	11,568,780	4.7%

Source: Own calculation based on Greenpeace (2013), Greenpeace Japan (2013c), WWF (2013) and WWF Japan (2013a, b).

Notes: The income of Japan offices are calculated with the exchange rate of EUR 1 = JPY 135.

CHAPTER 6 | Policy convergence and informal constraints in corporate governance: evidence from Japanese firms and political economy

6.1. Introduction

Japanese firms have been noted for their unique institutions and corporate governance features (Aoki and Dore 1994; Dore 2000). Even though such features were praised for bringing economic success to Japan until the 1990s, Japanese corporate governance systems have been criticised internationally over the last decade. Through the liberalisation of regulations since the 1990s, Japanese firms have become more diverse in their corporate governance practices (Aoki *et al.* 2007) yet with many leading firms maintaining their traditional governance systems. Lower levels of cross-shareholdings and an increasing proportion of foreign ownership have increased pressure from global institutional investors on Japanese firms to reform their governance practices. In particular, since 2011, repeated scandals at large Japanese firms have further damaged the reputation of their corporate governance practices among foreign investors. To this end, since 2012, reform of the private sector has been one of the central policies of the Abe administration. Such reform has seen the introduction of the Japanese version of the Stewardship Code and the Corporate Governance Code in trying to attract more foreign investors. Japanese corporate governance reform has been conducted in the hope of Japanese financial markets being internationally competitive with other Asian financial markets. Most notably, Hong Kong and Singapore became financial hubs in East Asia instead of Tokyo due to their international outlook, even though the Tokyo Stock Exchange (TSE) is the third largest in the world, following the New York and Nasdaq Stock Exchanges.

Global financial actors, mainly Anglo-American investors, play an important role in the diffusion of global standards (Clark and Hebb 2004) in environmental, social, and corporate governance (ESG) issues. In particular, as a consequence of the interplay between global finance and local corporate governance, global institutional investors actively promote global standards (Hawley and Williams 2005) by the transfer of 'best practice' (Brütsch and Lehmkuhl 2007). Global investors have increasingly pressured Japanese firms to adopt global standards, whilst local firms are embedded in local institutional settings. The various forms of interplay and pressure from global investors include proxy voting, shareholder engagement and questionnaires by index funds or rating agencies. In 2014, collaborative shareholder engagement by 20 global institutional investors regarding Japanese board structure drew much public attention as a result of extensive media coverage. Traditionally, local institutional investors have not been active shareholders and shareholder engagement is not familiar to Japanese firms. Hence, engagement activities by global investors are a recent phenomenon for Japanese firms, and how local firms respond to engagement activities by foreign investors has not been researched yet.

This chapter examines the recent changes in Japanese corporate governance and investigates how policy convergence in corporate governance occurs, and how Japanese firms respond to convergence towards global standards concerning ESG issues, by approaching Japanese corporate governance from formal and informal perspectives in line with North (1990). This chapter uses interview-based qualitative methods to analyse each firm's perceptions of global standards, in line with Aguilera and Jackson (2003), who suggest that studies of corporate governance should be from an actor-centered view of an institution. In so doing, the chapter explores the following research questions: How does change in corporate governance policy converge towards global standards? Can policy changes bring about norm changes in corporate governance among local firms? What are Japanese firms' perceptions of global standards?

The main findings and contributions of this chapter are three-fold. First, this chapter examines the role of government in corporate governance policy reform towards global standards, and documents that non-state actors are involved in localising policy instruments associated with global standards. This finding contributes to the literature on the internationalisation of public policy by arguing that even though a top-down policy reform is adopted, the degree of implementation can be influenced by involving non-state actors in setting the details of policy instruments in order that they be appropriate to the local context. Second, it is found that local firms have negative perceptions towards global standards due to their current practices; hence, policy reform does not lead to immediate changes of corporate governance norms. This finding contributes to corporate governance literature in line with the argument by North (1990), which highlights the importance of analysing culturally derived informal constraints in corporate behaviour. Finally, this chapter suggests the impact of bilateral relations between global investors and local firms, even though the existing literature on corporate governance has emphasised that corporate governance is an arena in which various multiple actors or institutions interact within certain rules (Aoki 1994, 2001). This chapter argues that global investors can impact corporate governance practices, especially in terms of board structure in the case of Japan.

This chapter is structured into five sections. The next section provides theoretical background on corporate governance and policy transfer, which underpins the argument in the following sections. Section 6.3 describes the analysis of Japanese political economy and corporate governance reform. Then, Section 6.4 analyses Japanese firms' norms of corporate governance and perceptions of global standards. Finally, the last section summarises the research results and draws conclusions.

6.2. Theoretical background

Institutional factors are one of the mainstream approaches to analyse corporate governance practices across societies (Aguilera and Jackson 2003). The diversity of cross-national corporate governance systems is often explained by reference to the embeddedness of local firms in complex and differing social contexts across societies (Granovetter 1985; Grabher 1993). Early studies of corporate governance focused on stylised facts, which categorises the world into the two systems, namely, the Anglo-American system and the Continental European system. The Anglo-American system, also known as a liberal market economy (LME), is characterised by strong shareholder rights, a flexible labour market, short-term equity financing, and dispersed ownership, whilst the Continental European system, also known as a coordinated market economy (CME) is distinguished by weak shareholder rights, a fixed labour market, long-term debt financing, and blockholder ownership (Hall and Soskice 2001). Even though these frameworks provide useful analytical tools, later research filled the gap by analysing the differences within these categories (Aguilera 2005; Aoki *et al*. 2007) as well as by providing empirical evidence from other geographic areas, such as Japan (Aoki *et al*. 2007; Jackson 2009). The Japanese economy is considered to be undergoing a shift from a CME to an LME system (Sako 2007) due to the recent changes in the traditional institutions of the Japanese economy. Japanese traditional cross-shareholdings and the bank debt financing coexist with lifetime employment, based on long-term business relationships and capital support, as well as a smaller role for shareholders in corporate governance. These institutions function more efficiently in combination, which is referred to as institutional complementarity (Aoki and Dore 1994; Dore 2000; Aoki 2001; Hall and Thelen 2009).

When analysing institutions, it is important to analyse both formal and informal perspectives (Hall and Soskice 2001), with North (1990) arguing that institutions consist of formal constraints, such as laws and regulations, as well as informal constraints, such as culture and social norms. On the one hand, formal constraints on institutions stem from coercive political regulation (Roe 1994). This can be a strong force in bringing the practices of local firms towards convergence with global standards (Dixon 2014), and the nation-state is still a key actor as a force for global standard setting (Hebb and Wójcik 2005). The internationalisation of policies has sparked discussion on the transportability of 'best practice' (Guillen 2000) and whether corporate governance practices converge or diverge. The diffusion of best practice corporate governance amounts to Anglo-American models (Aguilera and Jackson 2003). Tiberghien (2007) analyses the extent to which policy elites prefer pro-shareholder reforms, and argues that French and South Korean policy makers support pro-shareholder reform, but Japanese and German policy makers are not supportive, due to successful lobbying by various local groups and organisations.

There is not much extant literature that studies corporate governance policy reform from the perspectives of policy transfer. Regarding policy reforms, Stone (2004) argues that the implementation of new policies is a result of a reasonably wide consensus of actors outside and inside government. Policy makers rationally adjust policy development by modifying ideas, which results in a more coherent transfer of policies from one local context to another. Whilst national governments contribute to transferring policy instruments, non-state actors influence broader ideas or norms (Stone 2004). Non-state actors facilitate exchanges among actors to transfer ideas that support new policies (Dolowitz and March 1996; Stone 2004), as well as to spread economic norms (Brütsch and Lehmkuhl 2007) as a form of best practice in corporate governance. As a non-state actor, the role of global institutional investors is increasingly important in global standard setting (Clark and Hebb 2004; Hawley and Williams 2005). Global finance and institutional investors encourage policy convergence by transforming local systems and ultimately breaking down the institutional complementarities in a specific space (Dixon 2014). Policy convergence occurs when global investors and rating agencies demand stronger local regulatory frameworks (Hebb and Wójcik 2005). Global institutional investors engage with firms all over the world and demand higher standards.

On the other hand, the pervasiveness of informal constraints is emphasised by North (1990). Informal constraints consist of codes of conduct, norms of behaviour, including routines, traditions, and conventions, and they play an important role as a source of path dependence in the incremental evolution of institutions. In daily interactions, formal rules make up only a limited part of the total constraints in shaping choices, and are seldom an obvious and immediate source of choice; hence, subjective perceptions by actors play a big part in making choices of self-imposed codes of behaviour (North 1990:36). North (1990) further argues that in spite of sweeping or total change in formal rules, the persistence of many aspects of a society is because of informal constraints as a part of culture. Culturally derived informal constraints are maintained and do not change immediately in reaction to changes of formal rules, with this persistence having critical implications for the way economies change, as a result of the tension between persisting informal constraints and altered formal rules (North 1990: 45).

Regarding culture, Storper (2000: 87) argues that culture can be defined as ‘a set of transitive, informal rules or guidelines for action, which play a coordinating role and are applied in specific kinds of situations’. It is difficult to use culture as a causal variable due to its various conceptual dimensions (McSweeney 2002; Herrmann-Pillath 2010; Aguilera and Jackson 2010). Hence, culture must be re-concretised in the form of conventions, which comprise three dimensions: namely, ‘the rules of spontaneous individual action; constructing agreements between persons; and institutions in situations of collective action’ (Storper 2000: 87).

Despite the attention to corporate governance from policy perspectives as formal constraints, few studies explore how the convergence of corporate governance towards global standards takes into account informal constraints. One of the few studies which empirically analysed cultural dimensions in corporate context is by Witt and Redding (2009). It focuses on the cultural underpinning of institutional structures of business systems from a normative perspective of institution, and compares the rationale of senior executives in Japan and Germany, both of which are categorised as CMEs in the comparative political economy literature. They argue that Japanese executives support a collaboratively developed society with state leadership, whilst German executives expressed a preference for a market-based economy with basic regulations. Hence, the idea of senior executives is different among countries categorised as CME due to the local culture and institutional settings.

This chapter approaches corporate governance from both formal rules and informal constraints, in line with North (1990). The next section explores corporate governance policy reform in Japan from policy transfer perspectives, and the following section investigates the perceptions of Japanese firms as informal constraints.

6.3. Japanese corporate governance policy reform

In 2012, the administration of Prime Minister Shinzo Abe initiated a comprehensive reform programme with the aim of stimulating the Japanese economy. Japan has been suffering from a long-term economic slump and deflation, called the ‘Lost Two Decades’, since its economic bubble burst in the early 1990s. The administration’s ‘Japan Revival Vision’ states that ‘it is important to work on Japanese corporate structures and economic culture and ecosystems, which for the most part have been essentially untouched in the past, and to transform Japanese firms into companies that are healthy, dynamic, and competitive’ (Liberal Democratic Party of Japan 2014). The Abe administration’s new economic policy package, called ‘Abenomics’, consists of three main strands, or arrows, of policies for the sustainable economic growth of Japan. The first two arrows, which were implemented from 2012 to 2014, included a bold monetary policy to end deflation, and a flexible fiscal policy supported by a supplementary budget of JPY 10.3 trillion (Prime Minister of Japan and His Cabinet 2014c). The third arrow consists of structural reforms to unleash growth in the private sector, including corporate governance and financial market reform. The first and second arrows were successfully implemented in 2013, and the third arrow has been deployed on top of them (Kawai 2014).

Under the third arrow of Abenomics, the process of policy convergence was begun through legal reform and the implementation of policy instruments. Amendments to the Corporate Act in June 2014 were intended to promote more effective oversight of management in Japanese firms. They introduced a new type of board structure, ‘company with audit and supervisory committee’, which is a hybrid form of the traditional Japanese statutory auditing system and the Anglo-American style of the committees system. The amendments also introduced a ‘comply or explain' policy, which requires a legal obligation to explain if companies do not appoint any outside directors. As policy instruments towards global corporate governance systems, the Japanese versions of the Stewardship Code and the Corporate Governance Code were introduced.[7] Prior to the implementation of the Corporate Governance Code in June 2015, the Stewardship Code was introduced in February 2014. Even though most Japanese institutional investors have not been active in responsible investment, in total 160 institutional investors in Japan signed up to the Code, including 6 trust banks, 109 investment managers, 17 pension funds, 21 insurance companies and 7 service providers by September 2014 (Financial Services Agency 2014a). One of the pension funds which signed up to the Code is the Government Pension Investment Fund, GPIF, which is the world's largest pension fund. The total amount of the assets under management accounts for USD 1.26 trillion (GPIF 2014d), which is more than double that of the second largest pension fund, the Government Pension Fund of Norway (USD 8,400 billion) (Government Pension Fund of Norway, 2014). As GPIF had not shown any interest in responsible investment, let alone in becoming a signatory to the Principles for Responsible Investment (UNPRI), the fact that GPIF has signed up for the Stewardship Code has raised questions as to whether it could actually change its investment practices. The Code borrows heavily from the UK Stewardship Code, which was launched in 2010 as a form of soft regulation for active ownership. In particular, the Code is intended to incentivise institutional investors to engage with companies on ESG issues following the financial crisis of 2008. A similar code then appeared in other countries, such as the Netherlands, Canada, Singapore and South Africa (UNPRI 2013).

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7 Since the launch of the Stewardship Code in the UK in 2010, several countries followed to implement the Code, such as the Netherlands, South Africa, and Switzerland (Schroders 2014). The UK Corporate Governance Code was issued in 1992 for listed companies, incorporating a 'comply or explain' principle, and it has been a useful instrument for listed companies across the world (Financial Reporting Council 2014).

