Strategic Localization for Japanese Corporations in China: The Nexus of Harmonious Society and Public Value Creation

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Abstract
While the origins of Sino-Japanese hostility have been well-documented, it is also important to understand the role of Japanese corporations in promoting and fostering stable and lasting relations between the two countries. Experience has shown that this is not an easy task. The widespread dissemination of anti-Japanese activities by the Chinese media has further contributed to this negative image of Japanese corporations. All of this has forced Japanese corporations seeking to expand their businesses abroad to grapple with the unique challenges of operating within the highly politicized environment of China's harmonious society.

The following is an attempt to assess the creation of public value in the continuing efforts of Japanese corporations to expand market share in China. By taking into account Chinese expectations for the role of Japanese corporations in public life and identifying the factors that limit supply, it should be possible to formulate strategies to facilitate increased localization, now seen as essential for success in the consumer and investor markets of China. The goal of this study is to determine the optimal relationship between the creation of public value and commercial success for Japanese corporations operating in China, and in so doing, to develop an analytical framework for fostering greater localization in China. More specifically, I have focused on the performance of local management, as measured in terms of profits and growth, both the Japanese electronics industry and service industry. To date, only a handful of studies have addressed the effects of the creation of public value on the economic performance of Japanese corporations operating in China. This study is an attempt to fill that gap.

Keywords: Harmonious society, Publicness, Public Value, Public Value creation, Localization in society

I Introduction
Sino-Japanese relations are perhaps best described as both “near and far” -- near in terms of geography, culture and economics, yet far in terms of politics, customs and ways of thinking. In particular, the “negative heritage” of the Second World War has effectively alienated the two countries and led to a history of anti-Japanese sentiment in China that continues to this day. Though Sino-Japanese relations have generally improved since Junichiro Koizumi stepped down as prime minister in 2006, anti-Japanese sentiment in China has recently been exacerbated by disputes involving the Senkaku islands, the natural resources of the East China Sea, and controversies surrounding the Yasukuni Shrine, where the spirits of Japanese war criminals are honored. In March 2009, for example, Prime Minister Taro Aso sent a potted plant as an offering to the Yasukuni Shrine and referred to the Senkaku Islands, known in Chinese as the Diaoyu Islands, as Japanese territory protected under the U.S. -Japan Treaty of Mutual Cooperation and Security. Following the violent anti-Japanese demonstrations of 2005, it has also had an effect on Japanese companies and products, creating apprehension over the future of Japanese corporate and trade relations in China. The widespread coverage of anti-Japanese activities by the Chinese media has further contributed to the negative image of Japanese corporations. All of this has forced Japanese firms seeking to expand their businesses abroad to grapple with
the unique challenges of navigating the highly politicized environment of China’s publicist market economy.

Anti-Japanese sentiment aside, China is currently in the midst of a strategic crossroads in its development which begs a radical reexamination of the last thirty years of economic reform since the Cultural Revolution.\(^5\) As China has evolved from a “planned publicist economy”\(^6\) to a “socialist market economy”\(^7\) and a “harmonious society,”\(^8\) Japanese corporations have been obliged to approach localization in new and creative ways (Figure 1). In an effort to maintain a delicate balance between continuous economic growth, environmental protection and social stability, Hu Jintao and Premier Wen Jiabao\(^9\) have developed political ideologies based on the prioritization of social issues rather than purely economic ones. As a result, Japanese corporations attempting to make inroads into China must not only compete with domestic and multinational corporations, but also work to improve their public image in China by focusing on issues of corporate social responsibility.

The unprecedented rise of Chinese consumerism has also compelled Japanese companies to pursue new and creative strategies for localization. As recently as ten years ago, when mainland China was still used almost exclusively for manufacturing purpose, Japanese operations in China was relatively successful. Yet the subsequent shift in corporate strategy from “made in China” to “sold in China,” a direct result of China’s growing consumer class, has forced Japanese firms to adopt an entirely new approach to localization. Technological innovation and production efficiency are no longer sufficient, as Japanese businesses must now find ways to gain the trust of the Chinese market by making meaningful contributions to society.

