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# HOW THE UNITED STATES AND JAPAN ARE COPING WITH THE NEW STAKEHOLDER CAPITALISM FROM DIFFERENT STANDPOINTS

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| | |
|---|---|
| A4S | Accounting for Sustainability |
| BRT | Business Roundtable |
| CDSB | Climate Disclosure Standards Board |
| CSV | Creating shared value |
| EC | European Commission |
| EFRAG | European Financial Reporting Advisory Group |
| ESG | Environment, Social, and Governance |
| FASB | Financial Accounting Standards Board |
| FSA | Financial Services Agency |
| GRI | Global Reporting Initiative |
| IASB | International Accounting Standards Board |
| IFRS | International Financial Reporting Standards |
| IIRC | International Integrated Reporting Council |
| <IR> | Integrated Reporting |
| ISG | Investor Stewardship Group |
| ISSB | International Sustainability Standards Board |
| METI | Ministry of Economy, Trade and Industry |
| PRI | Principles for Responsible Investment |
| SASB | Sustainability Accounting Standards Board |
| SDGs | Sustainable Development Goals |
| SEC | Securities and Exchange Commission |
| TCFD | Task Force on Climate-related Financial Disclosures |

| | |
|---|---|
| TSE | Tokyo Stock Exchange |
| UN | United Nations |
| VRF | Value Reporting Foundation |

## Introduction

In today's capitalist economies, corporations are central players. A corporation is generally an organization, and organizations always have a purpose. What, then, is the purpose of a corporation? To fulfill its purpose means to bring some value to someone. What kind of value, then, is a company expected to bring? To whom are companies expected to bring value? The value that a company brings will include not only positive, but also negative, value (value erosion). These fundamental questions are based on the establishment of the enterprise, its activities, and its extinction (if we are based on the going-concern concept in accounting, the enterprise will exist forever, so assuming the time comes for it to cease to exist). They also determine how the entity is operated and how it makes decisions.

There are different types of ideas about the purpose of a corporation and what value it is expected to bring and to whom. These can be described as the forms of capitalism. The form of capitalism observed, or the form of capitalism that people consider desirable, can vary depending on the country, the time period, and the amount of impact a company has on society.

The purpose of this study is to analyze how the United States and Japan, which are positioned as opposites in terms of underlying forms of capitalism, are trying to respond to the new stakeholder capitalism of recent years, each nation from different standpoints and for different reasons.

Many previous studies have shown that different countries have different forms of capitalism, and the counterpart to the diverse stakeholder-oriented capitalism represented by Japan is the shareholder-oriented capitalism represented by the United States (Yoshimori, 1995). It can be seen that with globalization, however, desirable forms of capitalism are converging worldwide. In particular, since the 2000s, the triple-bottom line, creating shared value (CSV), the

Sustainable Development Goals (SDGs) set by the United Nations (UN), climate change, human rights, diversity and inclusion, and other issues are being reflected in the management goals and strategies of companies around the world. As a result, corporate objectives and management goals are becoming more similar and common.

In Japan, Principles for Responsible Institutional Investors (Japan's Stewardship Code) and the Corporate Governance Code were established in 2014 and 2015, respectively. The promotion of value creation in companies as a result of engagement by shareholders, especially institutional investors, and the strengthening of corporate governance is being promoted as a kind of national goal. At first glance, these developments can be seen as a shift from the stakeholder-oriented capitalism of the past to shareholder-oriented capitalism. Meanwhile, in the United States, the Business Roundtable (BRT), the management association of major corporations, issued a statement on corporate purpose (BRT, 2019) in August 2019. There, it stated that "[w]hile each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all of our stakeholders." This may suggest a shift from the shareholder-oriented capitalism of the past.

Since forms of capitalism are represented in corporate governance practices by the stakeholders surrounding the corporation, this study focuses on the relationship between the corporation and its various stakeholders. One perspective will be the concept and practice of corporate reporting, especially integrated reporting, as a major tool for disclosure of information by companies and communication between companies and their stakeholders based on such disclosure.

This study assumes these realities and today's changes.

This paper is structured as follows. First, the background and objectives of this study are explained. Then, the concept and practice of integrated reporting are clarified, including the actual situation in Japan and the United States. Then, we classify the forms of capitalism from the perspective of corporate governance and explain the new stakeholder capitalism of recent years. Based on newer issues in Japan, we then discuss how to respond to the new stakeholder capitalism in Japan. We also discuss the response to the new stakeholder capitalism in the United States. Finally, we summarize our analysis of Japan and the United States and clarify the findings of this study.

## Background and Objectives of the Study

### *Various social issues and companies*

Today, society faces a variety of challenges. Traditionally, economic development has been the most important issue in society. With regard to this, not only the absolute degree of development, but also the relative degree of development, i.e., the disparity between the rich and the poor, is a widespread concern. Disparities in wealth between countries, between regions within a single country, between social strata within a single country or region, and even between generations can be important problems. These are also issues directly related to the happiness of each individual human being.