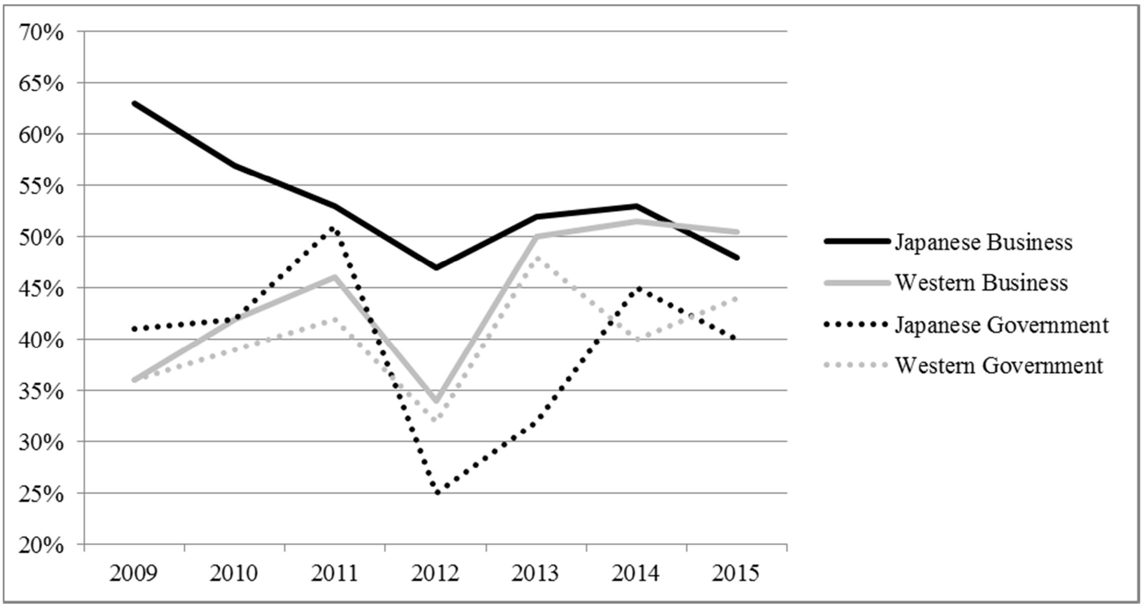
Implementing Japanese corporate governance reform had been difficult because of resistance from actors that benefitted from the existing systems. In particular, the Japanese private sector was not fully convinced of the need to reform their governance system. In 2012 one of the most powerful economic groups, the Japan Business Federation (*Keidanren*), announced its opposition to the amendments to the Corporate Act on the mandatory appointment of outside directors (Keidanren 2012). Another private sector representative, the Japan Association of Corporate Executives (*Keizai Doyukai*), was also against this legislation, even though it recommended the appointment of at least one outside director for the oversight of management in 2010 (Nikkei 2010). In the face of this kind of resistance to corporate governance reform by powerful private sector representatives, how and why did the government manage to reform corporate governance policy at this time?

First, the Abe administration has continued in office since 2012, with increasing support from 2012 to 2014. This has broken the recent trend of Japanese politics during the six years prior to the accession of the Abe administration. After the Koizumi administration from 2001 to 2006, the Japanese prime minister had changed every year,[8] and there was no stability or coherence in policy reform in recent years. As a result of this instability, a high level of public trust in government had been lost. The level of public trust in government can be considered as a proxy for the capacity of government for policy reform, as Fukuyama (1995) argues that public trust is generally critical for successful performance in advanced economies. Figure 6.1 shows trust in business and government in Japan and the Western world (US, UK, France, and Germany). Historically, the gap in public trust in government and business is larger in Japan than in the Western world. Trust in the business sector in Japan was at its highest level over the period from

8 From 2006 to 2012, there were 6 Prime Ministers in Japan: Abe (2006-2007), Fukuda (2007-2008), Aso (2008-2009), Hatoyama (2009-2010), Kan (2010-2011), and Noda (2011-2012).

2009 to 2014. The gap between public trust in business and government became the largest in 2012, when Japanese public trust in government dropped by 26% due to the Great East Japan Earthquake and the subsequent nuclear power plant disaster in 2011. Since 2012, when the Abe administration came to power, trust in the government of Japan has increased, and it was even higher than that of the Western world in 2014. Even though trust in the government of Japan modestly decreased from 2014 to 2015, this was paralleled by a decrease of trust in the business sector in Japan, and it still holds 40% of public trust. As such, the increasing support for and trust in the government and the continuity of the Abe administration allowed it the freedom of movement to instigate policy reform in a top-down manner.

Figure 6.1. Evolution of people's trust in governments and business in Japan and Western countries



Source: Edelman (2014a, b, 2015a, b).

Notes: Western countries refers to the US, UK, France, and Germany.

Second, Japan's traditional governance system has been criticised internationally, and increasing pressure from global investors is a critical force for Japanese corporate governance reform.

According to the Tokyo Stock Exchange, appointing outside directors is one of the most frequent requests by foreign investors (Tokyo Stock Exchange 2011a). The traditional relationship between Japanese local institutional investors and firms is based on long-term debt finance. Even though the Japanese financial system is bank-oriented and local banks have strong connections with companies, traditionally local investors are not active in engaging with local firms in terms of ESG issues, and they do not exercise voice at shareholder meetings. Recently, increasing pressure through proxy voting by foreign shareholders, under the auspices of International Shareholder Services (ISS), influences the implementation of outside directors in Japanese firms. Partly due to such pressure, 74% of listed companies on the first section of the Tokyo Stock Exchange had introduced outside directors by 2014 (Tokyo Stock Exchange 2014b). Global institutional investors are also active in engagement activities with Japanese firms. In May 2014, a total of 20 global institutional investors, including the California Public Employees' Retirement System (CalPERS), sent a letter to 33 leading Japanese companies (Nikkei Newspaper 2014). The letter requested an increase in the number of independent outside directors to at least one-third of the total by 2017; otherwise they would consider voting against management. The total value held by the 20 investors accounts for JPY 7.5 trillion, which accounts for almost 2% of the total market capitalisation of the first section of the Tokyo Stock Exchange (Nikkei Newspaper 2014). It was the first time that engagement activities gained much public attention in Japan in recent years, and collaborative engagement is now considered one of the greatest sources of the increasing pressure from foreign investors on Japanese corporate governance.

A third reason for the successful introduction of corporate governance reform policies was the changing geopolitical landscape around Japan. China overtook Japan as the world’s second-largest economy in 2010. Corporate governance reform is widely viewed as an important factor in maintaining Japan's competitiveness in global financial markets, and more broadly to sustain its economic position. Tokyo has gradually lost its place as the leading international financial hub within Asia: in 2014, Japan ranked third in Asia by the Corporate Governance Survey by the Asian Corporate Governance Association (ACGA) [9], behind Hong Kong and Singapore (CLSA and ACGA 2014). ACGA mentioned that Japan needed to make a significant effort to restore sustained economic growth under Abenomics, and to transform Tokyo into a globally competitive financial market (CLSA and ACGA 2014). Hence, corporate governance reform through the third arrow of Abenomics is a key aspect of the strategy for ensuring the future growth of the Japanese economy.

Fourth, there is a reasonably wide consensus among various actors, including non-state actors, that corporate governance policy reform is necessary, and their opinions are reflected in the detailed policy and policy instruments, such as the Stewardship Code. Despite the objection to legislation for the mandatory appointment of outside directors by the private sector, after the announcement of the government's policy reform, three large Japanese private think tanks jointly proposed 'The Concept for Tokyo Financial City' in order to suggest revitalising financial and capital markets under the government growth strategy. The Tokyo Metropolitan Government also launched a growth strategy manifesto called 'The Concept of an International Financial Centre' in support of the central government strategy in May 2014. More importantly, the opinions of the representatives of non-state actors are summarised to the government by the advisory groups for policy reform.

[9] The ranking takes into account corporate governance rules and practices, enforcement by authorities or institutional investors, the political and regulatory environment, accounting and auditing standards, and corporate governance culture (CLSA and ACGA 2014).

In supporting policy reform by various actors, the role of advisory groups was also important. Table 6.1 shows the membership of advisory groups involved in the policy reform process. The names of members or advisors in bold indicates foreign advisors. It is observed that each panel has two members from academia and three members from the government. The role of the first panel was particularly significant, because according to the policy recommendations made by this panel in December 2013, corporate governance reform should be considered as one of the most important reforms needed to strengthen the competitiveness of the Japanese economy, and the idea of a corporate governance code was introduced (Financial Services Agency 2013; Daiwa Institute of Research Group 2014). The membership of this panel consists of two members from domestic companies and financial groups, as well as local associations, besides the academics and government officers. The members from the business and financial sector of this panel are the leading actors in Japan, such as Sumitomo Mitsui Financial Group, Mitsubishi Corporation, and Nippon Steel & Sumitomo Metal Corporation. As such, the core concept of the reform as well as the original suggestion of instruments necessary for policy change involved the leading actors of the domestic business and financial sectors. Naturally, the majority of the panel for the Stewardship Code consists of domestic and foreign financial groups. The panel for the Corporate Governance Code consists of various actors, and it includes international organisations, such as the OECD. It is to be expected that the OECD advised the diffusion of global standards of corporate governance.

The advisory groups also contributed to the adjustment of global standards to the local context. This chapter focuses on analysing the Stewardship Code, which was implemented in 2014. Table 6.2 shows the comparison between the Japanese and UK Codes. The text in bold indicates concepts which are similar in both Codes, and the boxes with colour fill indicate differing principles. It is shown that the two Codes are similar regarding the disclosure of stewardship responsibilities (principle 1 in both Codes), managing conflicts of interest (principle 2), monitoring investee companies (principle 3), the disclosure of voting activity (Japan's principle 5 and the UK principle 6), and reporting periodically on their stewardship and voting activities (Japan's principle 6 and the UK's principle 7). The Japanese Code is different from the UK Code in only a couple of respects. The Japanese code states that institutional investors should 'solve problems though constructive engagement with investee companies' (principle 4), as well as 'have in-depth knowledge of the investee companies and their business environment and skills and resources needed to appropriately engage with the companies' (principle 7). On the other hand, the UK Code states that institutional investors should 'establish clear guidelines on when and how they will escalate their stewardship activities' (principle 4) and that they should 'be willing to act collectively with other investors where appropriate' (principle 5).

The differences between the Japanese and UK Codes are considered to occur because of the current practice of Japanese institutional investors' lack of shareholder engagement activities. The Japanese Code seems to take one step back from the UK Code by prompting basic fiduciary responsibilities, whilst the UK Code promotes collaborative engagement or escalating stewardship activities. Due to the lack of activity by local investors in responsible investment, the Japanese Code seems to be designed to encourage investors to acquire the knowledge and skills needed to engage with investee firms which are not familiar with engagement, as seen in principle 7 of the Japanese Code. Nevertheless, the Japanese code aims to promote constructive engagement with in-depth knowledge of investee firms and their business environment (principles 4 and 7 in the Japanese Code), rather than merely escalating stewardship activities (principle 4 of the UK Code).

Table 6.1. List of members of the Panel for Vitalizing Financial and Capital Markets, the Stewardship Code and the Corporate Governance Code

	Advisory board and members	Category						
		Domestic company	Domestic financial	Academics	Research/ Law/ Consulting	Government	Association etc.	Foreign
Column A: The Panel for Vitalizing Financial and Capital Markets								
Members	Professor, Graduate School of Economics			✓				
	Chairman, Japan Investment Advisers Association						✓	
	Chairman of the Board, Sumitomo Mitsui Financial Group, Inc.		✓					
	Chairman of the Board, Mitsubishi Corporation	✓						
	Director and Representative Executive Officer, Group CEO,Japan Exchange Group, Inc.		✓					
	Senior Advisor, Honorary Chairman, Nippon Steel & Sumitomo Metal Corporation Chairman, The Japan Chamber of Commerce and Industry	✓					✓	
	Professor, Graduate School of Economics			✓				
Secretariat	Financial Services Agency					✓		
	Ministry of Finance					✓		
Observer	Bank of Japan					✓		
	Total count	***2***	***2***	***2***	***0***	***3***	***2***	***0***
Column B: The Advisory Group for Japanese Stewardship Code								
Chair	Professor of Graduate Schools for Law and Politics/Faculty of Law			✓				
Members	Executive Director, ISS							✓
	Consultant. BlackRock Japan Inc., Doctoral Candidate (Business Law)							✓
	President & CEO, Tokio Marine Asset Management Co., Ltd.		✓					
	Representative Director, Governance for Owners Japan							✓
	Director, Senior Vice President, JX Holdings, Inc.	✓						
	President, G&S Global Advisors Inc.				✓			
	Associate Professor of the Institute of Social Science, The University of Tokyo			✓				
	Senior Managing Director, Mitsubishi UFJ Trust and Banking Corporation		✓					
	Senior Executive Vice President, DIAM, Co., Ltd.		✓					
	Chief Investment Officer, Pension Fund Association						✓	
	Director and Executive Vice President, Nippon Life Insurance Company		✓					
	Senior Researcher, Nomura Research Institute, Ltd.				✓			
	Representative Senior Executive Managing Director, Daiwa Asset Management Co., Ltd.		✓					
Managers	Counsellor, Civil Affairs Bureau, Ministry of Justice					✓		
	Counsellor, Japan's Economic Revitalization General Secretariat, Cabinet Secretariat					✓		
	Director, Corporate System Division, Economic and Industrial Policy Bureau, Ministry of Economy, Trade and Industry					✓		
	Director, Listing Department, Tokyo Stock Exchange, Inc.		✓					
	Total count	***1***	***6***	***2***	***2***	***3***	***1***	***3***
Column C: The Council of Experts concerning the Japanese Corporate Governance Code								
Chair	Professor of Economics and Finance			✓				
Members	Senior Vice President, Toray Industries, Inc.	✓						
	Chairperson, Japan Audit & Supervisory Board Members Association						✓	
	President & CEO, Tokio Marine Asset Management Co., Ltd.		✓					
	Representative Director, Governance for Owners Japan							✓
	Professor, University of Tokyo Graduate Schools for Law and Politics			✓				
	Director, Japan Corporate Governance Network						✓	
	Partner, Attorney at Law (Nishimura & Asahi)				✓			
	Partner & CEO, Industrial Growth Platform, Inc.				✓			
	Senior Officer, Legal Department, SEVEN & I HLDGS. Co., Ltd.	✓						
	Senior Researcher, Nomura Research Institute, Ltd.				✓			
	Chairman & Representative Director, RYOHIN KEIKAKU Co., Ltd.	✓						
	Chairman & President, The Japanese Institute of Certified Public Accountants						✓	
Advisor	**Head, Corporate Affairs Division, OECD**							✓
Observers	Counsellor, Minister's Secretariat, Ministry of Justice					✓		
	Director, Corporate System Division, Economic and Industrial Policy Bureau, Ministry of Economy, Trade and Industry					✓		
Secretariat	Financial Services Agency					✓		
	Tokyo Stock Exchange, Inc.		✓					
	Total count	***3***	***2***	***2***	***3***	***3***	***3***	***2***

Source: Financial Services Agency (2013, 2014b, 2014c).