Essentially, effective localization and sustainable development in China are the products of a symbiotic relationship between the business model and local management style of Japanese corporations and the political agenda of the Chinese government. The contributions made by Japanese corporations to Chinese society, as well as their eventual acceptance as good corporate citizens, should enable...
them to expand market share by gaining the acceptance of Chinese consumers as well. Under this model, the most accurate indicator of economic success is the return on Japanese investment in China’s social and environmental infrastructure. Hence, in order for Japanese corporations to even begin to realize their enormous expectations for the Chinese market, they must first learn to prioritize an active participation in grassroots activities outside the scope of their respective businesses. They must realize that economic success in China necessarily depends on compliance with local laws and regulations, in addition to addressing economic, environmental and social issues in a way that benefits local communities and society as a whole.

This study is an attempt to examine the ways in which the creation of public value can help facilitate the localization of Japanese corporations operating in China. The purpose of this study, then, is to determine the optimal relationship between the creation of public value and the commercial success for Japanese companies in China, and in doing so, to develop an analytical framework for fostering greater localization in China. Whether addressing environmental concerns or contributing to the public welfare, the creation of such value must take precedence over the pursuit of economic profit if Japanese companies hope to thrive in the Chinese marketplace.

II Theoretical Background

Based on the points outlined above, this section provides a critical assessment of prior research and how such research may help illuminate the unique challenges facing Japanese corporations in China. Moreover, the essential elements will be observed in terms of public value and clearly defines the analytical framework relating to corporate activities which attach great importance to a corporate sense of public duty.

1 Prioritizing Social Harmony over Economic Construction

It has been 30 years since the end of the Cultural Revolution and the “prioritization of economic growth,” yet the Chinese government has only recently begun to address the need for a “harmonious society,” as laid out by Hu Jintao’s signature ideology. Figure 2 illustrates the theory of “Scientific Development,” which envisions a shift in priorities from pure economic growth to social balance and is said to encompass the “comprehensive, coordinated and sustainable development” touted by the Third Plenum. As a result, China now faces an important turning point in its national construction in which the need to identify the unintended consequences of economic growth has become self-evident. In an effort to maintain a delicate balance among continuous economic growth, environmental protection and social stability, Hu Jintao and Premier Wen Jiabao have come up with a political ideology based on the prioritization of social issues rather than purely economic ones. This shift in socio-economic vision is perhaps one of the most significant to come about in China since economic reforms began in 1979. If the left side of the horizontal axis in Figure 2 indicates an inclination to prioritize equity over efficiency and the lower potion of the vertical axis indicates a tendency to strengthen regulation, Chinese society is shifting towards a more regulated model in which the importance of maintaining social equity is gaining ground over the pursuit of economic efficiency.

Notably, the notion of Scientific Development has emerged even as President Hu has attempted to foster a distinctly post-revolutionary society in which the market, the law, and government institutions circumscribe the parameters of political life. In some ways, this ideology attempts to reconcile these seemingly divergent political impulses. Though such an expansive definition risks rendering the concept meaningless, it does point to concerns about rural development, economic disparities, science and technology, and the environment.

As laid out by President Hu, the implementation of a “harmonious society” must be accomplished via the following policies: ① The building of closer relations between cities and regions; ② Energy conservation and environmental awareness; and ③ The bridging of economic gaps among different re-
gions. As part of any successful localization strategy, Japanese firms doing business in China must understand these policies in order to compete effectively. Given the dynamic conditions of Chinese market, an understanding of regulatory policies and an ability to predict changes in such policies is therefore essential for Japanese firms to formulate an appropriate localization strategy. Such an ability necessarily requires foreign corporations to grasp the underlying intentions of the government before pursuing a given business strategy. Generally speaking, foreign corporations that are able to acclimate to changes in regulatory policy can expect to garner political support which they can then rely on to do business more effectively. They must understand, for example, that relations between cities and regions have an enormous influence on supply-chain management within Chinese transportation infrastructure; that environmental awareness necessarily gives rise to energy-saving regulations which have an impact on production and risk management; and that bridging economic disparities requires close attention to personnel management.

While the dramatic upheavals caused by such ideological shifts are no doubt seen as risky for many Japanese enterprises, they also represent opportunities for them to grow and cultivate their corporate image. Dealing with these changes strategically, i.e. by keeping track of their timing and gauging their effects, will determine whether such companies achieve economic success. It is of the utmost importance that Japanese corporations develop the ability to adapt quickly to social and political contingencies, while at the same time navigating the changing contours of China’s ideological landscape.