Such concerns include not only economic issues. For example, there is consideration for human rights and promotion of diversity and inclusion. These issues are directly related to human well-being in that they are directly connected to labor, and are extremely important, especially in business. It is also important to note that, while such economic development is taking place, many sacrifices are being made, although the direct impact is difficult to see. A typical problem is that of climate change and environmental destruction. These issues are representative examples of problems that are difficult to recognize, but important to address, because of their transnational and global scale, as well as their long-term impact on future generations.

These can be viewed as issues that have a significant impact on the sustainability of a company's activities, as well as on the sustainability of society and the global environment. Traditionally, companies have been seen as one of the causes of these problems. The focus has traditionally been on how to regulate corporations so that they do not cause these problems and how to restrain their behavior. In recent years, however, expectations for the role and ability of corporations to solve various social issues have been clarified. Specifically, these expectations are for innovations and the new products and services that result from these innovations. A prime example is *Transforming our world: the 2030 Agenda for Sustainable Development* (UN, 2015) adopted by the UN General Assembly in September 2015 and the SDGs, an action plan for 2030.

The Agenda, including the SDGs, was adopted by the UN, and the primary responsibility for achieving the SDGs lies with UN member countries (national government agencies). For the following three reasons, however, the SDGs are also of great significance and importance to corporate management (Uchiyama, 2019, 50-51). First, because the SDGs are long-term goals aimed at sustainability, the various goals of the SDGs may have an impact on corporate philosophy, long-term vision, and mid-term management plans and strategies when conducting corporate management and corporate activities related to the SDGs. Second, because the Agenda sets forth universal goals and targets for the entire world, regardless of whether they are in developed or developing countries (UN, 2015, para. 5), all corporate activities and values (both positive and negative) generated by companies, regardless of the region, industry, or business model in which they operate, are somehow related to the SDGs. The possibility that the issue may be related to companies that offer a large variety of products and services, have a large number of employees, operate in a large geographic area, or have a long supply chain may be particularly relevant. Third, the role of the private sector, including companies, as well as the state, in implementing the Agenda is recognized (UN, 2015, para. 41), and there are calls for the private sector to demonstrate creativity and innovation in solving challenges in sustainable development (UN, 2015, para. 67). Together, Goal 12 "ensures sustainable consumption and production patterns," and Target 12.6 "encourages companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle." In Japan, Keidanren (the Japan Business Federation) revised its Charter of Corporate Behavior[1] in November 2017 with a focus on achieving the SDGs through the realization of Society 5.0, the society of the future.

In other words, corporate efforts to address these various social issues can be described as the corporate value creation for various stakeholders. Unlike economic value, social value in particular is understood and communicated through non-financial information. In this respect, we can point out the growing importance of non-financial information.

*Importance of intangibles*

Since the 2000s, especially, the growing importance of intangibles in corporate value creation has been noted. This is due to the shift of the economy to services, the transition to a knowledge society, and business changes resulting from digital transformation. The battle to secure competitive advantage and achieve higher productivity while coping with these changes is

[1] https://www.keidanren.or.jp/policy/cgcb/charter2017.pdf. Accessed 31 March 2022.

becoming more intense, and the performance gap between companies is becoming more noticeable.

Although the definitions are not always agreed upon by various authors, to summarize, intangibles have the following three requirements (Uchiyama, 2010, 2). First, they must be non-material. Second, they must contribute to the production of goods or provision of services in the short term and be expected to generate future economic benefits in the long term. Third, they can be controlled to some extent.

On the other hand, difficulties in evaluating and managing such intangibles should be noted (Uchiyama, 2010, 2). First, their value varies depending on how they are created and used. In particular, their value depends on the strategies of organizations. Second, because intangibles bring value in combination with other assets, a complex management system is required for their management. Furthermore, some intangibles are not owned by the company itself (Blair and Wallman, 2001, 55-56). Intellectual assets and human assets (the stakeholders who provide them are employees) and social and relationship assets (the stakeholders who provide them are customers, business partners, and local communities) are representative of intangibles provided by the stakeholders.

The value of intangibles and the corporate value creation for stakeholders who provide intangibles are usually understood and communicated through non-financial information since they are difficult to define in financial indicators. In this respect, we can point to the growing importance of non-financial information.

The growing importance of sustainability in corporate activities and of intangibles in corporate value creation have both resulted in the growing importance of non-financial information. Of course, there is no question about the importance of economic value in corporate value, since companies are organizations whose primary purpose is economic activity. But it is necessary to organically link the two, financial information that captures and communicates economic value and the non-financial information mentioned above, to capture, communicate, and manage corporate value creation. One of the solutions to this need is integrated reporting, which will be explained next.