Notes: Names in bold refer to non-Japanese members or observers.

Table 6.2. Comparison of the principles of Japan's and the UK Stewardship Code

Japan's Stewardship Code	**UK Stewardship Code**
So as to promote sustainable growth of the investee company and enhance the medium- and long-term investment return of clients and beneficiaries,	So as to protect and enhance the value that accrues to the ultimate beneficiary, institutional investors should:
1. Institutional investors should have **a clear policy** on how they fulfil their **stewardship responsibilities, and publicly disclose it.**	1. **Publicly disclose their policy** on how they will discharge **their stewardship responsibilities.**
2. Institutional investors should have **a clear policy on how they manage conflicts of interest** in fulfilling their **stewardship responsibilities and publicly disclose it.**	2. Have **a robust policy on managing conflicts of interest** in relation to **stewardship which should be publicly disclosed.**
3. Institutional investors should **monitor investee companies** so that they can appropriately fulfil their stewardship responsibilities with an orientation towards the sustainable growth of the companies.	3. **Monitor their investee companies.**
4. Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.	4. Establish clear guidelines on when and how they will escalate their stewardship activities.
	5. Be willing to act collectively with other investors where appropriate.
5. Institutional investors should have **a clear policy on voting and disclosure of voting activity.** The policy on voting should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies.	6. Have a **clear policy on voting and disclosure of voting activity.**
6. Institutional investors in principle should **report periodically** on how they fulfil their stewardship responsibilities, including their **voting responsibilities**, to their clients and beneficiaries.	7. **Report periodically on their stewardship and voting activities**
7. To contribute positively to the sustainable growth of investee companies, institutional investors should have in-depth knowledge of the investee companies and their business environment and skills and resources needed to appropriately engage with the companies and make proper judgments in fulfilling their stewardship activities.	

Source: Financial Services Agency (2014c) and Financial Reporting Council (2012).

As indicated by the literature on policy transfer (Stone 2004), it is true that policy instruments such as the Corporate Governance Code or the Stewardship Code are implemented by the government, and that non-state actors contributed to diffusing norms of global standards. Nevertheless, it is also important to note that non-state actors in advisory groups can influence which instruments of global standards are introduced, as well as the adaptation of these instruments to the local context. The process of reform takes place through the involvement of various actors, both governmental and non-state, rather than a simple implementation through copying. In other words, policy change through the implementation of instruments has to be done in a top-down manner by the central government, but the development of instruments involves non-state actors, even though they are only a few representatives of the sectors, such as the top executives of some of the most powerful companies or investors. The consensus for reform was not perfect, given the objections by the private sector. This affected the degree of reform such that it was not made mandatory to enforce outside directors; overall, however, there was reasonable consensus for policy reform inside and outside of the government (Stone 2004). It will be interesting to observe whether there will be any substantive changes in investment practices after most of the largest Japanese institutional investors sign up to the Stewardship Code, even though they had never been active in responsible investment or engagement activities with local firms before. Here, a question arises as to whether instrumental policy change can lead to the change of norms among firms or investors, or whether it remains merely a superficial change. The next section explores this question by analysing the informal constraints of Japanese corporate governance.

6.4. Japanese firms and their perceptions of global standards

In order to investigate the informal constraints of Japanese corporate governance, this section explores Japanese firms' norms and subjective perceptions in line with North (1990). Data collection was conducted through 24 interviews with managers from the 10 largest Japanese companies from the TOPIX Core 30, which consists of the companies with the highest market capitalisation and liquidity in the First Section of the Tokyo Stock Exchange (Tokyo Stock Exchange 2014c), as well as with six institutional investors or consultants based both in Japan and the UK. Table 6.3 shows the list of interview participants, including the repeated interviews with one of the ESG service providers. All the interviews except one company and two UK-based institutional investors were conducted in the local language, Japanese. This facilitates the collection of data, because the interviewees were found to be more open when expressing themselves in their native language, especially about their norms and practices, as well as their subjective perceptions. The interviews lasted in general 45 minutes to one hour, and were conducted between January 2013 and September 2014. Most of the interviewees came from the sample companies' Investor Relations (IR) or Corporate Social Responsibility (CSR) department, depending on the company, since the specific department that responds to engagement activities varies in Japan.

This section first analyses norms and perceptions related to shareholders; then Japanese firms' perceptions of global standards are explored. Finally, the role of local networks in Japan for improving ESG issues is investigated.

Table 6.3. List of interview participants

Company	Department	Position
Company A	CSR Department	Project Manager
Company B	Corporate Planning Headquarters, Management Planning Department	Manager
Company C	CSR Department	Manager
Company D	CSR & Environment Management Department	Manager
Company D	CSR & Environment Management Department	N/A
Company E	Investor Relations Department	Manager
Company E	Investor Relations Department	N/A
Company F	Corporate Communications and Investor Relations Group, Corporate Planning Department	General manager/ Group Leader
Company F	Corporate Communications and Investor Relations Group, Corporate Planning Department	Assistant Manager
Company F	CSR Division, Corporate Planning Department	Manager
Company G	Investor Relations	Manager
Company G	CSR Promotion Office	Associate Manager
Company H	Investor Relations Department, Accounting & Finance Division	Senior Manager
Company I	Planning Department, CSR and Environmental Strategy Division	Senior Manager
Company I	Planning Department, CSR and Environmental Strategy Division	Assistant Manager
Company J	CSR & Environmental Affairs Team, CSR & Environmental Affairs Department	Manager
Consultant A	N/A	Senior Consultant
Consultant B	Research	Senior Research Analyst
Investor A	Stock Transfer Agency Business Advisory	Associate General Manager
Investor B	Governance & Sustainable Investment	Senior Analyst
Investor C	Governance & Sustainable Investment	Senior Analyst
Investor D	N/A	Former CEO

6.4.1. Japanese firms' norms and perceptions related to shareholders

Table 6.4 summarises the norms and perceptions of Japanese firms towards shareholder engagement and index fund questionnaires. Column A displays the degree of companies' familiarity with engagement activities. The IR departments of most of the interviewee companies each tend to meet with 300-400 domestic and foreign investors in total per year. However, none of the interviewee IR departments raise questions in these meetings regarding ESG issues. Among the 10 firms, the majority of them answered that they were not familiar with engagement activities, and only one of them (company J) has a few SRI-related meetings per year with Anglo-American or European investors and also exchanges some emails, or receives up to five engagement letters every year. Engagement letters are often written only in English, and according to company A it is not always easy for Japanese firms to respond to them due to language issues and the cost of responding; however, all the interviewee firms mentioned that they tried to answer all the letters they received regarding issues related to IR or CSR. Further, there was almost no investor that informed the firms about the Japanese Stewardship Code even after they had signed up. Company H was informed by only one foreign investor that they had signed up to the Code. Two of the firms (company E and I) answered that they had never been engaged by responsible investors, at least as far as the interviewees knew. They were even sceptical that any Japanese firms have ever been engaged regarding ESG issues at this stage, due to investors' general lack of interest in ESG issues. As such, ESG engagement activities by investors are still unfamiliar and exceptional even among the largest Japanese firms.

Column B of Table 6.4 shows the companies' perspectives regarding collaborative engagement on the issue of board structure. The engagement letters requested an increase in the number of outside directors to more than one-third of the total board members within the next three years, and they were written both in English and Japanese. Given the unfamiliarity with engagement activities in Japan, this instance of collaborative engagement was a surprise to the target firms, and the engagement activities were even covered by the major Japanese economic newspaper, *Nikkei* (Nikkei Newspaper 2014). For instance, company H was surprised to receive a collaborative engagement letter for the first time even though it had not been engaged with at all for at least the previous two years. The contents of the letter were reported at the board level, but the company did not respond to the letter because it did not know how. Nevertheless, company H perceives that global investors compromised with Japanese firms by asking only to increase the number of outside directors to more than one-third of the total number of the board, rather than half, by taking into consideration the history of lack of outside directors in local firms. On the other hand, company H claimed that one of the global investors, one of the senders of the letter, never mentioned the contents of the engagement letter during face-to-face meetings. Hence, company H has the impression that global investors' internal coordination within each investor was not well organised across divisions for effective engagement, even though opportunities for meetings between global investors and Japanese firms were limited.

Whilst engagement activities are still limited in Japan, Japanese firms need to deal with proxy voting. ISS is one of the most influential shareholder service groups for proxy voting groups by foreign investors. Japanese listed companies drastically increased the number of outside directors since ISS announced a resolution to vote against management proposals if target companies did not introduce any outside directors in 2012. Those firms include large global firms with family ownership, such as Toyota and Canon, both of which finally appointed outside directors in 2013 and 2014 respectively. The proportion of the companies listed on the first section of the TSE with outside directors was 55.4% in 2012, but it increased to 62.3% in 2013, and finally 74.3% in 2014 (Tokyo Stock Exchange 2014b).[10] Column C of Table 6.4 shows the perceptions held by Japanese firms of changes in proxy voting standards by ISS. No Japanese company formally announced the introduction of outside directors due to the change of standards by ISS; informally, however, it seems that the influence of ISS is the main reason for the introduction of outside directors during these years. For example, company H confirmed in interviews that pressure by ISS was one of the main reasons why it introduced outside directors in 2014. Even after these first appointments, it remains unconvinced that the role of outside directors fits with existing institutions, such as the Japanese corporate background and labour markets. These issues will be explored later in Section 6.4.2.

[10] The proportion of companies with outside directors has been increasing mainly due to requests by foreign investors, but it was a moderate increase until 2012, i.e., it was 44.0% in 2007, 45.2% in 2008, 46.3% in 2009, 48.5% in 2010, and 51.4% in 2011 (Tokyo Stock Exchange, 2014b).

Table 6.4. Japanese firms' norms and perceptions related to shareholders

Contents	Sub category	Japanese firm's perception
Column A: Engagement familiarity	Unfamiliarity with engagement	'We never had direct communications on ESG issues as engagement activities with investors. Normally, investors are not interested in ESG issues.' (Company I) 'Global investors had never engaged as far as we know. We are even sceptical that there are any Japanese firms which are engaged by responsible investors.' (Company E, I)
	Language issues	'We normally respond to all the letters our IR or CSR receive, but it is often costly and time consuming due to language issues.' (Company A)
	Stewardship Code	'Even though our IR has 300-400 meetings with investors per year, there was only one (foreign) institutional investor which came to explain the Japanese Stewardship Code, and other investors never mentioned it.'(Company H)
Column B: Collaborative engagement (on board structure in 2014)	Confusion with engagement letter	'We were confused to receive the collaborative engagement letter. Even though the contents of the letter were reported to the board level, we were puzzled and did not know what to do, so we have not replied to the letter.' (Company H)
	Investors' internal coordination	'What is surprising to us is that even though we had a general IR-related meeting with one of the senders of a collaborative engagement letter, the investor never mentioned it. We presume that the investor does not communicate internally across divisions, and that the people in the meeting did not know the issue discussed in the letter.' (Company H)
	Investor's compromise	'We assume that foreign investors try to be generous to Japanese firms by asking them to implement "more than one third" of outside directors rather than more than half.' (Company G, H)
	Media coverage	'As the collaborative engagement letter was reported by Nikkei Newspaper, it became bigger news for us.' (Company F, G, H)
Column C: ISS standard change	Appointment of outside directors	'We finally introduced outside directors this year. Formally, we announced it in order to receive management advice. However, one of the main informal reasons is the change in proxy voting standards by ISS.' (Company H)
	Proxy voting	'We care about the negative screening of proxy voting of all group companies, but we have stricter corporate regulations.' (Company F, G)

Table 6.4. ***(Continued)*** **Japanese firms' norms and perceptions related to shareholders**

Column D: ESG questionnaires by index funds	Information disclosure	'We refer to the questionnaires to know which information should be disclosed as a global standard, and they help to improve our CSR.' (Company A, C, D, F, G, I, J) 'We do not disclose what we do not normally disclose with our corporate culture, such as labour standards.'(Company H)
	Difficulty in answering	'It is difficult to cover all group companies, especially after mergers or acquisitions, due to different financial or HR systems. It takes a long time, up to one month, just to collect the data for answering the questions related to the Carbon Disclosure Project (CDP) or SCOPE3, which is the sole responsibility of CSR staff.'(Company C) 'There is only one person who is in charge of communication with ESG service providers or answering questionnaires via email or phone call.' (Company F) 'It is difficult to answer the questionnaires because of their scope and the different financial closing date.'(Company I)
	Too many questionnaires	'We receive 50 questionnaires annually, and it is impossible to respond to all of them due to the limits of human resources.' (Company C) 'Recently, we received a questionnaire from a domestic institutional investor, and the contents did not seem important. We are not happy to answer drastically increased numbers of meaningless questionnaires because of the Stewardship Code. We would like to have meaningful dialogues that take a long-term perspective.' (Company H)
	Responsibility of department	'Environmental and social issues are the responsibility of the CSR department, but the General Affairs department is in charge of governance issues.' (Company E, J, Consultant A)
	Feedback to index funds	'We have an annual face-to-face meeting with Dow Jones Sustainability Indices (DJSI), and provide feedback to them. We have an impression that they are willing to engage in dialogue with them.' (Company I)
	Different social background	'We understand that the questionnaires by global index funds attach much importance to the framework, and they do not take into consideration the local social context. In particular, promotion of female employees is a social problem in Japan. We are doing our best given the Japanese context, but it is impossible to compete with Anglo-American societies in that regard.' (Company F)