2 The Unification of Economic and Social Concerns

Though numerous studies have addressed the strategic nature of corporate social activity, very little work has been done on the relationship between its underlying economic and social concerns. In general, studies on social activity have dealt with one of two topics. Ansoff (1990) and others have emphasized the need for social activities to have
strategic “marketing value” so that the corporation can remain competitive in a globalized market. Others, like Clarkson (1995) and others, have focused on the importance of philanthropic considerations in pursuing social activities, viewing the corporation as a powerful means of promoting social value and tackling important social issues. Yet none of the research to date has adequately developed specific strategies to effectively accomplish both.

Therefore, any strategic approach to corporate social activity must view such an activity as a form of “social concerns” based on the pursuit of the social good, rather than as an “economic concerns” based on the pursuit of private profit. Others argue, however, that participating in social activities outside the scope of the company’s business constitutes an unnecessary drain on corporate resource with the potential to obstruct economic concerns. Hence the need to find a suitable middle ground between social and economic concerns, all of which is particularly urgent at a time when restricting all corporate activity to economic concerns has become increasingly untenable. The importance of participating in social activity for the bottom line is clearly evident in the success of companies which have instituted policies to counteract the adverse impact of economic activities on the local environment. Only by identifying exactly where they can best contribute to the host society, and by publicizing such contributions, can corporations hope to achieve a degree of localization.

3 Finding Balance within the Socio-Economic Equilibrium

Modern corporations have come to realize that “sociality” – the social expression of a company – is embodied by the concrete activities in which it takes part. Practically speaking, this means that the types of activities a corporation chooses to pursue must now be governed by an organizational attachment to public conceptions of justice, including such value as accountability and public welfare. This notion of “corporate publicness” (hereinafter “publicness”) refers to the ways in which generally accepted social value is incorporated into the management philosophy and activities of a corporation.

As such, corporate publicness is also the means through which the economic existence of a corporation is integrated into its social existence (Figure 3).

As the private sector equivalent of sociality, principles of “publicness” require that corporations treat all stakeholders, including shareholders, employees, customers and members of the community at large, in a fair and selfless manner. For obvious reasons, this is not always an easy task. As far as shareholders are concerned, such treatment necessarily mandates the pursuit of economic concerns, while the treatment of employees, customers and the community requires a broader devotion to social concerns.

In an effort to find a suitable balance between the two, all corporate activity must therefore be managed, not only with the interests of the corporation in mind, but also with an eye towards maintaining suitable balance with socio-economic equilibrium for the realization of the greater good. Although the prominence and sophistication of social activities within the management agenda of multinational corporations has been enhanced in recent years, corporate scandals continue to arise. More often than not, this is the result of management’s tendency to focus solely on the private needs of a corporation and its shareholders at the expense of its social existence and the broader needs of its stakeholders.

As the importance of “sociality” for sustaining corporate legitimacy has increased, the notion of “publicness” could be rapidly becoming the universal standard to which all corporate activities are held. The following section seeks to elaborate on this standard by focusing on the role of public value creation.

4 Coming to an Understanding of Public Value

As discussed above, adopting a management strategy based on “publicness” requires finding an optimal balance between economic and social concerns. Underlying this balance is the need to conceive of corporations as instruments for the pursuit of “public value” as opposed to mere tools for the creation of economic profit. Obviously, by optimiz-
Figure 3 Publicness as an Expanded Notion of Sociality

Source: Drafted by author.

The term “public value” was coined by Harvard professor Mark H. Moore in his 1985 book *Creating Public Value: Strategic Management in Government*. In this work, Professor Moore conceived of public value in the broadest sense as an organizing principle in a public organization which would enable individual employees to propose new ideas about how to improve the workings of the organization. Until recently, little research has focused on public value creation within the private sector, though individual examples of social engagement have been discussed. This thesis attempts to fill that gap by examining public value creation as a means for corporations to achieve sustainable development in an increasingly competitive market. Generally speaking, public value can therefore be defined in two ways: (1) as an organizing principle in public organizations; and (2) as a means of pursuing corporate shareholder value in private corporations.

Figure 4 provides a framework for this second conception of public value creation based on the pursuit of both social and economic activities. Social activities, which generally focus on the environment, welfare, education, and culture, are those activities that companies engage in within the local and/or regional community over and above economic activities, which are meant to maximize profit for executives and corporate shareholders. If public value is defined as “the creation of both social and economic value in the interests of the corporate stakeholders,” the creation of public value should
be considered a priority above and beyond any efforts to improve the corporate image. This formulation of public value is also helpful to the extent that it offers a concrete and quantifiable standard for evaluating corporate responsibility, which is in itself a somewhat amorphous concept. It is therefore imperative that companies pursuing localization adopt a management style and strategy that incorporate public value creation as an integral part of the agenda.