## Integrated Reporting and Integrated Thinking

### *What is integrated reporting?*

The forms of capitalism are specifically expressed in the practice of corporate governance by the stakeholders surrounding the corporation, especially the shareholders. Therefore, this study will focus on the relationship between the corporation and its various stakeholders. Among the various stakeholders, shareholders (institutional investors) and employees will be treated as representative entities. Disclosure of information by the company and communication between the company and its stakeholders based on that disclosure play an important role in the relationship between the two. Corporate reporting is a major tool for this.

One origin of this study is the growth and development of the practice of integrated reporting, a new form of corporate reporting. Integrated reporting has been led by the International Integrated Reporting Council (IIRC) (headquartered in London), and two direct origins of this effort can be cited (Uchiyama, 2014, 106). One is the Prince's Accounting for Sustainability (A4S), a 2006 initiative by Prince Charles of the U.K. The A4S was launched to integrate sustainability into day-to-day operations, decision-making, and reporting by incorporating information on the consumption of environmental and natural assets into financial statements and integrating financial and non-financial information. In December 2007, it published a framework for connected reporting. The other is the Global Reporting Initiative (GRI), established in 1997 and headquartered in Amsterdam, which aims to develop and disseminate a framework for sustainability reporting; it published its first guidelines in 2000.

Under the A4S and GRI, the International Integrated Reporting Committee was launched in August 2010, and it became the IIRC as an independent organization in January 2011. The IIRC is a global organization, with the Tokyo Stock Exchange (TSE) and the Japanese Institute of Certified Public Accountants as members from Japan. In June 2021, the Sustainability Accounting Standards Board (SASB) (headquartered in San Francisco), which is under the International Financial Reporting Standards (IFRS) Foundation (headquartered in London), and the IIRC were merged to form the Value Reporting Foundation (VRF).

Globally, integrated reporting practices have spread rapidly since the 2010s. In particular, the International Integrated Reporting Framework (International <IR> Framework) published by the IIRC in 2013 (IIRC, 2013b) has accelerated this trend. Almost without exception, organizations issuing integrated reports refer to the International <IR> Framework, the revised version of which was published in January 2021 (IIRC, 2021). In both quality and quantity, integrated reporting practices are thriving in Europe and Japan (Eccles et al., 2019).

According to the International <IR> Framework, integrated reporting is “a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation, preservation or erosion over time and related communications regarding aspects of value creation, preservation or erosion” (IIRC, 2021, 53). The integrated report is “a concise communication document about how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation, preservation or erosion of value over the short, medium and long term” (IIRC, 2021, para. 1.1).

The primary purpose of an integrated report is "to explain to providers of financial capital how an organization creates, preserves or erodes value over time. It therefore contains relevant information, both financial and other" (IIRC, 2021, para. 1.7). In addition, "an integrated report benefits all stakeholders interested in an organization's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers" (IIRC, 2021, para. 1.8).

In the International <IR> Framework, resources used by an organization are classified into six types of capital (financial, manufactured, intellectual, human, social and relationship, and natural) (IIRC, 2021, para. 2.10) and the process through which these types of capital increase or decrease through business activities, and how some of them circulate, is defined as the process through which value is created, preserved or eroded (see Figure 1). The International <IR> Framework provides the Guiding Principles and Content Elements for the implementation of integrated reporting. The Guiding Principles are as follows (IIRC, 2021, para. 3.1).

A. Strategic focus and future orientation
B. Connectivity of information
C. Stakeholder relationships
D. Materiality
E. Conciseness
F. Reliability and completeness
G. Consistency and comparability

And the Content Elements are as follows (IIRC, 2021, para. 4.1).

A. Organizational overview and external environment
B. Governance
C. Business model
D. Risks and opportunities
E. Strategy and resource allocation
F. Performance
G. Outlook
H. Basis of preparation and presentation

*Integrated reporting and integrated thinking*

Integrated reporting is more than just corporate reporting; it is positioned as a process to create better corporate value together with various stakeholders by organically utilizing financial and non-financial information. The concept of integrated thinking is deeply related to this process. Integrated thinking is "the active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation, preservation or erosion of value over the short, medium and long term." (IIRC, 2021, 53).

Integrated reporting has four objectives (IIRC, 2013b, 2).

(1) Improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital.

(2) Promote a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organization to create value over time.

(3) Enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their interdependencies.

(4) Support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term.

From the above, it can be pointed out that the relationship between integrated reporting and integrated thinking is that integrated reporting is based on integrated thinking and aims to realize integrated thinking as the objective of integrated reporting. This relationship between integrated reporting and integrated thinking is described as mutually reinforcing (IIRC, 2012, para. 3.9; IIRC, 2013a, 1) and cycle (IIRC, 2013b, 2; IIRC, 2021, 2) (see Figure 2). This mutual reinforcement or cycle then leads to an efficient and productive allocation of capital, which is a force toward financial stability and sustainability (IIRC, 2013b, 2; IIRC, 2021, 2).