Although Japanese firms are not familiar with engagement activities by investors, they often receive questionnaires on ESG issues from index funds or rating agencies, such as the Dow Jones Sustainability Indices (DJSI) or FTSE, and so they are more familiar with this type of ESG activity. Column D of Table 6.4 shows the perceptions of Japanese firms of ESG questionnaires. Whilst seven companies among ten mentioned that the questionnaires contribute to indicating which ESG information should be disclosed, one company (company H) does not disclose what they do not normally disclose within their corporate culture, such as information on labour standards. Similarly, some interviewees (e.g. company A, C, and H) mentioned that they do not traditionally have a culture of disclosure in the first place, and unlike Anglo-American companies they do not always make written rules. The number of ESG-related questionnaires varies by firm. Most of the interviewee companies receive only a few questionnaires every year, but one of the companies, company C, receives up to 50 questionnaires. Hence, it is not easy for it to answer all the questionnaires because of limited human resources. Company H expects that it would be uncomfortable with receiving, only as a formality due to the implementation of the Stewardship Code, an increasing number of questionnaires in the future, even though it confirmed that it was open to holding meaningful dialogues. It is also difficult to answer the questionnaires because of the different financial closing date in Japan, or the large size of company across whole group companies, especially after M&A due to different financial or human resource systems. Some companies have difficulties in understanding the meaning of some questions due to differences in business practices (e.g. company C, F and I). It takes a long time, up to one month, just to collect data for the questions related to Carbon Disclosure Project (CDP) or SCOPE3, which in the case of company C is the sole responsibility of CSR staff.

Some firms are critical of such questionnaires because they depend too much on quantification and frameworks which do not take into account the local social and business context. For example, given Japan's low rate of promotion of female directors, even though company F is eager to hire female directors much more than the average for Japanese firms, it does not receive a good evaluation at global level in comparison with firms in the Western world. Further, the organisational structure of Japanese firms makes it difficult to respond to shareholder engagement. Two companies (companies E and J) and one consultant (consultant A) mentioned that the CSR department was in charge of environmental and social issues, and the General Affairs department was in charge of governance issues. According to the interview with consultant A, the responsibilities of employees in Japanese companies often do not include responding to engagement activities, so sometimes the IR and CSR department impose the responsibility on each other. To this end, company I has a face-to-face meeting with DJSI once a year, and provides feedback. The company is considered traditionally Japanese as well as the world's leading company in its industry, and it has the impression that DJSI is willing to engage in dialogue with it.

6.4.2. The norms of corporate governance and perceptions of global standards

Table 6.5 summarises Japanese firms' norms of corporate governance and perceptions of global standards. Column A shows the perceptions by Japanese firms of the board structure and outside directors. Two of the interviewee companies (companies D and G) claimed that current Japanese governance practices do not separate the exercise and oversight of management, as required in the Anglo-American world. Japan has its own statutory auditing system, which takes the form of the traditional Japanese management system, under Japanese Business Law. Whilst the Western corporate governance system provides this function through audit committees, major Japanese firms implement a statutory auditing system, in which auditors are not in the formal decision-making process and do not have authority as directors (ACGA 2013). Whilst the ACGA believes that Japanese companies would be better served by the Western audit committees system than Japanese traditional statutory auditors, the majority of Japanese firms with statutory auditors lack the institutional and legal basis to appoint audit committees (ACGA 2013). Due to the uniqueness of the Japanese governance system, companies D and G mentioned that foreign investors were not familiar with the Japanese statutory auditing system; hence, these companies preferred to explain the system to them rather than implementing an Anglo-American style of governance.

Some firms were not fully convinced of the feasibility of appointing outside directors, considering the dynamics of the Japanese labour market: its low turnover rate and low mobility in employment, both due to long-term or lifetime employment, does not create a large enough pool of suitable directors. For example, company D expects outside directors to be industry specialists, especially in a rapidly changing field like the information technology industry, but it is not easy to find proper candidates in the Japanese labour market. Further, company H introduced some outside directors beginning in 2014, but they are not yet familiar with the industry in which the company operates, and their role is still quite limited. Hence, it will take time to receive meaningful management advice from them in the future. On the other hand, company I has taken a more flexible approach by appointing over half outside directors under a committees system. This company is considered to have implemented one of the most developed corporate governance systems amongst Japanese firms. The CEO at the time of the reforms was the president of the company's subsidiary in the US, after a merger with one of the departments of a large American company. Their view of outside directors is the most open among the interviewee companies. According to company I, outside and foreign directors contributed to changing the business environment and the logic of internal decision-making processes, because they were not familiar with the internal norms or corporate culture.

Column B of Table 6.5 shows the norms and perceptions of Japanese firms of other governance issues. It seems that there is a fundamental gap between the role of Japanese and Anglo-American boards. Traditional Japanese boards of directors, especially chairmen or CEOs, are eager to spread their management philosophy among their employees, as seen in the case of company D. In line with such gaps, company B even mentioned that the word ‘governance’ was not familiar to them, because the definition of governance must be different in every country. As already mentioned, some interviewees claimed that global investors need to take into consideration the Japanese business background or management systems when trying to diffuse global standards of corporate governance. For instance, company D mentioned that the Japanese traditional business environment – such as the *Keiretsu* system, which provides strong personal, financial and business ties within and across industries – might look problematic from an international perspective. However, such traditional Japanese management systems contribute to providing long-term benefits in management, such as maintaining stable relationships with business partners, rather than incurring the risks and costs of beginning relationships with new partners. Company J mentioned that Japanese traditional companies had their own cultural background, and that both companies and global investors needed to compromise to find common ground.

Table 6.5. Japanese firms’ norms and perceptions of global standards and local network

Contents	Sub-category	Japanese firm's perception
Column A: Board structure and outside directors	Statutory auditor system	'Japanese statutory auditor system is not easy to be understood by foreign investors due to its uniqueness; hence, we consider it more important to explain our current practices than to implement global style of governance.' (Company D, G)
	Japanese labour market and outside directors	'The Japanese labour market is based on long-term or lifetime employment; hence, turnover rate in Japan is not high, so mobility in employment is low. Therefore, there is no pool of directors that can serve as outside directors like in Anglo-American societies.' (Company G, H)
	Degree of expertise and outside directors	'Our company is in an industry that is rapidly changing. Hence, outside directors have to be specialists in our field.' (Company D) 'We recently introduced some outside directors, but at this stage, they do not know about our industry at all yet. People say that it is just costly to hire them, and they believe that a statutory auditor system is enough.'(Company H)
	Foreign directors	'We do not have any objections to being measured by Anglo-American standards, because they often seem plausible. Since our company appointed outside and foreign directors to more than half of its board seats, we started to take into account the logic of the directors from outside the company because they bring a fresh perspective as they are not familiar with the local rules or culture.' (Company I)
Column B: Other governance issues	Directors’ remuneration	'Global investors require disclosing directors’ remuneration, but we deal with it under the Japanese Business Law, which requires disclosure of more than USD 0.9 million.' (Company C, G, I)
	Unfamiliarity to ‘governance’	‘The word "governance" is not familiar, because the definition must be different in every country.' (Company B)
	Management gaps	'Our board is eager to diffuse the president’s “management philosophy”, rather than oversight of management. Apparently, there is a gap between the concept of the Japanese and Anglo-American board.' (Company D) 'We understand how written rules are important in Anglo-American societies, and it is not our culture to make everything written.' (Company C)
	Universality of Anglo-American management	'Unlike some other societies, we do not think everything in Anglo-American societies is correct. Japanese long-term business relationships such as those found in *Keiretsu* are valuable.' (Company D) 'Japanese traditional companies had their own cultural background, so both of the companies and global investors need to compromise to find a common ground.' (Company J)

Table 6.5. ***(Continued)*** **Japanese firms' norms and perceptions of global standards and local network**

Column C: Social issues	Human rights	'Human rights or labour standard issues outside Japan are considered as business risks.' (Company C, I)
	Gender diversity	'Global institutional investors' evaluation of Japanese firms on the issue of gender diversity is not good.' (Company A, D)
Column D: Catching up with global standards	Global CSR consultant	'We started to hire an international CSR consultant because we needed to collect information about human rights issues to start conducting business in Myanmar.' (Company D) 'We manage risks by hiring foreign CSR consultants, because we care about global ESG practices due to our sales in foreign countries, which comprise more than 80% of total sales.' (Company A)
	ISO and GRI	'We catch up with global standards by adopting ISO or GRI.' (Company A, B, D, F)
	Global coordinating offices	'We catch up with global ESG trends through coordinating offices in Washington and Belgium. Global environmental standards are decided in the US and Europe, so we lobby there.' (Company I) 'We have a global CSR team in four cities in the world, and collaboratively catch up to standard ESG practices.' (Company J)
	Global brand	'We try to keep up the standard of ESG practices to protect our global brand.' (Company J)
Column E: The role of local network	Higher E and S practices	'Japanese companies often voluntarily implement higher standards in their environmental or social policies with the direction of *Keidanren*.' (Company F)
	Local informal/ formal network for ESG	'The local network of the Global Compact coordinated by *Keidanren* provides opportunities for informal gatherings among Japanese companies, where we share information on shareholder engagement or ESG-related questionnaires.' (Company C, D, F)
	Awareness building of CSR	'*Keidanren* provide seminars by foreign CSR consultants, and Japanese companies attend to learn the latest global CSR practices.' (Company F)
	Promotion of Global Compact	'We signed up to the Global Compact, because one of the executives from *Keizai Doyukai* recommended that we sign up.' (Company F)
	Collective action in the industry	'We are the leading company in the industry, and we are always asked our opinion by *Keidanren* as a representative of manufacturers. If we implement new policies, there is an informal rule that all the other companies in the same industry should follow us to implement the same policy. Hence, we cannot implement any policies based solely on our own decision without a consensus in the industry.' (Company H)

Many interviewees mentioned there is a gap in disclosure of directors' remuneration. Global investors require full disclosure in this area, but Japanese companies tend only to disclose more limited information as required under Japanese Business Law, which only obliges disclosure if it exceeds JPY 100 million (USD 0.9 million); otherwise, only the total amount should be disclosed. Consultant A mentioned that the amount of remuneration is normally much lower in Japan in terms of what is relevant to profits in comparison with global standards. Indeed, the highest remuneration in Japan in 2014 was by the foreign CEO of Nissan, Carlos Ghosn, who received JPY 995 million (USD 9.23 million) (Nissan 2014). It is the third largest amount in the history of listed companies in Japan. His remuneration was more than half of the total amount of all the directors of Nissan, even though Nissan recorded one of its lowest stock prices in 2014 and it was the only Japanese automobile company which had negative consolidated operating income in the year. CEO remuneration at Nissan was criticised at the shareholder meeting by being compared with domestic competitors, but Carlos Ghosn justified himself by mentioning the high levels of remuneration at foreign automobile companies, such as General Motors, Ford, and Daimler (President 2014). The remuneration of the CEO of Nissan is five times greater than the remuneration of the CEO of Toyota, which recorded its highest profit ever in 2014 (Toyota 2014); whilst Nissan has a foreign CEO, Toyota has a traditional family management structure as well as a CEO from the Toyota family, and it appointed outside directors only in 2013 (Nikkei 2013).

Column C of Table 6.5 displays Japanese firms' perceptions on global standards for social issues. The data suggests that Japanese companies are particularly criticised outside Japan on the social issues of gender diversity and human rights or labour standards. Column D of Table 6.5 shows how the interviewee firms' catch up with global standards. Many of the interviewee companies catch up with global standards by adopting ISO (International Organization for Standardization) or the GRI (Global Reporting Initiative) reporting guidelines. Whilst some Japanese companies try to keep high ESG standards to protect their global brands, others hire domestic or international CSR consultants to help them catch up with global ESG trends. One of them, company D, first hired an international CSR consultant because it needed to collect information on labour standards to start a new business in Myanmar, where there is high sensitivity on the issue of human rights. Another company, company A, manages ESG risks by hiring foreign CSR consultants, because more than 80% of its total sales are in foreign countries. Company I, whose governance is considered one of the closest to the Anglo-American style, attempts to catch up with global trends through coordinating offices in Washington and Brussels, where the company conducts lobbying activities on global environmental standards. Further, company J, one of the world's largest companies, has global CSR teams in four cities in the world, and collaboratively catches up with the latest ESG practices. In Japan, CSR consulting is mainly provided by accounting firms, such as the Big Four firms, with relatively small CSR divisions. According to consultant B, the market for CSR consultation is quite limited in Japan; hence, accounting firms tend not to give much priority to this type of consulting.