5 Analytical Framework for Japanese Localization in China

As discussed above, localization requires that foreign companies foster better relations with society by contributing to public value. Whatever social activities corporations engage in, however, must be conducted strategically to ensure that their underlying conception of public value is compatible with that of the host country. There are several concerns that should be addressed given this issue of compatibility. In the case of Japanese corporations operating in China, distinct strategies must be developed for overcoming the obstacles to business in the Chinese market, keeping up with technological innovations, and navigating local regulations governing commercial transactions.

Figure 5 provides a general framework for Japanese firms operating in the Chinese market to formulate and assess effective localization strategies. First, Japanese corporations must learn to exploit their comparative advantages as well as China’s vast network of management resource, emerging commercial infrastructure, and pro-corporate policies. Such comparative advantages may include anything from superiority in product development and manufacturing methods to innovative marketing techniques and technology. Yet localization also demands that Japanese companies go one step further by using these comparative advantages in furtherance of China’s own policies and goals, including anything from improvements in the domestic economy to the expansion of social welfare and environmental conservation initiatives.

Essentially, effective localization and sustainable development are the products of a symbiotic relationship between the business model and local management style of Japanese corporations and the public agenda of the Chinese corporations. The contributions made by Japanese corporations to Chinese society, as well as their eventual acceptance as good corporate citizens, should enable them to expand market share by gaining the acceptance of Chinese consumers as well. Under this model, the most accurate indicator of economic success is therefore based on the return on Japanese investment in the development of China’s social and environmental infrastructure. Hence, in order for Japa-
nese corporations to even begin to realize their enormous expectations for the Chinese market, they must first learn to prioritize an active participation in social contributions through social activities outside the scope of their respective industries. That is to say, they must realize that economic profit in China necessarily depends on the creation of public value.

At a time when China’s “socialist market economy” is in full swing, there is a growing interest, on the part of the government as well as society, in the importance of corporate social responsibility for sustainable development. For Japanese corporations operating in China, brainstorming about what they can do to address the needs and demands of Chinese society, even before such demands materialize, is a prerequisite for expanding market share. As a result, Japanese companies must learn to predict the emergence of social issues in China and structure their localization strategies accordingly. Only when social concerns become the standard for corporate performance will Japanese companies begin to gain a competitive edge in the Chinese market.

With this analytical framework in mind, the following chapter will examine the various types of social activities currently engaged in by Japanese corporations in China, identifying those activities with a particular resonance among the local populace. An attempt will also be made to assess the impact of this new-found corporate responsibility on organizational structure and management style, and to formulate novel localization strategies to account for the growing importance public value.

III  Hypothesis and Methodology

1 Methodology

Rather than focusing on the Chinese consumer, as so many studies do these days, this survey was aimed exclusively at Japanese corporations with operations in China. On January 16, 2007, a questionnaire was mailed to the randomly selected public
relations departments of 100 Japanese corporations from various industries, all of which have offices in mainland China (Table 1). The aim of the survey was to determine whether there is a correlation between efforts to create public value within the Chinese market and economic performance for the 2006 fiscal year. For the purposes of this study, overall profitability and growth potential were used to measure financial performance, while investment and frequency in various social activities were used to measure engagement in social activities.

2 Hypothesis

The survey was designed specifically to test the following two hypotheses:

1. That engagement in social activities within the Chinese market increases the profitability of Japanese corporations operating in China; and
2. That engagement in social activities within the Chinese market increases the growth potential for Japanese corporations operating in China.

3 Findings

Generally speaking, the results indicate that almost all of the Japanese corporations which responded to the survey have exhibited some level of public engagement within mainland China. The following is an analysis of these results.

3.1 Classification of Corporations

While only 17 out of 100 corporations responded to the survey, those that did are representative of a diverse range of industries from both the manufacturing and services sector. Since most did not consent to the disclosure of their identities for the purposes of this study, they are hereafter referred to as corporations A–Q (Table 2).