Based on the mutual reinforcement or cycle between integrated reporting and integrated thinking, the linkage in two directions can be cited for the above-mentioned four objectives of integrated reporting: one is a linkage in which integrated reporting is implemented based on integrated thinking, resulting in an integrated report, and the other is a linkage in which the implementation of integrated reporting to bring about an integrated report results in integrated thinking, which then takes root in the organization (Uchiyama, 2015b; Uchiyama, 2015c) (see Figure 3). In other words, "it is the most effective way of demonstrating internal integration, and it is also a discipline for ensuring that integration exists. Integrated external reporting is impossible without integrated internal management. One Report is both a tool and a symbolic representation of a company's commitment to sustainability" (Eccles and Krzus, 2010, 4).

Thus, integrated reporting is not just corporate reporting, but also management improvement to bring better value to all stakeholders involved in value creation. Uchiyama (2017) shows that integrated thinking is essential in the process of creating corporate value. Specifically, this study based on theoretical considerations clarified that the concept and mechanism of integrated reporting can be one of the bases for the process of strategy formation, which is, in turn, based on the premise of pluralistic corporate objectives to create value with various stakeholders. I then conducted an interview survey of OMRON Corporation,[2] a Japanese company that has been implementing integrated reporting since 2012, to clarify the actual situation of the strategy formation process. Specifically, OMRON Corporation assumes a pluralistic corporate purpose that aims to create value with various stakeholders, as well as long-

[2] https://www.omron.com/global/en/. Accessed 15 May 2022.

term (sustainable) value for society at large as the basis of its business activities. In addition, the Global IR & Corporate Communication Division handles all communication with external stakeholders, both financial and non-financial, in a centralized manner, while communication is carried out according to goals that are consistent both inside and outside the company in various plans that have the nature of strategies, and integrated reports are used in dialogue with external stakeholders as well as in internal communications.

I have analyzed the integrated reports of many Japanese companies each year and conducted interviews with practitioners at many of them that have issued integrated reports. My findings indicate that many of the best Japanese companies have traditionally reflected all stakeholders (especially customers and employees) in their business activities, business management, corporate governance, and annual reports.

*Integrated reporting and forms of capitalism*

According to the Corporate Value Reporting Lab (2022), the number of organizations issuing integrated reports in Japan has increased over the years and stands at 716 (as of February 2022) (see Figure 4). According to KPMG Sustainable-value-service Japan (2022, 65-68), the majority of these organizations are companies listed on the first section of the TSE; there is also a high proportion of companies with large amounts of sales. Of the companies listed on the first section of the TSE, the market capitalization of companies issuing integrated reports accounts for 71 percent, and the share of companies issuing integrated reports in the Nikkei 225 and JPX Nikkei 400 component stocks is 88 percent and 70 percent, respectively.[3] Looking at the number

[3] Nikkei has given the Nikkei Annual Report Awards since 1998 with the aim of enhancing and popularizing annual reports in Japanese companies. In response to the expansion of integrated-report-issuing organizations, the awards were renamed and modified as the Nikkei Integrated Reporting Awards starting in 2021.

of companies issuing integrated reports by industry sector, electrical equipment, chemicals, and machinery are the most common, while the insurance, pharmaceuticals, and electricity and gas industries are the most common when looking at the percentage of companies issuing integrated reports.

Japan is thus considered to be the nation with the largest number of companies issuing integrated reports in the world, with integrated reporting practices taking root mainly among large, publicly listed firms.

In most countries, with the exception of a very few such as South Africa, the preparation and disclosure of integrated reports is voluntary. This implies that the practice of integrated reporting is considered to be of some benefit to the organization. In addition, as the International <IR> Framework indicates, the practice of integrated reporting is principal-based, and the level of practice may reflect the quality of corporate governance, communication between the company and its investors and other stakeholders, and the corporate value creation process.

Thus, how many companies engage in integrated reporting, as well as the level and content of their integrated reports, may indicate the form of capitalism in the country in which the company issues its integrated report and how it has changed. Specifically, this means the relationship between the company and its investors and other stakeholders, the position of the company in society (its corporate views and its corporate objectives), and its disclosure rules and regulations.

Based on Uchiyama (2015a), which systematizes the different roles of integrated reporting according to corporate governance typologies, and Uchiyama (2020), which modeled a corporate governance structure that includes various stakeholders based on a series of governance reforms in Japanese companies in recent years and clarified the position and role of integrated reporting within that framework, it is possible to cite a strong link between the practice and effectiveness of integrated reporting and the corporate views (i.e., deliberating and expressing for what and for whom the company exists). While the integrated report will clearly identify the value creation process, the different types of capital used and affected by the process, and the results of the activities, the capital used and affected by the company is provided by its stakeholders and affects them. The value creation process is therefore based on the company's objectives and its position in society. It is important to have a corporate philosophy (corporate purpose) that articulates and clarifies the company's view of "what the company is for" and "for whom the company exists."