Column E of Table 6.5 displays the role of local networks in promoting global standards. Business organisations in Japan are quite powerful actors in representing the voice of the private sector, as well as lobbying policy makers. Out of ten interviewee companies, four of them mentioned the role of *Keidanren* in the interviews. Even though such major business organisations are basically against corporate governance reform, such as the legislation for the mandatory appointment of outside directors, they play a role in promoting global standards, especially in environmental issues or signing up for the UN Global Compact. For example, according to company F, Japanese firms often voluntarily implement higher environmental standards under the direction of *Keidanren*. According to investors A and B, in general, Japanese firms perform better on environmental issues than the global average, which can be attributed to the contribution of local business networks. *Keidanren* also coordinate the local network of the Global Compact or seminars by global CSR consultants, which provide opportunities for informal gatherings among Japanese companies, where Japanese firms share information on shareholder engagement, the latest ESG practices, and ESG-related questionnaires. Further, company F signed up to the Global Compact on the recommendation of one of the executives from *Keizai Doyukai*. Whilst such local economic networks help to promote global standards, the nature of the collaborative behaviour of Japanese firms prevents an individual firm's decisions from having a transformative effect. Further, there are industries with strong networks among firms within industries. Company H is a leader in its industry and represents the industry's opinion to *Keidanren*. The interviewee representing this company mentioned that there is an informal rule that the rest of the companies in the same industry have to follow the leading company, which implies that new policy implementation matters to all companies in its specific industry. Hence, the leading company of some industries cannot implement new policies based on its own decision without a consensus with other companies in the industry.

6.5. Discussion and conclusion

This chapter examined the Japanese firms and political economy, which is shifting from a CME to an LME, and approached Japanese corporate governance from formal and informal perspectives. It analysed the recent changes in Japanese corporate governance to investigate how corporate governance policy reform was conducted and how firms embedded in local institutional settings perceive global standards, based on interviews with ten companies from the TOPIX Core 30. As a result of a rapidly changing political and economic environment along with increasing pressure from foreign institutional investors, there has been an acceleration in the pace of change within Japanese corporate governance. This chapter documents three main findings.

First, the research findings suggest that instrumental corporate governance reform cannot lead to immediate changes in the norms of corporate behaviour in existing institutions. As North (1990) indicated, culturally derived informal constraints are maintained despite policy change, and the outcomes are the result of the tension between persisting informal constraints and formal rules. Corporate governance policy reform has persuaded Japanese firms to introduce policy instruments close to Anglo-American standards, such as outside directors or committees systems. Nonetheless, Japanese management systems are still in many respects based on a lifetime employment system, and have a lower labour turnover rate than Anglo-American countries. In such institutional settings, traditional Japanese firms claim that the Japanese market does not possess the pool of professionals of general management to serve as outside directors that Anglo-American societies do. As Aoki (2001) argued, there are institutional complementarities in local corporate governance institutions such that multiple institutions function effectively together. Hence, even though traditional Japanese firms appoint outside directors, they claim to have difficulties in drawing useful comments for management from them, and there has not been much change in the boardroom. Further, just as Japanese firms do not change immediately, nor do Japanese investors immediately become active in engagement, due to the long-standing tradition that local investors do not exercise their voice on ESG issues as shareholders in Japan. Even though many of the major institutional investors in Japan have signed up to the Stewardship Code, it seems that there is not much change in firms' perceptions of engagement activities to date.

Further, also in line with culturally derived informal constraints argued by North (1990), this chapter confirms that the culture of collaborative corporate behaviour and the influence of local networks act as informal constraints to slow down changes in corporate governance practices. They stem from a local culture that defines the informal rules for individual firms and informal agreements for action to change collaboratively, as indicated by Storper (2000). Even though the Japanese economy is shifting from a CME to an LME system, these kinds of networks and collaborative actions remain important as rules guiding the actions of local firms. Japanese firms behave collectively as Witt and Redding (2009) have found, and this chapter confirmed that leading firms in certain industries are under informal constraints that their policies should change only with the consensus of other firms in the industry. Their culture does not allow a leading company to change by itself; hence, these kinds of informal constraints slow down the changes in corporate governance practices in Japan. Further, Japanese economic networks prevent voluntary and rapid change by lobbying against corporate governance policy reform, such as when the Japan Business Federation had been opposed to particular reforms. Nevertheless, the findings of this chapter suggest that these collaborative actions can contribute to improving Japanese ESG standards by promoting high environmental standards, as well as encouraging participation in global networks such as the UN Global Compact. This collaborative effort contributes to standards in the environmental practices of Japanese companies that are higher than those of global practices.

Second, this chapter demonstrates evidence that government-led corporate governance policy convergence towards global standards is conducted largely through the implementation of global policy instruments and that these are partly localised, with the involvement of non-state actors by reference to existing local institutions. The research results show a reasonable consensus among actors inside and outside government (Stone 2014) for policy reform. Several non-state actors have been involved in localising global instruments, notably the Stewardship Code and the Corporate Governance Code, through their participation in advisory committees. As a result of localisation to the Japanese context, where local firms are not familiar with engagement yet, the Japanese Code tries to promote meaningful dialogue, rather than increasing the number of engagement activities as the UK Code does. Further, legal reforms by the government introduced a new governance style, which is not purely Anglo-American but rather also incorporates elements of the traditional Japanese model. Traditional Japanese firms believe that they have their own governance characteristics which fit the Japanese market, such as long-termism, and they have the persistence to maintain it, without much willingness to convert to the Anglo-American system. Whilst Tiberghien (2007) argues that Japanese policy elites tend not to support pro-shareholder reforms, the latest Japanese corporate governance policy reform towards global standards was initiated by the government.

Finally, this chapter suggests that bilateral relationships between global investors and Japanese firms are important for changing corporate governance practices, in particular regarding board structure. Path dependence and history matter to local corporate governance, but the results of this chapter revealed the significant role of foreign investors in terms of the introduction of outside directors, which led traditional Japanese firms to break with their past. Focusing on bilateral relationships of corporate governance has been criticised from an institutional perspective, as corporate behaviour cannot be understood through a single variable, and it is more complex than simple bipolar models (Aguilera and Jackson 2003). It is true that path dependence and multilateral relationships with various actors are important for corporate governance research, and that corporate governance should be analysed as a result of a wide range of institutional domains (Aoki 2001). However, the findings of this chapter also suggest that foreign investors can directly impact on Japanese board structures, especially through proxy voting. Further, it is also found that ESG-related questionnaires by index funds or rating agencies are good opportunities for Japanese firms to learn what kind of information is required to be disclosed at a global level, because the questionnaires can be among the limited opportunities for Japanese firms to bring their management of ESG issues in line with global standards. Through the role of index funds or rating agencies, Japanese firms learn about the gap between global standards and Japanese firms' practices on ESG issues, such as gender diversity, as well as what standards do not fit the Japanese market, like director's remuneration. Nevertheless, the increasing volume of such questionnaires can be a burden for companies due to the limited human resources in IR and CSR departments of Japanese firms, even though many of them make efforts to respond.

The research findings revealed that there is room for global investors to pursue more effective engagement, and that global investors should improve their internal coordination practices. It seems that global investors are aware that it is important to take into account the local institutional settings for effective engagement, as seen in the case of the collaborative engagement on board structure. They tried to be effective by taking into account the local environment, because they compromised on their request to increase the number of outside directors to one-third of the total, not their ideal proportion of half. Nonetheless, despite increasing efforts by global investors, the level of awareness of engagement activities is still low in Japan due to traditionally inactive local institutional investors, even after the implementation of the Stewardship Code. It is found that neither engagement activities nor the contents of the engagement were mentioned when a Japanese company was meeting the same investor due to the different personnel. As the opportunities for meetings with Japanese firms are quite limited, global institutional investors need to coordinate internally across divisions when communicating with Japanese firms for effective engagement. Moreover, global actors, including global investors, need to consider if their 'global standards' are universally good enough to impose on the rest of the world with different institutional settings. For example, the 'global standard' amount of directors' remuneration is much higher than that of Japanese companies. Although global standards require companies to disclose the amount and the way to decide the remuneration, Japanese standards create much less social inequality. As such, questions surrounding the universality of global standards open discussions on the impact of the diffusion of global standards on local societies across the world under globalisation.

Even though this chapter contributes to the literature by studying Japanese firms, it also faces several limitations. As there was a difficulty in finding sample companies to participate in interviews, it is supposed that the sample firms which participated in the interviews for this chapter have a corporate culture which is more willing to disclose information with proper manpower than those that did not accept the request for interviews. Further, because of the limited number of sample companies, it was not possible to capture differences across industries. Due to the nature of this study, some firms were not willing to participate in interviews after having been informed of the detailed questions for the interviews. They answered that they had not experienced engagement activities by global investors or that they could not disclose any information relating to them. This indicates that there are still many Japanese firms that are not willing to disclose detailed ESG related information to the public.

In highlighting the role of national governments, global investors, and local firms, this chapter documents that each of them tries to find common ground in changing Japanese corporate governance. This chapter emphasises the importance of analysing informal constraints on corporate behaviour across societies, which leads to a better understanding of the process of the convergence of ESG practices towards global standards. Policy change in ESG issues towards global standards is not necessarily perceived to be a perfect fit by local firms in reference to the existing institutions. The details of policy instruments still diverge by taking into account the local institutional context, even though the government and global investors encourage convergence towards global standards. The speed of corporate governance change is slow in Japan because of the local culture of collective corporate behaviour, but this also indicates that comprehensive changes can be led by leading firms which can in turn create a consensus with other companies in the industry. Hence, how to change the leading companies is the key challenge in transforming corporate governance in Japan.

CHAPTER 7| Conclusion

7.1. Re-visiting the research question

This thesis shed light on the interplay between global institutional investors and Japanese firms, and explored the evolution of Japanese corporate governance. Global institutional investors conduct engagement activities with firms across the world, with expectations of improving local environmental, social and corporate governance (ESG) standards. With the power of global finance and policy convergence, local firms are pressured to transform their corporate governance systems and to improve their environmental or social practices in line with global standards. As a result of such influences, the characteristics of capitalist development have developed unevenly; some local firms transform their corporate governance systems despite local institutional complementarities, whilst others maintain their path-dependent systems.

There is a growing body of literature on shareholder engagement, which discusses global institutional investors' engagement activities with investee firms. However, most studies have been geographically concentrated in the Anglo-American and European world because active shareholders are mainly Anglo-American institutional investors. In this regard, other parts of the world have not been paid as much attention beyond the Anglo-American and European context. Further, whilst the extant literature emphasises the success of engagement with firms within the same space, the limitations of global finance in different parts of the world has not yet been much debated. It is for this reason that this thesis selected the theme of 'the interplay between global institutional investors and Japanese firms on ESG issues'. This issue has not been addressed since Jacoby (2007) pointed out the difficulties of engagement activities by the

California Public Employees' Retirement System (CalPERS) in Japan, and this thesis addresses shareholder engagement with Japanese firms in even more depth.

To explore the theme, this thesis took a unique approach to the power of global finance by focusing on the processes of change in corporate governance practices and on the limitations of engagement activities by global investors. What this thesis mainly reveals is how remote firms embedded in local institutions respond to the forces of global finance and policy convergence, and how global investors engage with such remote firms. The research examined the case of Japanese firms and political economy, through quantitative data collection and interviews with Japanese firms and global investors. It argues that Japan is a market which is shifting from a coordinated market economy (CME) to a liberal market economy (LME) (Hall and Soskice 2001; Sako 2007) and is distant both geographically and culturally from the Western world (Hofstede 1984; Ghemawat 2001). As mentioned in the introductory chapter, the main research question of this thesis is: *'What are the effects and limitations of global investors' engagement activities on Japanese firms?'* In order to address this main research question, the four substantive chapters of this thesis explored the following subsidiary questions:

1) What has been the evolution of shareholder activism and corporate governance change in Japan?
2) How is private engagement activity by global institutional investors informally conducted with Japanese firms?
3) How is collaborative engagement conducted and how powerful can global institutional investors be with firms in an industry with a lower proportion of foreign ownership in Japan?
4) How does corporate governance policy change converge towards global standards and can

policy reform bring about norm changes in corporate governance?

Section 7.2 gives an overview of the research findings by adumbrating the answers of the subsidiary research questions in terms of framing the answer for the main research question of the thesis. Section 7.3 discusses the broader implications of the findings, followed by Section 7.4 which discusses the limitations of the project and gives suggestions for future research. Finally, Section 7.5 concludes the thesis.

7.2. Overview of research findings

The interplay between global finance and local corporate governance is not only about the institutional interplay between existing institutions, but also about how the interplay impacts on firms embedded in institutions in remote spaces (Bathelt and Glückler 2014). Guided by the substantive questions that emerged from my data collection, through literature review and interviews with global institutional investors and local firms, my analysis focused on the consequences of the interplay in effecting corporate ESG issues in remote space, in particular, corporate governance issues in specific institutions and a specific political economy (Streeck 2009). It examined the process of Japanese corporate governance change in response to shareholder engagement among local firms, and also the process of policy convergence. As such, my substantive research questions predominantly focused on the immediate output of the interplay between global investors and local firms, and the responses of local firms and institutions. This in turn leads to substantive questions of how global investors strategically interact with remote firms, and what the limitations of the power of global finance are.

The drastic change of ownership in Japanese financial markets, with increasing ownership by foreign investors, brought changes to shareholder activism and corporate governance practices. The research findings revealed that foreign ownership is the most important factor influencing corporate governance reform; firms with higher level of foreign ownership tend to conduct more reform, in particular by introducing more outside directors. Nonetheless, there are also large Japanese firms with higher foreign ownership which are keen to maintain a traditional insider-oriented governance style. This kind of diversity among firms is observed in the process of shifting from CME to LME (Streeck and Thelen 2005; Sako 2007), with the diversity a result of the different responses of local firms to the influence of global finance. Whilst Japanese investors tend not to be active shareholders on ESG issues with their local institutional complementarity, global investors also keep their identity to exercise voice through public means. Even though shareholder proposals raise limited agendas due to limited submissions, proxy voting is increasingly important for Japanese firms because of stricter standards of voting in corporate governance issues by foreign proxy service agencies. Together these findings answer the first research question; 'What has been the evolution of shareholder activism and corporate governance change in Japan?'