3.2 Classification of Social Activities

Generally speaking, the results indicate that the social activities most often practiced by Japanese corporations in China may be divided into the following four categories: welfare, education, culture, and environment (Table 3). Of these four, activities involving cultural exchanges, such as sponsoring Japanese speech contests or supporting Olympic sports teams, were particularly commonplace. Yet with the sustained and rapid growth of the Chinese economy, public activities involving both educational support and public welfare have been receiving increasing attention. Several Japanese corporations have also been involved in efforts to increase energy efficiency and to curb deforestation and desertification. Note that while these activities are clearly beneficial to Chinese society, they also represent effective strategies for boosting brand-name recognition and improving corporate image.

The corporations surveyed engaged in social activities in a variety of different fields, including sports, education, environmental awareness and protection, and cross-cultural communication. While the public engagement of the manufacturing industry (i.e., automobiles, electrical appliances, and agriculture) was mainly focused on welfare, that of the service industry (i.e., finance and mass media) was predominantly cultural in nature. Generally speaking, the two most common activities involved either cross-cultural exchange (35%) or public welfare (28%) (Figure 6).

3.3 Investment in Social Activity

As far as public investment is concerned, the re-
### Table 3 Classification of Social Activities

<table>
<thead>
<tr>
<th>Category</th>
<th>Social activity</th>
<th>Description</th>
<th>Corporations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Culture</strong> (47)</td>
<td>Television sponsorship (6)</td>
<td>Sponsoring television shows</td>
<td>B(1), G(3), K(2)</td>
</tr>
<tr>
<td></td>
<td>Music sponsorship (4)</td>
<td>Sponsoring concerts, music festivals, opera and traditional performance arts</td>
<td>A(1), D(3)</td>
</tr>
<tr>
<td></td>
<td>Event sponsorship (1)</td>
<td>Sponsoring competitions involving Japanese chess, bridge, painting and calligraphy</td>
<td>B(1)</td>
</tr>
<tr>
<td></td>
<td>Cultural exchanges (8)</td>
<td>Organizing forums for cross-cultural exchanges (including scientific forums)</td>
<td>B(3), C(2), G(1), H(2)</td>
</tr>
<tr>
<td></td>
<td>Sports sponsorship (20)</td>
<td>Sponsoring marathons, walks and aerobic activities</td>
<td>A(2), C(2), D(2), F(2), H(2), I(3), K(3), M(2), O(1), Q(1)</td>
</tr>
<tr>
<td></td>
<td>Other cultural activities (8)</td>
<td>Contributing to the restoration of the Great Wall; organizing parties within the local community; sponsoring artists</td>
<td>B(1), C(1), F(5), K(1)</td>
</tr>
<tr>
<td><strong>Welfare</strong> (38)</td>
<td>Support for the disabled (3)</td>
<td>Donating to and supporting the employment of the disabled</td>
<td>B(1), C(2)</td>
</tr>
<tr>
<td></td>
<td>Combating poverty; elderly and children services (23)</td>
<td>Supporting municipalities and nursing homes with charitable donations</td>
<td>A(6), E(5), F(1), G(5), I(2), J(2), L(1), M(1)</td>
</tr>
<tr>
<td></td>
<td>Medical support (6)</td>
<td>Offering medical facilities; sponsoring blood drives; providing medical insurance training</td>
<td>A(5), N(1)</td>
</tr>
<tr>
<td></td>
<td>Other charitable contributions (6)</td>
<td>Donating and contributing to disaster relief efforts</td>
<td>A(4), D(2)</td>
</tr>
<tr>
<td><strong>Education</strong> (27)</td>
<td>Scholarships and grants (5)</td>
<td>Offering scholarships and financial aid; sponsoring study-abroad programs and research promotions</td>
<td>B(1), C(1), D(1), E(1), H(1)</td>
</tr>
<tr>
<td></td>
<td>Vocational training centers and teaching materials (9)</td>
<td>Building elementary schools; donating equipment, teaching material, school supplies, and sporting goods</td>
<td>A(1), B(1), C(1), F(1), G(1), I(1), J(1), N(1), P(1)</td>
</tr>
<tr>
<td></td>
<td>Educational program support (6)</td>
<td>Establishing academic endowments and engineer training centers; sponsoring seminars and lectures</td>
<td>A(1), C(1), E(1), H(1), I(1), N(1)</td>
</tr>
<tr>
<td></td>
<td>Japanese language education (2)</td>
<td>Sponsoring Japanese language debates</td>
<td>C(1), H(1)</td>
</tr>
<tr>
<td></td>
<td>Other events and volunteer work (2)</td>
<td>Sponsoring competitions in business and various technical fields</td>
<td>E(1), L(1)</td>
</tr>
<tr>
<td></td>
<td>Traffic safety training (3)</td>
<td>Establishing driving schools; constructing pedestrian bridges, and posting traffic safety placards</td>
<td>E(2), N(1)</td>
</tr>
<tr>
<td><strong>Environment</strong> (23)</td>
<td>Beautification campaigns (10)</td>
<td>Contributing to forestation efforts and the prevention of desertification; participating in garbage pickup activities</td>
<td>A(4), B(1), C(1), E(1), G(1), N(1), O(1)</td>
</tr>
<tr>
<td></td>
<td>Environmental protection and education (8)</td>
<td>Restricting the use of poisonous substances; teaching advanced waste management techniques</td>
<td>B(2), D(2), H(1), J(1), Q(2)</td>
</tr>
<tr>
<td></td>
<td>Environmental technological sponsoring (5)</td>
<td>Sponsoring the development of solar power</td>
<td>J(1), L(1), O(1), P(1), Q(1)</td>
</tr>
</tbody>
</table>