As mentioned earlier, the number of Japanese companies issuing integrated reports is among the highest in the world. The rapid increase in the number of such companies in the 2010s coincides perfectly with the period of a series of corporate governance reforms in Japan. Many Japanese companies believe that the practice of integrated reporting is useful for dialogue with all stakeholders, especially shareholders (investors), and for corporate value creation. It can also be assumed that the traditional corporate views of Japanese companies, which consider all stakeholders, is one of the factors that have led to the active practice of integrated reporting.

On the other hand, a study comparing the quality of integrated reports in 10 countries around the world (Eccles et al., 2019)[4] gave Japanese companies a low rating, placing the quality of their integrated reports in eighth place. In other words, while Japan has a large number of companies issuing integrated reports, it is not necessarily given a high rating for the level of such reports. From this, it can be pointed out that corporate governance, dialogue with stakeholders,

[4] For a study on the quality of integrated reports, see also Eccles and Krzus (2015), Chapter 7.

and the process of corporate value creation based on them in Japanese companies may be as yet underdeveloped.

## The Forms of Capitalism

### *The traditional shareholder capitalism and traditional stakeholder capitalism*

With the end of the Cold War, the dominance of capitalism became apparent, but many previous studies have shown that there are several different forms of capitalism. There are two main schools of thought on the forms of capitalism: one is the traditional shareholder theory. Freidman (1970), a major influence on that view, notes the following.

> In a free-enterprise, private-property system, a corporate executive is an employe of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those defined in law and those embodied in ethical custom.

And “the key point is that, in his capacity as a corporate executive, the manager is the agent of the individuals who own the corporation or establish the eleemosynary institution, and his primary responsibility is to them.” So, “there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.”

This way of thinking can be called the shareholder first (priority) principle.

On the other hand, the opposite view is the traditional stakeholder theory, proposed by Freeman (1984) as the stakeholder concept of providing a way of thinking about strategic management, how a company sets and implements its directions. It includes employees, customers, suppliers, shareholders, banks, environmentalists, governments, and any other group or individual who may help or hurt the corporation, or, to put it another way, anyone who can influence or be influenced by the achievement of the organization's objectives.

In particular, the idea of creating value for all these stakeholders equally can be called stakeholderism as a purpose, or pluralism.

Schaede (2021, 16) contrasts stakeholder and shareholder priorities and summarizes them (see Table 1). Both have their own strengths and weaknesses, and many are inversely related. Traditionally, shareholder-oriented capitalism as seen in the United States and the U.K. and stakeholder-oriented capitalism as seen in Japan, Germany, and France (Yoshimori 1995) have been considered typical (see Figure 5). Vogel (2018) uses the United States and Japan as subjects to show that government and regulation play important roles in the functioning of markets in capitalism.

*The new stakeholder capitalism*

These two schools of thought are positioned at opposite ends of the spectrum. In the middle of the spectrum though, there is a concept that encompasses a wider range of ideas. This can be called the enlightened (sophisticated) shareholder value model, stakeholderism as a means to maximize shareholder value, and the instrumental version of stakeholderism. It puts forth models that place shareholders as the main governance body, but also capture the value for various stakeholders broadly as long-term corporate value, and emphasize cooperation with stakeholders, with shareholder interests going beyond economic values, but ultimately oriented toward maximizing shareholder value (Inagami, 2004, 4-5). Included in this group of capitalist forms, which are conscious of the integration of or balance between economic and social values in long-term (sustainable) corporate value creation, is the triple-bottom line (Elkington, 1994;

Henriques and Richardson, 2004), CSV (Porter and Kramer, 2011), and Conscious Capitalism (Mackey and Sisodia, 2013). We will refer to these collectively as the new stakeholder capitalism. In addition to the SDGs (UN, 2015; GRI et al., 2015) discussed earlier, climate change, human rights, and diversity and inclusion are being reflected in the business goals and strategies of companies worldwide. As a result, corporate objectives and management goals are becoming more similar and common. The Davos Manifesto 2020 (World Economic Forum, 2019), published by the World Economic Forum in December 2019, states that the purpose of a company is to create shared and sustainable value, involving all stakeholders. With globalization, this can be seen as a worldwide convergence of desirable forms of capitalism.

The new stakeholder capitalism is also the goal of integrated reporting. The primary objective of integrated reporting is to help investors make better decisions. At the same time, it focuses on value creation for all stakeholders, including investors, and aims to create better value over the long term. In other words, its goal is to create value for all stakeholders under investor governance, or to create better shareholder value by explicitly taking into account all stakeholders involved in value creation. And, through mutual reinforcement and the cycle between integrated reporting and integrated thinking, such management will be realized. Figure 6 models the transition from the traditional shareholder capitalism (shareholder model) and the traditional stakeholder capitalism (pluralistic model) to the new stakeholder capitalism based on the concept of integrated reporting, using the company's perspective of corporate value (vertical axis) and the allocation of control in governance (horizontal axis) as the axes.