In an institutional setting where local shareholders are not active in exercising voice in ESG issues through public means, local firms are not familiar with engagement activities which are privately conducted behind the scenes either. Global institutional investors are one of the few actors that exercise voice on Japanese ESG issues. In trying to effectively conduct engagement activities, global investors strategically target the largest firms with big brand names in a cost-efficient manner. The research results revealed that the contents of engagement with Japanese firms are focused on corporate governance issues. Further, the means of engagement is important for effective engagement. In particular, it was found that face-to-face contact is the most important way for global investors to engage with Japanese firms, because it contributes to transmitting complicated messages but with prompt feedback (Storper and Venables 2004). Letters are not an efficient means of engagement with Japanese firms, because of language and organisational structure issues. For effective engagement, global investors also conduct collaborative engagement activities and engage with local firms and authorities. These findings summarise the answer to the second subsidiary research question; ‘How is private engagement activity by global institutional investors informally conducted with Japanese firms?’

Regarding collaborative engagement, it draws more attention from both institutional investors and their clients by increasing the size of total managed assets, and enables multi-actor interactions among stakeholders. Multiple stakeholders are involved in firms’ sustainable issues, such as NGOs, media, national and sub-national regulatory bodies, and global institutional investors. Nonetheless, in a country like Japan where shareholder engagement is not common, local firms are not even aware that global institutional investors are interested in intervening in their ESG issues. Hence, global institutional investors are not powerful stakeholders for such remote firms, especially when their level of ownership is low. The media is a powerful stakeholder for these firms because it can directly impact corporate reputation. It was found that collaborative engagement is triggered by frequent media coverage. Nonetheless, the engagement activities do not seem to be continuous and the number of target firms is limited. These findings summarise the answer to the third subsidiary research question; ‘How is collaborative engagement conducted and how powerful can global institutional investors be with firms in an industry with a lower proportion of foreign ownership in Japan?’

My observations at the policy and firm level suggest that the local institutional environment impacts corporate behaviour and the speed of changes to their corporate governance practices. Policy convergence in corporate governance towards global standards occurs in a top-down manner through adoption by nation-states (Hebb and Wójcik 2005), when there is a reasonable consensus towards the reform. My research findings show that policy instruments are localised with the involvement of non-state actors, as seen in the process of the recent implementation of the Japanese Stewardship Code and Corporate Governance Code. Moreover, the research results revealed that collaborative behaviour is required in certain industries in Japan, and that peer pressure can prevent a firm from unilaterally changing its governance system without a consensus within the industry. Hence, more time is required for change because an industry-wide consensus must be gained. Such culturally derived informal constraints in corporate behaviour (North 1990) are maintained even after policy change, and it takes time to change the norms of Japanese firms and institutional investors because of existing institutions. These statements summarise the answer to the fourth subsidiary research question; 'How does corporate governance policy change converge towards global standards and can policy reform bring about norm changes in corporate governance?'

The above findings reiterated from the four substantive chapters (i.e. Chapters 3, 4, 5, and 6) show a linkage among the four questions, leading to the answer of the thesis' primary question, *'What are the effects and limitations of global investors' engagement activities on Japanese firms?'* This thesis offered a significant body of evidence to answer this question. On the one hand, global finance is a powerful influence on Japanese firms. The research results revealed that global finance and increasing foreign ownership have enough power to lead local firms to break with the past by requiring a change of their ESG practices. Japanese firms transform their corporate governance practices when there is enough pressure by foreign investors, even when convergence to global standards is not consistent with the local existing institutions. In particular, the increasing introduction of outside directors in Japan supports this argument. Japanese investors are not active shareholders, and do not engage on ESG issues as global investors do; traditionally the Japanese financial market is based on bank financing, and local firms have strong ties with banks. My research results suggested that global institutional investors are one of the only actors that pose an agenda to improve ESG issues through private engagement in Japan, where the legitimacy of civil groups like NGOs is relatively low.

On the other hand, global institutional investors face several limitations in their engagement activities with Japanese firms. First, in countries where local investors are not active in ESG engagement, local firms do not know how to respond to such activities and are not aware of the importance of developing dialogue with institutional investors. Hence, the most challenging issue for global investors for engagement in Japan is unfamiliarity with the engagement activities of Japanese firms. The research results revealed that most Japanese firms are not familiar with shareholder engagement and that it is difficult to gain proper responses by Japanese firms, especially via letter. Even if the recent implementation of the Japanese Stewardship Code might change such trends in the future, the research found that there has not been much change in familiarity with engagement amongst local firms.

Second, target firms of engagement are limited to a small number of large firms with global brand names due to constraints of costs. As is the nature of shareholder engagement, engagement activities are often conducted with target firms in reference to the asset owners' portfolio, and the proportion of assets is lower in remote markets due to the home bias effect.

The number of target firms in remote markets is limited to largest firms with global brand names because of global investors' client asset owners' portfolio. As such, engagement activities are also home-biased, and Japanese firms are less targeted for engagement by global investors, even if engagement is targeted in an industry which is led by Japan, as seen in Chapter 5. When CalPERS focused on engagement in Japan and the UK in the early 1990s (Jacoby 2007), the Japanese economy was still large enough, even though they had to withdraw their activities due to high costs. Hence, when market is smaller, there will be less influence from global investors because of the lower level of assets from the countries in the portfolio.

Third, the topic of shareholder engagement by global investors is sensitive to the effectiveness of engagement with remote firms, because it matters to the context of local institutions inside or outside of firms, such as ownership and industry context. Due to culturally derived informal constraints, in which collective change has been traditionally required, it takes time to change the norms of local firms towards global standards. As Jacoby (2007) mentions, global investors' engagement activities are 'culturally sensitive' issues; the contents of engagement also matter to the informal constraints of local firms, such as norms and culture, which determine firms' degree of persistence in maintaining the status quo. Further, shareholder engagement is conducted privately, and the process of engagement is not announced in public, which does not influence corporate reputation; hence, even though global investors engage with remote firms on issues related to firms' reputational risk, they have limited influence on local firms because engagement activities are not conducted in public.

7.3. Broader implications of the findings

The findings of the thesis from the Japanese case have shown a body of evidence that contributes to the broader topic of shareholder engagement and the geography of finance beyond Japanese firms and their ESG issues. This research applied concepts from economic geography and the geography of finance, and highlighted the interplay between global institutional investors and remote firms. As such, the thesis advanced the literature on corporate governance, shareholder engagement and comparative political economy.

In existing corporate governance literature (e.g. Miyajima 2007), the causal relationship between foreign ownership and Japanese corporate governance reform has been argued, but less addressed is why local firms continue to persist with maintaining their traditional corporate governance systems. My research findings argue that the process of change in Japanese corporate governance practices remains under the influence of traditional paradigms within existing institutions. Local corporate governance practices are shaped within complex, path-dependent institutions; hence, current practices do not become established in an isolated manner. As one of the examples of the persistence of local practices, the research revealed large Japanese firms' claim that introducing outside directors is closely related to the traditional local labour market with the lifetime employment system, and that the pool of directors who could serve as outside directors is not large enough. As such, global investors request the implementation of global 'forms' of corporate governance, but it is unknown if their 'function' works properly in the local institutional environment. Although the majority of the largest listed firms finally introduced outside directors due to pressure from foreign investors and the Corporate Governance Code, it is not yet known whether outside directors play a proper role on the board as expected by global investors.

In the shareholder engagement literature, there has been less attention and argument focused on what is important for successful engagement with remote firms that persist in maintaining the status quo, embedded in local institutions. Of particular importance, it is argued that, depending on the local institutional settings, firms' interpretation of stakeholders varies across borders, and that the power of stakeholders in local firms also varies across geographies and industries. Hence, the success of engagement by global institutional investors depends not only on the contents of engagement activities, but also on the investors' engagement strategies underpinned at the target firm, industry, national, and sub-national levels. It is also revealed that selecting the proper means of engagement depending on the geography of target firms is important for effective engagement. As such, the effectiveness of engagement activities of global investors should be explored more by taking into account the case of firms outside the Western world so as to enhance the discussion of the geography of shareholder engagement. The research revealed that proper understanding of the local institutional settings is necessary for effective engagement, even though there are always limitations on global investors committing to engagement with Japanese firms because of the cost of engagement.

As mentioned in the existing geography of finance literature (e.g. Clark and Wójcik 2007), the power of global finance and institutional investors can induce local firms to break with the past by promoting global standards of ESG issues. Whilst regulatory reform occurs much more slowly than bottom-up change, global investors have been committed to involving policy convergence by promoting it to local firms as well as to the authorities. Japanese firms avoid clarifying changes in their corporate governance systems due to pressure from investors, and they formally insist that they improved voluntarily. Nevertheless, this thesis confirmed the importance of bilateral relationships between firms and foreign investors, and provided enough evidence of the power of global finance among Japanese firms.

From a comparative political economy perspective, the findings of this research developed a more detailed understanding of the transition from CME to LME argued in the earlier literature (e.g. Sako 2007; Jackson and Miyajima 2007). My research suggests that policy convergence shifting towards LME is conducted through the adjustment of new policy instruments to fit with local institutional contexts. The involvement of non-state actors to localise the instruments creates less frictions with existing local institutions in policy convergence. By so doing, policy convergence avoids unnecessary frictions involving local firms' path dependence, embedded as they are within existing local institutions.

This thesis fills the gap of the VoC approach by providing evidence that cultural and informal perspectives should not be neglected. Exploring cultural and informal perspectives contributes to developing the arguments of various streams of literature, because existing literature tends to focus on formal institutions. It is argued by North (1990) that, despite the change of formal institutions, informal institutions do not change immediately due to culturally derived informal institutions. As such, culture and informal institutions are inter-related (Hofstede 2005) and are the key to path dependence (North 1994), which cause persistence to maintain traditional corporate governance systems among Japanese firms.

The importance of incorporating culture and informal institutions is opposed to the VoC's 'firm-centred' approach (Hall and Soskice 2001). Chapter 6 showed that collective action was needed among Japanese firms in certain industries, in order to change their governance structure. As Storper (2000) argued, such collective action can be considered as a re-concretised form of culture into conventions, such as the rules of spontaneous individual action, or institutions in situations of collective action. Traditionally, collaborative action might have started to pursue efficiency by avoiding conflicts among firms in the same industry; however, the norms and conventions to act collectively slow down the change. This finding is not consistent with the VoC's firm-centered approach, in which firms always pursue efficiency. The research result showed that norms can be based on local culture and path dependence, and that firms are not always efficient.

The thesis provided enough evidence that culture is an important aspect that influences the industry context, as well as the effectiveness of engagement activities by global investors. Chapter 5 showed that the long-term inter-firm business relationship is maintained due to the influence of the supplier's ability to control quality. In this instance, high-level quality control is as a result of local consumers' preference, based on their traditional eating habits, which can be considered as a cultural issue. As such, cultural perspectives can be an important constituent of the institutions and the industry contexts of a country. Further, another critical aspect of culture is the difference in language, which creates cultural distance (Hofstede 1984; Ghemawat 2001). The language difference and the level of the command of English directly impact the efficiency of the engagement activities of global investors with remote firms. The thesis provided evidence to support this argument in Chapter 4. Global investors' engagement strategies with Japanese firms incorporate language issues, which influenced the means of engagement. The chapter argued that face-to-face meeting was the preferred means of engagement with Japanese firms mainly due to language issues; hence, no frequent engagement activity is conducted due to the high cost of organising meetings. As such, language issues can impact the efficiency of engagement and, ultimately, they can impact the level of change of corporate governance systems.

Further, incorporating informal perspectives is also important for corporate governance and comparative capitalism research. Shareholder engagement conducted by global investors can be considered as an informal interplay between global institutional investors and local firms. Shareholder activism through formal means is mostly conducted in a hostile manner, whilst shareholder engagement is conducted informally by trying to develop dialogues with local firms. Whilst the influence of the internationalisation of the market on local institutions is not assumed in the VoC approach (Jackson and Deeg 2008), the engagement activities of global investors should not be neglected in the literature of comparative capitalism. In exploring such new financial actors, incorporating informality is important to understand their influence across the world. Without analysing their engagement activities, which are informally conducted, the role of global institutional investors around the world cannot be captured, and the impact of the interplay between global finance and local firms cannot be analysed properly. Even though shareholder engagement activities with remote firms can be rather limited, the power of global finance and its informal role should not be neglected in comparative capitalism literature, because of their increasing importance for the change of the regulations and corporate governance systems across societies.

These implications suggest the importance of empirical studies of firms and corporate governance, incorporating both formal and informal institutions, to enhance further development of existing arguments in shareholder engagement, corporate governance, and comparative capitalism literature. The following suggest implications for public policies and practitioners based on the research findings.

7.3.1. Implications for public policy

Policy reform under Abenomics seems to lead Japanese corporate governance policies towards global standards. Nonetheless, it is difficult to conduct top-down policy reform among actors with path-dependent development and institutional complementarities. Corporate reform is often hindered by the power of the private sector, including large economic organisations, as corporate governance reform had been opposed by the Japan Business Federation or peer pressure within specific industries. In such an environment, it is important to monitor the effectiveness of new policy instruments, like the Corporate Governance Code, as intended in the Japanese corporate environment. For example, the proportion of outside directors has been one of the key proxies of corporate governance reform in Japan. Nonetheless, the research suggests that the role of outside directors is questioned by large Japanese firms. The appointment of outside directors should be closely monitored, and the kind of role they could play should be considered.

The Japanese economy seems to be a dual economy with a separation between large firms that subscribe to global standards and the remaining firms maintaining a traditional Japanese governance style. Those firms that are keen to gain more foreign ownership transformed their governance systems, especially under recent strong pressure from foreign investors. Nonetheless, domestic investors, who have just recently implemented the Japanese Stewardship Code, account for the majority of corporate ownership. It is still unknown to what extent domestic institutional investors will commit to developing dialogues with local firms on ESG issues despite adopting the Stewardship Code, but it is expected that it will take time to change their practices and norms even after the implementation of the Code. In order to promote more familiarity with developing dialogues on ESG issues, it will be necessary to gradually implement regulatory frameworks for listing requirements by the TSE to develop integrated ESG investment in the long-term, such as broader disclosure of ESG issues in Japanese firms' financial reports.