The results indicate that of the 17 corporations surveyed, 4 made annual contributions of less than JPY $1$ million, 5 made annual contributions of around JPY $25$ million, 4 contributed around JPY $50$ million, and only 1 contributed more than JPY $200$ million per year (Figure 7).

### 3-4 Frequency of Social Activity

The results further indicate that the number of public activities engaged in by Japanese corporations for 2006 was relatively small. Of the 17 corporations surveyed, most participated in less than 10 such activities per year while only one engaged in more than 20 (Figure 8).
Figure 6 Fields of Social Activities

- Culture: 35%
- Education: 20%
- Welfare: 28%
- Environment: 17%

Figure 7 Investment in Social Activity

- Environment: 18
- Education: 27
- Welfare: 37

Figure 8 Frequency of Social Activity

- Environment: 5
- Education: 1
- Culture: 8

Number of Corporations

- Million Yen:
  - ~1: 4
  - ~25: 5
  - ~50: 4
  - ~100: 2
  - ~200: 1
  - 200+: 1

- Number of Events:
  - ~5: 7
  - ~10: 5
  - ~15: 4
  - ~20: 0
  - 20+: 1
3-5 Incentives for Social Engagement

The results in Table 4 are noteworthy insofar as they suggest that the incentives for Japanese corporations to engage in social activities within China are primarily passive. This could likely be a result of the need to focus on business at hand, which necessarily leaves little time for non-business matters. It may also reflect the fact that these companies have simply not been in China long enough to establish themselves. The fact that only 20% of the companies surveyed were intent on improving their corporate image also suggests that Japanese corporations have not adequately publicized their level of public engagement within the local market. In order to differentiate the brand and improve their image in China, it is important that these corporations not only step up their efforts at public engagement, but also publicize such efforts either in connection with or independent of product advertising.

3-6 Publicizing Social Engagement

Although the level of social engagement among Japanese corporations in China continues to rise, these activities go largely unreported by the Chinese media. The results of the survey suggest that as much as 35% of Japanese corporations do not advertise their social activities within the Chinese marketplace (Figure 9). Thus, despite the fact that many Japanese corporations have been engaged in social activities outside the scope of their business for the past several years, the likelihood that the Chinese populace is aware of these activities remains low. Given the culture of anti-Japanese hostility in China, it is essential that these corporations actively publicize their contributions to Chinese society.

4 Interpreting the Results

If there had been a greater response rate, a regression analysis could have been conducted on the replies to the survey so as to verify the existence of a causal relationship between social engagement of Japanese corporations in China and indicators of financial success. Since the response rate was only 17%, however, a correlation analysis was performed instead. For the purposes of this analysis, the relevant variables included public investment in public activity, frequency of public activity, profitability, and growth potential (Table 5).