Behind the investors in governance, especially highly influential institutional investors with financial power and expertise, there are various stakeholders (society at large), including us. Figure 7 illustrates the flow of value and intention in the new stakeholder capitalism. Various stakeholders provide various types of capital to companies; much of the financial capital is provided to companies through the above-mentioned highly influential institutional investors. The newly created value is then passed on to the various stakeholders. In this process, each stakeholder, whether as an investor, worker, or customer, exerts its own will in providing value to and receiving value from the company, and the company's decision-making is influenced by this. Investors (shareholders), in particular, influence corporate decisions through their unique power of voting rights.

When the traditional shareholder capitalism and the traditional stakeholder capitalism are positioned at opposite ends of the spectrum, the essence of the new stakeholder capitalism, which lies somewhere between the two, is not the same as the traditional shareholder capitalism. There is some debate as to whether it approximates the traditional shareholder capitalism or traditional stakeholder capitalism. For example, Bebchuk and Tallarita (2020, 111-14) argue that taking stakeholders into consideration is no different from the traditional concept of shareholder value and that managers have no incentive to take care of stakeholders at the expense of shareholders. They assert that enlightened shareholder value is conceptually the same as shareholder value because of these factors. Inagami (2004, 5), on the other hand, asserts that the relationship between the traditional shareholder capitalism, the sophisticated shareholder value model and pluralism is logically equidistant, but in real situations, the distance between the sophisticated shareholder value model and the pluralism model is much smaller than that between the traditional shareholder capitalism and the sophisticated shareholder value model. The new stakeholder capitalism ultimately requires consideration of all stakeholders related to corporate value, and that is considered to be the reason. And this difference in perception may also reflect the difference in how the United States and Japan perceive the new stakeholder capitalism itself.

The new stakeholder capitalism places shareholders at the center of governance, but also captures value for various stakeholders broadly as corporate value. Cooperation between shareholders and other stakeholders is emphasized, and shareholder interests go beyond economic ones. Further, the new stakeholder capitalism is conscious of the integration and balance of economic and social values in long-term, sustainable corporate value creation. This is more challenging than the traditional shareholder capitalism which shareholders emphasize economic value (shareholder value), or the traditional stakeholder capitalism, which emphasizes value creation for various stakeholders equally. Different initiatives and efforts have been observed in a number of countries around these challenges.

## Pressures on the Japanese Economy and Japanese Companies

Since the burst of Japan's so-called bubble economy, i.e., since the 1990s, the Japanese economy and Japanese companies have faced many challenges.

### *To become more prosperous*

Japanese companies face clear challenges in many respects. One of the biggest challenges is low (declining) labor productivity and the resulting low (declining) GDP per capita. See International Comparison of Labor Productivity 2021[5] by the Japan Productivity Center, based on OECD data.

Labor productivity per worker in Japan, calculated by dividing the GDP by the number of workers, is $78,655, ranking 28th among the 38 OECD member countries. This is about the same as Eastern European countries such as Poland ($79,419) and Estonia ($76,882), lower than

[5] https://www.jpc-net.jp/research/assets/pdf/report_2021.pdf. Accessed 31 March 2022.

the U.K. ($94,763) and Spain ($94,552), and only 55.6 percent that of the United States ($141,370). Japan's ranking has declined from 20th in 1970 and 1980, and 16th in 1990 to 20th in 2000, 21st in 2010, and 28th in 2020.

In addition, Japan's labor productivity per hour worked, calculated by dividing the GDP by the number of working hours, is $49.5, ranking 23rd out of 38 OECD member countries. This is almost the same as countries such as the Czech Republic ($49.5) and Estonia ($48.6), lower than European countries such as the U.K. ($69.3), Germany ($76.0), and France ($79.2), and only 61.4 percent of the United States ($80.5). Japan had remained around 20th place since the 1970s, but by 2020 it had dropped to 23rd place.

These affect GDP per capita. At $41,775, Japan's GDP per capita is below the OECD average ($44,986) and ranks 23rd out of the 38 OECD member countries. This is about the same as Italy ($41,964) and the Czech Republic ($42,044), and only 66.0 percent of that of the United States ($63,285). In 1996, Japan's GDP per capita rose to fifth place among OECD member countries, ranking second only to the United States among the seven major industrialized countries. Since the late 1990s, however, Japan's GDP per capita has also been stagnant, and, in the 2000s, it ranked lower than any of the seven major industrialized countries. Its 23rd place among the 38 OECD member countries in 2020 is the lowest rank since 1970.

GDP per capita, productivity per worker, and productivity per working hour in Japan are all lower than in the United States and Western Europe, and this has been particularly noticeable in recent years. The solution to this problem requires the promotion of innovation and reform, and, in particular, human resource investment in education and training and the utilization of diverse human resources.