Further, unlike in the US, there are no strong religious ethic-based groups involved in ESG investment in Japan, and the legitimacy of civil groups, which exercise voice on ESG issues, is quite limited because of severe financial constraints, as found in Chapter 5. The Japanese government should provide stronger support for local NGOs in order to promote a stronger civil society and thereby improve the ESG practices of local firms. This would encourage the development of agendas for enhancing dialogues on the ESG issues of Japanese firms.

7.3.2 Implications for practitioners for effective engagement

By taking into account the limitations of engagement activities with remote firms, the allocation of appropriate human resources is one of the challenges for global institutional investors. Japanese firms are not familiar with engagement and are generally not cognisant of the importance of developing dialogues on ESG issues. Whilst global investors' engagement activities are conducted in a cost-efficient manner, the person in charge of engaging with remote firms should understand the local institutional settings, and ideally speak the local language, for effective engagement. From the interviews conducted during the research, it was found that those who work for global investors are often cognisant of the Japanese corporate environment through ‘knowledge’ but not ‘experience’. They are often Japanese people in their late 20s or early 30s, educated in the country where the global investors exist (i.e. Anglo-American countries), and have never worked for Japanese firms in Japan. Even though Japanese society has become more open to listening to the opinions of younger generations despite its traditional seniority system, it remains questionable to what extent their conversations with target firms are effective enough to convince them of a change of ESG issues. In the interview in Chapter 6 with a manager from a Japanese firm whose employees tend to work for that firm for the entirety of their careers, it was claimed that global investors’ high turnover of staff responsible for engagement made it difficult to develop continuous dialogues with them despite their requirements based on long-term sustainability. This complaint came from a manager who worked for the CSR or IR division much longer than those who conducted engagement activities in the counterpart global investor. Hence, there is a difficulty to establish a ‘pipeline’ (Bathelt and Glückler 2011) between local firms and global investors to develop dialogues. Even though it would be costly, establishing local branches or creating a partnership with local institutional investors contributes to mitigating such problems, as some of investors already do.

It is expected that awareness of engagement will increase after the implementation of the Japanese Stewardship Code; nonetheless, for large Japanese firms, the ESG-related questionnaire is more familiar than engagement via other means such as meetings, as seen in Chapter 6. Some rating agencies communicate with Japanese firms in order to receive feedback, which contributes to global actors’ understanding of local institutions. Likewise, asking for feedback on engagement activities with target firms will contribute to understanding not only firm-specific issues but also the broader perspectives of local institutions. Such understandings of global investors will ultimately lead to conducting effective engagement activities on market-wide issues not only in a specific country but also across the world.

7.4. Limitations and suggestions for future research

Around the time when this thesis was conceived in 2011, the Japanese economy was at the nadir of a recession, as a consequence of the financial crisis in 2008 and 2009, and the Great East Japan Earthquake in 2011, as well as poor governance by the Democratic Party of Japan (DPJ) from 2009 to 2012. Underlying the serious depression, the fundamental problems of Japanese firms have been highlighted, such as the low profitable business structure of large Japanese firms, like electronic giants, and several corporate governance scandals of Japanese firms with global brand names. The Liberal Democratic Party (LDP) regained power in 2012 with the Abe administration, and corporate reform under Abenomics only started in 2014.

As such, one of the limitations of this thesis is the scope of its timeline. The corporate and political-economic environment surrounding Japanese firms and global investors is rapidly changing. The time scope of this thesis differs in each substantive chapter, but the entire thesis tried to capture the changes in political economy and the responses of local firms until the first half of 2015. Nonetheless, the reforms of Abenomics are still being implemented, and its long-term impact is still not known. It is expected that the regulatory framework will change in a few years' time in the areas related to this thesis; not only the Japanese Stewardship Code and Corporate Governance Code in 2014 and 2015, but also some other policy instruments or regulations will be implemented or amended in the future in the process of policy convergence towards global standards.

Moreover, even though this research on Japan as a case study provides findings to contribute to fill the gap in the literature, and the findings of this research will serve as a source of future comparative corporate governance studies or comparative political economy literature, another limitation of this thesis lies in the challenges of generalising the research findings from the case of Japan, due to the specificity and uniqueness of the Japanese institutional environment. This thesis defined and generalised Japan as a market shifting from CME to LME, distant both geographically and culturally from the West. The thesis tried to capture the evolution of shareholder engagement, corporate governance, and policy convergence, not only by revealing Japan-specific issues but also by suggesting wider implications to the other areas of geography, in order to contribute to various streams of literature. There are countries which would be in similar positions, but each case should be empirically analysed when applying the argument of this thesis to other geographical contexts.

Corporate reform and regulatory change in Japan is still underway. The following section maps the areas of future research.

7.4.1. The impact of policy convergence and norm changes

The impact of the implementation of new policy instruments should be explored, in accordance with North's (1990) view that norms do not change immediately after regulatory reform. The Japanese Corporate Governance Code, which was implemented in February 2015, recommends introducing at least two independent directors. The impact of the code on the restructuring of the board of Japanese firms will be gradually revealed, and it will contribute to further addressing how policy instruments can impact Japanese corporate governance practices. Further, the trend of engagement activities by local investors should be also examined after the implementation of the Stewardship Code. With the local institutional investors' identities in the local institutions, future research should explore whether local investors become active shareholders with the code or not. Whether the code is powerful enough to impact on the actor's identities within their institutional complementarity should also be investigated.

The argument on policy convergence and its impact opens the debate on forms and function of corporate governance, as mentioned in the earlier section of this chapter. For instance, whether ESG related policies and instruments properly function in remote countries with different institutional settings, such as Japan, warrants further investigation. The thesis provided evidence that global investors require target Japanese firms to implement global standards in their governance practices, whilst some Japanese firms insist that local institutions or labour markets are not ready to do so for the proper 'function' as intended by global investors.

This argument can be applied to the importance of analysing informal institutions, even though current corporate governance literature concentrates on formal institutions (Aoki *et al.* 2007). The process of the transformation of corporate governance systems cannot be understood only by analysing formal institutions, and exploring informal institutions is critical for the further development of research on corporate governance and political economy. By focusing on informal institutions, the role of outside directors in Japanese firms should be further analysed. From the perspective of formal institutions, increasing numbers of Japanese firms have introduced outside directors. Nonetheless, by looking at informal institutions, it remains questionable if newly appointed outside directors can bring change to the norms of the Japanese boardroom. Chapter 6 provided evidence that even though outside directors were introduced to traditional Japanese firms, they did not fulfil their role of monitoring managers, as expected in Anglo-American societies. As such, even though the board structure can be observed to converge with the global standard from formal perspectives, the role of outside directors in Japanese firms should be analysed from an informal institutions perspective, including the norms in the boardroom, for the proper understanding of the process of change of the Japanese corporate governance system.

7.4.2. The universality of global standards of corporate governance

As a force in global finance, global institutional investors are promoting their standards and values across societies. Whilst they impact on 'improving' local ESG standards, global standards do not always offer the best solution for all companies in the world. This point is related to the argument of the relationship between firm performance and board structure. In particular, how global standards, especially outside directors, contribute to Japanese firms and the Japanese economy has not been explored much yet. The role of outside directors is designed to provide more transparency to mitigate principal-agent issues, as well as to advise and oversee management based on their solid experience inside and outside of the industry.

Even though some executives serve at the top of several Japanese firms in the Anglo-American style, introducing global forms of governance structure itself is not equivalent to improving economic performance. The issue of adopting an Anglo-American style of corporate governance, including its high level of director remuneration, has been the subject of debate in Japan. For example, Sony implemented the Committees System, which is close to the Anglo-American system, in 2003, and introduced a foreign CEO, but it is suffering from a four-year continuous deficit, which was USD 2 billion in 2014. Sony has an outside director who was a president of Apple Computer in Japan, and the former CEO and president of McDonald's Holding Company Japan from 2004 to 2013. He is in his 60s, a Harvard Business School-educated executive. As a result of his short-term management, McDonald's Japan suffered from the worst deficit in the food-service industry, which was approximately USD 200 million in the fiscal year 2014. Nonetheless, he received a director remuneration totalling USD 3 million, and also retirement benefits (Asahi Newspaper, 2015).

Future studies should be conducted to reveal whether the roles of outside directors are properly fulfilled, or if they are mere facades. This point is similar to the future research agenda mentioned in Section 7.4.1, but revealing it empirically will provide an understanding of how global forms of corporate governance actually function in a remote market such as Japan and, if not, why they do not function as intended.

Moreover, it should be explored what global standards can contribute from various perspectives, because global standards are not universally ideal to all societies. For example, as discussed in the literature review of this thesis, in terms of social inequality, the top 1% earns much less in Japan than in the Anglo-American world (Dorling 2014). Hence, social inequality in Japan is less serious than in the West. In this regard, the Japanese wedge system can be considered better than global standards in terms of mitigating inequality in society. As such, the universality of global standards should be addressed in the future.

7.4.3. Argument on culture

Although this thesis argued the necessity to incorporate culture with corporate governance research whilst focusing on Japanese economic institutions, culture was not the major analytical tool throughout the thesis because of its vague definition and its insufficiently strong features (Storper 2000). As mentioned in Section 7.3, there is a need to incorporate cultural and informal perspectives to fill the gap in the literature, in particular further exploration is needed of the relationship between culturally derived informal constraints and corporate governance reform, in accordance with North (1990).

To fill the gap of the VoC approach (Hall and Soskice 2001), conducting a comparative study from cultural and informal perspectives between Japan and other countries, such as Germany, will add critical perspectives. As Witt and Redding (2009) approach institutions from normative perspectives to compare the rationale of senior executives in Japan and Germany, the difference between Japan and Germany should be explored more from cultural and informal perspectives, whilst both of them are categorised as CMEs.

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Further, it still remains possible to open the debate of local firms and their ESG issues based on the broader scope of concepts of culture. Scholars in cultural studies mention that Japan has been making much effort to Westernise itself since they opened the country in the middle of the Nineteenth Century; however, Japan has not made much effort to advocate and raise awareness about itself among Western countries (Keene 1983). This argument can be applied to corporate governance in Japan, which is considered as a special system due to Japan’s geographical and cultural distance from the West. More comparative studies on ESG issues of Japanese firms, with a wider scope of culture, will help to advocate Japanese firms to the world.

7.5. Final summary

The summary of findings and contributions to the literature from each substantive chapter provide implications for theory and recommendations to practitioners and policy-makers. On the need for assessing the impact of the latest policy reform, future research agendas are focused on the broader and deeper scope of issues stemming from this research, such as the issue of global standards, and the deeper argument on culture. The responses of Japanese firms to policy reforms and how they change norms and practices within the local institutional environment should also be pursued.

This thesis contributes not only to the shareholder engagement literature, but also to the literature on corporate governance, the geography of finance, and political economy. Even though this research is based on the case of Japan, the research findings, future research questions, and implications for practitioners are highly relevant to engagement with firms in other countries. Corporate governance systems will continue to transform, reflecting changes in ownership and the progress of policy reform and engagement by global investors. Hence, these research topics and policy recommendations should be continuously pursued in future.

As stated in the introduction of this thesis, this study addressed the preliminary question *'What are the effects and limitations of global investors' engagement activities on Japanese firms?'* by highlighting the interplay between global institutional investors and Japanese firms. The following reiterates the overall answers to conclude the thesis.

First, the interplay between global investors and local firms impacts local corporate governance by breaking down path dependence. Nonetheless, firms are embedded in local institutional complementarities and it takes time to change norms, due to culturally derived informal constraints. Top-down policy reform can lead to drastic corporate reform, with global standards applied through the instruments that are localised with the involvement of non-state actors.

Second, global investors suffer limitations on their engagement activities with remote firms. Due to the nature of engagement, it does not damage corporate reputation in public. With a lower proportion of ownership of global investors in the portfolio, the number of target firms for engagement in remote spaces is limited due to cost limitations. Global investors' understanding of local institutions is critical for effective engagement, especially when local firms are not familiar with responding to engagement.

In conclusion, this thesis met its research aim and objectives, and provided significant empirical findings through the analysis of Japanese firms and political economy, and the interplay with global institutional investors. The overarching research questions and empirical findings across each substantive chapter contributed to bringing broader implications and, in this regard, the research findings from the case of Japan are highly relevant to encouraging debate in shareholder engagement in remote countries.

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Center for Research in Security Prices, Graduate School of Business, University of Chicago.

APPENDIX A| Notes on papers and contributions of collaborating author (Chapter 4)

This appendix summarises the contributions of the co-authors of Chapter 4 (Paper 2) and provides relevant background information of the chapter.

Chapter 4: Institutional Shareholder Engagement with Japanese Firms

Gordon L. Clark, Sarah McGill, Yukie Saito and Michael Viehs, published in 'Annals in Social Responsibility'

I drafted this paper on Professor Clark's suggestion that I write a paper on a global institutional investor's engagement activities with Japanese firms by collaborating with Dr. Viehs. Based on my key findings that meetings are the major means of engagement with Japanese firms, Professor Clark contributed ideas on the deployment of 'face-to-face' contact as a means of shareholder engagement by providing relevant references, such as Storper and Venables (2004). Moreover, Professor Clark advised that I further develop an argument on the process of engagement based on home bias effect and transaction cost theory, argued by Kang and Stulz (1997) and Williamson (1979) respectively.

Dr. McGill contributed by providing comments for revising and restructuring, and I further revised the paper based on her comments. She also proofread and edited the whole paper in terms of language. In particular, she contributed to solving the difficulties facing the nuance of the text related to hypotheses development.