For the purposes of this survey, the profitability of Japanese corporations A-Q for fiscal year 2006 was measured in terms of return on equity (ROE), which remains the most effective means of assessing how much money a company is making for its investors. ROE is calculated by dividing the company’s net profit by shareholder’s equity, and is therefore indicative of how much the company is making compared with how much it has invested. The growth potential of Japanese corporations A-Q was based on the five-year average revenue growth rate from fiscal years 2001 to 2006.
Table 5  Defining the Variables

<table>
<thead>
<tr>
<th>Category</th>
<th>Variable</th>
<th>Identification of Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Performance</td>
<td>Profitability</td>
<td>Profitability of Japanese corporations A-Q for fiscal year 2006 was measured in terms of return on equity (ROE)</td>
</tr>
<tr>
<td></td>
<td>Growth potential</td>
<td>Growth potential of Japanese corporations A-Q was based on five-year average revenue growth rate from fiscal years 2001 to 2006</td>
</tr>
<tr>
<td>Engagement in Social Activity</td>
<td>Investment</td>
<td>Investment in social activities was based on amount of investment of Japanese corporations A-Q in social activities for fiscal year 2006</td>
</tr>
<tr>
<td></td>
<td>Frequency</td>
<td>Frequency of social engagement of Japanese corporations A-Q was based on frequency of social activity for fiscal year 2006</td>
</tr>
</tbody>
</table>

Figure 10  Statistical Correlation between Profitability and Investment in Social Activity

![Graph](graph1.png)

Correlation coefficient = 0.66

Figure 11  Statistical Correlation between Profitability and Frequency of Social Activity

![Graph](graph2.png)

Correlation coefficient = 0.71

The rankings for the “Most Valuable Responsibility Corporation Award,” conferred by the Union of Corporate Responsibility Development since 2005, are based on the twin criteria of “investment” in and “frequency” of social activities. These two criteria were therefore incorporated into the survey as reliable indicators of social engagement. For the purposes of this survey, investment in social activities was based on the amount invested in social activities by Japanese corporations A-Q for fiscal year 2006, with frequency of social engagement based on the frequency of social activities for the same period.

1. Correlation between Profitability and Investment in Social Activity

The strong statistical correlation between profitability, investment in social activities, and social engagement (Figure 10 and 11) could be interpreted as evidence that Japanese corporations’ participation in social activities within China has driven sales and profitability. On the other hand, it could also mean that highly profitable corporations simply have more resources and a greater capacity to engage in social activities. Based on an analysis of the survey results discussed above, however, the decision-making authority on the role of social engagement in the budgetary and promotional strategies of Japanese corporations rests primarily with the corporate headquarters in Japan. This suggests that the social engagement of Japanese corporations in China has indeed driven sales and profitability.

2. Correlation between Growth Potential and Investment in Social Activity

As with profitability, the statistically significant correlation between investment and participation in social activities and growth potential (Figure 12 and 13) strongly suggests that social activism plays an important role in the growth of Japanese corporations within the Chinese market.
IV Conclusion

1 Results and Interpretation

The data discussed above strongly suggests that a strategic commitment to social engagement is closely connected to a company’s financial performance. The following section offers an analysis of these results.

It is clear from the results of the survey that the decision of Japanese corporations to engage in social activities within China has not only fostered better relations between the two countries, but has also improved brand-name recognition and enhanced profitability. The following discusses some of the potential applications of these results to the development of effective corporate management techniques.

The fact that social engagement appears to drive traditional indicators of financial growth strongly indicates that the strategic commitment to social engagement is closely related to enhanced profitability. Nonetheless, there are still too few opportunities for the Chinese populace to learn of attempts by Japanese corporations to engage in social activities above and beyond their own economic concerns. It is imperative that Japanese corporations actively market these efforts in order to promote greater cross-cultural understanding.

While social engagement has traditionally been viewed as a necessary cost of fulfilling the demands of corporate responsibility, Japanese corporations have recently grown more conscious of its positive impact on corporate profits and growth. As shown in Figure 14, participating in social activities may add cost, but has the potential to improve shareholder satisfaction as well. An essential component of public value creation, social engagement increases investment and labor productivity, which in turn leads to other favorable effects in the value chain reaction. The end result is enhanced profitability and growth.

With the 2008 Beijing Olympics and 2010 Shanghai World Fair as a milestone and the growth of China’s market expected to continue unabated, multinational corporations from around the globe have already begun to expand their public activities. In order to achieve greater recognition in China, Japanese corporations must begin to view the prospect of social engagement as an investment rather than a cost.

2 Limitations and future avenues of research

As a preliminary effort to analyze the complex relationship between social engagement and economic performance among Japanese corporations in China, the scope and reliability of this research is necessarily limited. As a result, there are still several issues left to be addressed.