*Changes in shareholdings by the investment sector*

Another major shift is the change in the shareholding ratio of Japanese listed companies by the type of shareholder (see Figure 8).[6]

Since the 1990s, the largest increase in ownership has been among foreigners, from 4.7 percent in 1990 to 10.5 percent in 1995, 18.8 percent in 2000, 26.3 percent in 2005, 26.7 percent in 2010, 29.8 percent in 2015, and 30.2 percent in 2020. Similarly, trust banks increased their share of holdings from 9.8 percent in 1990 to 10.3 percent in 1995, 17.4 percent in 2000, 18.0 percent in 2005, 18.2 percent in 2010, 18.2 percent in 2015, 18.8 percent in 2015, and 22.5 percent in 2020.

In contrast, the percentage held by financial institutions excluding trust banks declined significantly from 33.2 percent in 1990 to 30.8 percent in 1995, 21.7 percent in 2000, 12.9 percent in 2005, 11.5 percent in 2010, 11.5 percent in 2015, and to 7.4 percent in 2020. Likewise, the share of business corporations decreased from 30.1 percent in 1990 to 20.4 percent in 2020. And the share of individuals decreased from 20.4 percent in 1990 to 16.8 percent in 2020.

These changes in the shareholding ratios clearly indicate that there has been a major shift in corporate governance among Japanese listed companies from corporate governance by the so-called "main banks" to investor-centered corporate governance. It can also be pointed out that the intentions of foreign investors have a strong influence. And it is assumed that these changes have had a significant impact on corporate governance reforms and have led to changes in the requirements of companies from their stakeholders.

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[6] https://www.jpx.co.jp/english/markets/statistics-equities/examination/b5b4pj0000047w2y-att/e-bunpu2020.pdf. Accessed 31 March 2022.

**Corporate Governance Reform and Changes in the Form of Capitalism in Japan**

What kind of movement is taking place in Japan regarding the reform of corporate management through corporate governance reform, and how is this changing the form of capitalism? In this section, we focus on developments in Japan since the 2010s.

Of course, corporate management reforms through corporate governance reforms took place in various ways before that time. As a precursor to current corporate governance reforms, Tiberghien (2007) identifies governance reforms and their incompleteness in Japanese firms around the year 2000. He points out that the traditional structure of conflict between labor and management has given way, in the post-globalization era, to a "trilemma" conflict structure: global investors seeking shareholder value, domestic interest groups (including labor and management) seeking stability in the industrial structure, and average citizens seeking growth and wealth, but also protecting a number of social and community rights. He notes that the policy focus on protecting existing interest groups has resulted in enduring the high cost of low growth (Tiberghien, 2007, 219-20).

The corporate governance reforms in Japan since the 2010s are deeply related to the improvement of economic efficiency, solving social issues, and the increased importance of intangibles, as pointed out earlier, and these factors suggest the direction of the new stakeholder capitalism in Japan. In this section, we focus on Japan's Stewardship Code and the Corporate Governance Code which follows, as a dual wheel to drive corporate governance reform, and the three sets of both codes from 2014 to 2021 (the first set and the subsequent two revisions), as well as the accompanying efforts by government agencies to encourage companies to follow the both codes. See Table 2 for a timeline.

*2014-2016*

The first Japan's Stewardship Code (The Council of Experts Concerning the Japanese Version of the Stewardship Code, 2014), set forth in February 2014, provides the following background and history (The Council of Experts Concerning the Japanese Version of the Stewardship Code, 2014, 1-2).

1. In December 2012, the government established the Headquarters for Japan's Economic Revitalization within the cabinet to formulate necessary economic policy measures and growth strategies, aiming to revitalize the Japanese economy, breaking it away from the prolonged yen appreciation and deflation. In January 2013, the government established the Industrial Competitiveness Council under the auspices of the Headquarters, with the mandate to deliberate on growth strategies and their implementation, which would strengthen Japan's industrial competitiveness and business activities abroad. Based on the discussions in the Council, and at a meeting of the Headquarters, the Prime Minister, in his role as the chief of the Headquarters, instructed the Minister for Financial Services to coordinate with other relevant ministers and consider, with the aim of promoting the sustainable growth of companies, principles for a wide range of institutional investors to appropriately discharge their stewardship responsibilities.

2. The Cabinet approved in June 2013 the Japan Revitalization Strategy, which defines the growth strategy, or "the third arrow" of the economic policy of the current administration. The Strategy states that "principles (the Japanese Version of the Stewardship Code) for institutional investors to fulfill their fiduciary responsibilities, e.g. by promoting medium- to long-term growth of companies through engagements," that is, "the principles for a wide range of institutional investors to appropriately discharge their stewardship responsibilities, with the aim of promoting sustainable growth of investee companies, through constructive dialogue with them" should be discussed and drafted by the end of the year.