Dr. Viehs contributed his knowledge and experience with econometric analysis. Moreover, he provided the basic data on engagement until Q1 2011, which required a confidential agreement with the institutional investor. I further expanded the database in order to add more variables by collecting information from various sources such as the Shikiho CD-Rom and the institutional investor's database. He advised how best to analyse the data in terms of samples, models, and the use of 'Tobit analysis', thereby increasing the reliability of my research in terms of statistics (i.e. Tables 2, 4, 5, and 6).

An earlier version of the paper was presented at the PRI-CDC Academic Network Conference in Paris in November 2013, and Regional Studies Association International Conference 2013 in UCLA, Los Angeles, USA, as 'Shareholder engagement in responsible investment: evidence from a UK global investor's strategy in Japan, 2006-2012'.

Statement from Professor Clark, Dr. McGill, and Dr. Viehs

I confirm that the above details are true to the best of my knowledge and that the leading role of Yukie Saito of this paper is beyond dispute.

.... Date 27.8.2015

Professor Gordon L. Clark

.... Date 27/08/2015

Dr. Sarah McGill

.... Date 27/08/15

Dr. Michael Viehs

APPENDIX B| Detail of Persons interviewed
(In chronological order)

Male/ Female	Affiliation Category	Department / Division	Position	Location	Date	Language
Female	Global financial services	ESG Research	Manager	Tokyo	15-Aug-2012	Japanese
Male	Global financial services	n/a	Vice President	Tokyo	15-Aug-2012	Japanese
Male	Global financial services	Governance & Sustainable Investment	Senior Analyst	London	23-Jan-2013	Japanese and English
Male	Global financial services	Governance & Sustainable Investment	Senior Analyst	London	28-Jan-2013	English
Female	Global financial services	Asia & Pacific & Emerging Markets	Assistant Manager	London	22-Jul-2013	Japanese
Male	International NGO	Senior Oceans Campaign	Campaign Manager	Tokyo	25-Sep-2013	Japanese
Female	International NGO	Conservation	Fishery and Seafood Project Leader	Tokyo	27-Sep-2013	Japanese

Male	Retail company	Seafood Department, Food Merchandising Planning	Merchandiser	Tokyo	30-Sep-2013	Japanese
Male	Fisheries company	Investor Relations & Public Relations	Manager	Tokyo	1-Oct-2013	Japanese
Female	Fisheries company	Investor Relations & Public Relations	Assistant Manager	Tokyo	1-Oct-2013	Japanese
Male	Trading company	Press Relations Team, Corporate Communications	Manager	Tokyo	2-Oct-2013	Japanese
Male	Fisheries company	Finance & Investor Relations, IR Group	Manager	Tokyo	2-Oct-2013	Japanese
Male	Fisheries company	Technology & Environment Planning, Technology Management	Manager	Tokyo	2-Oct-2013	Japanese
Male	Trust bank	Stock Transfer Agency Business Advisory	Associate General Manager	Tokyo	2-Oct-2013	Japanese

Male	University	Marine Fisheries Research and Development Centre (JAMARC), the Fisheries Research Agency	Professor and former Executive Director	Tokyo	9-Oct-2013	Japanese
Female	Global financial services	Governance & Responsible Investment	Analyst	London (by phone)	23-Oct-2013	English
Male	International NGO	Global Engagement	Director	Oxford	10-Dec-2013	English
Male	Global financial services	n/a	Former CEO	Tokyo	9-Jul-2014	English
Female	Machinery company	CSR Department	Project Manager	Tokyo	7-Aug-2014	Japanese
Male	Railway company	Corporate Planning Headquarters, Management Planning Department	Manager	Tokyo	7-Aug-2014	Japanese
Male	Telecommunications company	CSR Department	Manager	Tokyo	13-Aug-2014	Japanese

Male	Telecommunications company	CSR & Environment Management Department	Manager	Tokyo	14-Aug-2014	Japanese
Male	Telecommunications company	CSR & Environment Management Department	-	Tokyo	14-Aug-2014	Japanese
Female	Real estate company	Investor Relations Department	Manager	Tokyo	15-Aug-2014	Japanese
Female	Real estate company	Investor Relations Department	-	Tokyo	15-Aug-2014	Japanese
Male	Insurance company	Corporate Communications and Investor Relations Group, Corporate Planning Department	General manager/ Group Leader	Tokyo	15-Aug-2014	Japanese

Female	Insurance company	Corporate Communications and Investor Relations Group, Corporate Planning Department	Assistant Manager	Tokyo	15-Aug-2014	Japanese
Male	Accounting company	-	Manager	Tokyo	15-Aug-2014	Japanese
Male	Insurance company	CSR Division, Corporate Planning Department	Manager	Tokyo	15-Aug-2014	Japanese
Male	Telecommunications company	Investor Relations	Manager	Tokyo	18-Aug-2014	Japanese
Female	Telecommunications company	CSR Promotion Office	Associate Manager	Tokyo	18-Aug-2014	Japanese
Male	Steel company	Investor Relations Department, Accounting & Finance Division	Senior Manager	Tokyo	21-Aug-2014	Japanese
Male	Electronics company	Planning Department, CSR and Environmental Strategy Division	Senior Manager	Tokyo	25-Aug-2014	Japanese

Female	Electronics company	Planning Department, CSR and Environmental Strategy Division	Assistant Manager	Tokyo	25-Aug-2014	Japanese
Male	Trading company	CSR & Environmental Affairs Team, CSR & Environmental Affairs Department	Manager	Tokyo (by phone)	4-Sep-2014	English
Male	Global financial research	Research	Senior Research Analyst	London	Repeated between 1-Oct-2012 and 9-Apr-2015	Japanese

APPENDIX C| Sample interview questions

At firm level

Regarding corporate governance and CSR

1. What makes your company's CSR better than other Japanese firms? (Size of company, reputational management, communication with stakeholders etc.)
2. Are there any difficulties in the CSR strategies? (Wide range of industry, global stakeholders, etc.)
3. What do you think is your role in your company? (Between global and Japanese perspectives)
4. Have you ever had any difficulties when explaining current ESG practices to global stakeholders?
5. How do you respond to global investors' requests on corporate governance, such as to increase the number of outside directors?
6. When your company communicated with global investors on sustainable fisheries, how did you respond to them? Do you think such engagement by investors meaningful?
7. How often do you communicate with SRI related foreign investors? (By meeting, email, letter, phone call etc.)
8. Are there any questions of the SRI questionnaires, such as by Dow Jones or FTSE, which are not relevant to Mitsubishi or Japanese firms? Do you provide any feedback to them regarding the questionnaires?
9. Do you think SRI related investors will be influential to improve Japanese corporate ESG issues in the future?
10. Do you have any suggestions to global investors when communicating with Japanese firms?
11. Do you have any suggestions to Japanese firms when they communicate with global stakeholders?

Regarding sustainable fish sourcing policy

1. What kind of organisations (NGOs, media, academics) or investors (foreign institutional investors) have contacted regarding sustainable fisheries practices/policies? How did you react to the request? How did you prioritise whom to listen to?
2. Has Mitsubishi ever improved its fish sourcing policies/practices? If so, why/how did you decide to do so, and who decided so?
3. Have you ever been contacted by shareholders regarding your fishing policy?
4. To what extent does Mitsubishi intervene in its subsidiaries' (such as Princes, Kyokuyo, Sanyo Suisan) fish sourcing policies/practices? How did Mitsubishi react to the Greenpeace

campaign to Princes?

5. What are difficulties in sustainable fisheries policy (higher costs, coordination complexity, transparency, tractability etc.), where national/international regulations are weak? (Japanese people are eager to consume blue-fin tuna, but some foreign NGOs and investors are active in sustainable fishing.)
6. How do you control for your supply chain? How do you decide where/which companies to import fishes (blue-fin tuna)? The eight largest Japanese trading firms, including Mitsubishi, agreed not to buy fishes from ships with a flag of convenience (FoCs) in 1999. Have there been any issues of FoCs when importing blue-fin tunas from the Mediterranean Sea?
7. How do you control reputational risks in relation with blue-fin tuna fishing?
8. Do you have any plans for improving fish sourcing policy (in particular, blue-fin tuna) and supply chain management? Have you ever been contacted by the Marine Stewardship Council?
9. Competitors, such as large Japanese firms in fisheries with lower foreign ownership, might not have been actively targeted by foreign NGOs or investors regarding sustainable fisheries policy. Do you think stronger national/international regulations are the only way for sustainable fisheries?
10. What made you decide to deal with seafood with Marine Stewardship?
11. Who decided and how did they convince the management?
12. What is the difference in operations before and after the stewardship? (Any coordination complexity/effort? More communication in the supply chain?)
13. Is it more costly to deal with MSC seafood?
14. Have you received any feedback from consumers/ investors/ stakeholders/ NGOs?

At investor level

1. Where does the initiative of engagement come from? What is the procedure for starting the engagement? Is the engagement process with Japanese companies the same as the US or European companies? Is there any hierarchy of different types of engagement?
2. Do you report to anyone the outcomes of the engagement?
3. How do you decide which company and how often to engage with - by size, industry with intensive ESG issues such as alcohol, tobacco, oil and gas, steel, electric power etc.? Are the companies engaged included in the portfolio? (Some companies are engaged only once and not continuously. For example, KAPCO was contacted regarding corporate governance issues in 2004, but nothing afterwards.)
4. Is it possible to get the latest engagement data with Japanese companies (till March 2012)?

(Are there any changes in engagements with Japanese companies after the issues of Olympus and TEPCO in 2011? What will happen to the engagements with Japanese companies when less and less of them are included in the portfolio?)

5. Active engagements (meetings in Tokyo in 2008) regarding the involvement in Burma and Sudan are observed with companies in oil and gas, steel, construction, and trading industries. Is it related to the engagement policy of F&C? How were those policies brought up?
6. It seems that the number of Japanese companies which are individually engaged is limited, and almost no engagement as a reaction to scandals of any engaged companies on ESG issues can be observed. Is it because of the low proportion of Japanese equity in the portfolio and also because of the cost of the individual engagement? (For example, the proportion of Japanese equity in the Stewardship International Fund is only 7.2%.)
7. Do you think if there is a limitation of engagement with Japanese companies by international institutional investors?

Regarding collaborative engagement

1. How did the collaborative UNPRI engagement on sustainable fishing start in 2011? Who brought up the ideas?
2. Were there any interactions with other parties, such as international organisations, NGOs, media, the Marine Stewardship Council?
3. How did you decide which firms to engage with?
4. How did you identify the issues in firms' fishing practice – like the issues written in the general letter, such as revenue exposure, sourcing policies, percentage of wild catch sourced sustainability, guidelines or standards for farmed fish?
5. What are the reactions of the firms? Are there any differences in the reaction depending on the characteristics of firms (nationality, size, ownership etc.)?
6. Are there any changes in firms' fishing policy/practices before and after the engagement, in terms of security of supply and reputation management? (Any direct impact of the engagement on sustainable fishing? Which company are they?)
7. Do you have continuous dialogues with firms?
8. What are the difficulties when engaging geographically remote firms?
9. What are the difficulties when engaging firms in the fishing industry?
10. When talking to firms, who do you speak with - IR, CSR, directors, or board members?
11. Can you describe the case of Mitsubishi and its business in blue-fin tuna regarding the questions 4-10 above? Did you request any special issues to Mitsubishi other than the

general letters?

To NGOs

1. How do you decide which firms to engage with? Did you engage with Company A regarding its blue-fin tuna fishing?
2. How do you approach firms to request that they improve their fisheries practices/policies? What kind of activities do you provide for sustainable fisheries?
3. What are the problems with Japanese firms regarding sustainable fisheries?
4. What are the issues in sustainable fisheries when large international firms are involved?
5. Do you think overfishing is caused by policy failure of national/international regulations?
6. In Japan, there are customer demands on fish (blue-fin tuna) and they consume 80% of the world's tuna. How should firms in fishing react to the demands, as well as requests for sustainable fishing by NGOs?
7. Do you interact with international organisations or national governments?
8. Do you interact with investors? (UNPRI and the Marine Stewardship Council)

APPENDIX D| Attendance at conferences that informed the research

Conference	Date	Location	Language	Form of participation
2011				
Corporate Governance and the Challenge of Creating 'Risk Intelligent' Cultures in the Boardroom, Corporate Social Responsibility Seminar Series 2011/12, Japan Foundation	30 Nov	London	English	Attendee
2012				
Graduate Student Conference: Institutional Investor and Corporate Governance for Sustainability, School of Geography and the Environment, University of Oxford,	18 May	Oxford	English	Presenter of a paper
Skoll World Forum 2012	28-30 Mar	Oxford	English	Active participant/ facilitator
2013				
Governance for Sustainability, Smith School of Enterprise and the Environment, Oxford University	16-17 May	Oxford	English	Active participant/ facilitator
Graduate Research Seminar, Nissan Institute of Japanese Studies, University of Oxford	25 May	Oxford	English	Presenter of a paper
The International Joint Conference, Japan Forum of Business and Society (JFBS) CSR & Corporate Governance	19-20 Sep	Tokyo	English and Japanese	Attendee
PRI-CDC Academic Network Conference 2013	12-13 Nov	Paris	English	Presenter of a paper
Valuing the high seas: economics, environment and governance in the 21st Century	21 Nov	Oxford	English	Attendee
Regional Studies Association International Conference, UCLA, 2013	16-18 Dec	Los Angeles	English	Presenter of a paper

Knowledge of/in 'Japan' in an era of globalization: perspectives from sociology, anthropology and Japanese Studies, International Center for Japanese Studies, Tokyo University of Foreign Studies		Tokyo	Japanese	Attendee
2014				
Japanese Economy, Nissan Institute of Japanese Studies, University of Oxford	10,17 Feb	Oxford	English	Active participant/ facilitator