First, the use of management resources for social value creation inevitably may have a negative, albeit temporary, impact on the creation of economic value. Yet the resulting improvement of a company’s
corporate image should, in theory, attract the interest of additional consumers thereby leading to enhanced profit and the eventual creation of economic value. Still, the initial costs of public value creation in relation to its resulting benefits are not easily discernible. It is also unclear whether the creation of social value is best measured by multiplying the number of social activities engaged in with the reported effects of those activities. These issues clearly require further consideration.

Second, the research conducted here is limited to an analysis of Japanese corporations in the manufacturing industry with operations in Beijing, Shanghai and Dalian. Yet Japanese firms from the service and financial industries, many of whom maintain operations in other regions, have also made inroads into China. Since most of these Chinese operations were not established until the mid 1990’s and have therefore been around for less than 20 years, the conclusions reached here will necessarily need to be reevaluated as time goes by.

Finally, to the extent that this research has focused exclusively on large-scale multinational corporations, the results do not necessarily reflect the conditions and obstacles faced by the numerous small and mid-sized Japanese enterprises currently making inroads into the Chinese market. This is an obvious subject for additional research.

Acknowledgements

In writing this paper, I have attempted to draw from my extensive professional background and experience abroad in the hope that my work can help counteract this hostility and facilitate the localization of Japanese corporations in China.

Notes

1 The total value of Sino-Japanese trade for fiscal year 2007 was over US $200 billion.
2 Relations between the two countries have not improved despite the expansion of Sino-Japanese labor exchange, which exceeded 5 million in 2007 alone.
3 The Senkaku Islands, also known as the Pinnacle Islands,
are a group of disputed, uninhabited islands controlled by Japan but claimed by the People’s Republic of China. Located roughly northeast of Taiwan, due west of Okinawa, and due north of the end of the Ryukyu Islands in the East China Sea, these islands are regarded by the Japanese government as part of Okinawa Prefecture.

4 In the spring of 2005, a series of demonstrations, some peaceful and some violent, were held across most of Asia. They were triggered by a number of issues, including the publication of a revisionist history textbook in Japan and the proposal that Japan be granted a permanent seat on the United Nations Security Council. Across China, businesses with connections to Japan were vandalized by protesters, as were billboards advertising Japanese goods and stores stocking Japanese products. Ironically, most of the resulting damage was to businesses that were Chinese-owned and operated. Several Japanese nationals residing in China were also reported injured, though there were no fatalities.

5 Spanning from 1966 until Chairman Mao’s death in 1976, the Cultural Revolution was the result of a power struggle within the Chinese Communist Party that manifested itself in wide-scale social, political, and economic violence and chaos, eventually bringing the country to the brink of civil war.

6 Referred to as a “command economy,” “centrally planned economy” or “command and control economy” in its most extreme form, China’s “planned socialist economy” consisted of an economic system managed entirely by the government. In such systems, the state controls all major sectors of the economy and makes all decisions concerning the use of resources and distribution of income. In unplanned or market economies, however, production, distribution, pricing, and investment decisions are made by the private owners of the factors of production based upon their own and their customers’ interests. Less extreme forms of planned economies, sometimes referred to as “planned market economies,” include those that use indicative planning whereby the state employs subsidies, grants and taxes to further some overarching macroeconomic plan.

7 The so-called “socialist market economy,” also called “socialism with Chinese characteristics,” is an economic form practiced in the People’s Republic of China.

8 The “harmonious society” refers to the dominant socioeconomic vision that is said to be the end result of Hu Jintao’s signature ideology based on the pursuit of “scientific development.” Along with the xiaokang society, which aims for a “basically well-off” middle-class, the harmonious society was first proposed by the Hu Wen administration during the 2005 National People’s Congress and is widely considered to be the ultimate goal of the Chinese Communist agenda. Visible in banners all over China, this ideology reflects the underlying shift in focus from pure economic growth to social balance and harmony.

9 Wen Jiabao is the Premier of the State Council of the People’s Republic of China and responsible for leading the country’s cabinet. He also serves as a member of its Leading Party Members’ Group and is the Secretary of the Financial Work Committee of the CPC Central Committee. Since taking office in 2003, Wen ranks third in the hierarchy of the Politburo Standing Committee and has played a key role in the Communist Party’s fourth generation of leadership.

10 “Grassroots” activities are those driven by the constituents of a community. The term implies that the creation of the movement and the group supporting it are natural and spontaneous, as opposed to having been orchestrated by traditional power structures. Although they are often local, grassroots movements have the potential for widespread impact, such as when the efforts of community volunteers to encourage voter registration affects the outcome of a national election.

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