3. Implementing the instruction by the Prime Minister and the Strategy, the Financial Services Agency established the Council of Experts Concerning the Japanese Version of the Stewardship Code (hereafter, the "Council") in August 2013. The Council has met six times since August, and it has now produced "Principles for Responsible Institutional Investors"《Japan's Stewardship Code》(hereafter, the "Code"). Before finalizing the Code, the Council published an exposure draft both in Japanese and English and has received valuable suggestions from 26 individuals/entities in Japanese and 19 individuals/entities in English. Taking these suggestions into account, the Council reviewed and finalized the Code.

The aims of the Code are then explained as follows (The Council of Experts Concerning the Japanese Version of the Stewardship Code, 2014, 2-3).

4. As stated in the box at the beginning of this report, in this Code, “stewardship responsibilities” refers to the responsibilities of institutional investors to enhance the medium- to long-term investment return for their clients and beneficiaries by improving and fostering the investee companies’ corporate value and sustainable growth through constructive engagement, or purposeful dialogue, based on in-depth knowledge of the companies and their business environment. This Code defines principles considered to be helpful for institutional investors who behave as responsible institutional investors in fulfilling their stewardship responsibilities with due regard both to their clients and beneficiaries and to investee companies.

5. At a company, the board of directors has the responsibility to enhance the corporate value by exerting adequate governance and proper oversight on the management, taking decisions on key policy and business matters. The function of the board and that of institutional investors as defined in the Code are complementary and both form essential elements of high-quality corporate governance, which are indispensable in ensuring the sustainable growth of the company and the medium- to long-term investment return for the clients and beneficiaries. With due regard to the roles of both the board and institutional investors, the Code promotes constructive engagement, or purposeful dialogue, between institutional investors and investee companies. The Code does not invite institutional investors to interfere with the finer points of managerial matters of investee companies.

6. Activities by institutional investors done to discharge their stewardship responsibilities (hereafter, “stewardship activities”) should not be seen to be confined to voting, although voting is an essential element of stewardship activities. Stewardship activities include proper monitoring of the investee companies and constructive engagement with them done to discharge the stewardship responsibilities to foster sustainable growth of the companies.

7. In the Code, two categories of institutional investors are identified: “institutional investors as asset managers” (such as investment managers), which are entrusted to manage funds and invest in companies; and “institutional investors as asset owners” (such as pension funds and insurance companies), including providers of funds.

   The “institutional investors as asset managers” are expected to contribute to the enhancement of the corporate value of investee companies through day-to-day constructive dialogue with them.

   The “institutional investors as asset owners” are expected to disclose their policies on fulfilling their stewardship responsibilities and contribute to the enhancement of the corporate value of investee companies through their own actions and/or the actions of the asset managers, to which they outsource their asset management activities.

The asset managers should aim to know the intention of the asset owners so that they can provide services as expected, and the asset owners should aim to assess the asset managers in line with the Code, not placing undue emphasis on short-term performance.

Effective and appropriate stewardship activities by institutional investors ultimately aim at the enhancement of the medium- to long-term investment return for the clients and beneficiaries. Institutional investors and their clients and beneficiaries should both recognize that costs associated with stewardship activities are an indispensable element in asset management.

8. The Code primarily targets institutional investors investing in Japanese listed shares. The Code also applies to proxy advisors commissioned by the institutional investors.

The following seven principles shall be applied in order to promote the sustainable growth of investee companies and to increase medium- and long-term investment returns for clients and beneficiaries (The Council of Experts Concerning the Japanese Version of the Stewardship Code, 2014, 6).

1. Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.

2. Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.

3. Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the 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.

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. Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.

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.

On the other hand, the Corporate Governance Code (TSE, 2015), which is considered a counterpart to Japan's Stewardship Code, was enacted in June 2015. The Code consists of five chapters, and its basic principles are as follows (TSE, 2015, 3-4).

1. Listed companies should take appropriate measures to ensure that the rights of shareholders are substantially secured and create an environment in which shareholders can properly exercise their rights.

   Listed companies should also ensure substantial equality of shareholders.

   Minority and foreign shareholders should be given due consideration, as they are prone to challenges and concerns in securing substantial shareholder rights and ensuring an environment and substantial equality in the exercise of rights.

2. Listed companies should fully recognize that the sustainable growth of the company and the creation of medium- to long-term corporate value are the result of the provision of resources and contributions by various stakeholders, including employees, customers, business partners, creditors, and local communities. The company should strive to work appropriately with these stakeholders.

   The board of directors and management should exercise leadership in fostering a corporate culture and climate that respect the rights and position of these stakeholders as well as sound business ethics.

3. Listed companies should appropriately disclose financial information, such as the company's financial position and operating results, and non-financial information, such as management strategies, management issues, and information on risks and governance, in accordance with laws and regulations, and should also proactively provide information other than what is disclosed in accordance with laws and regulations. The company should be proactive in its efforts.

   In doing so, the Board of Directors should ensure that such information (especially non-financial information) is accurate, easy for users to understand,

and highly useful, taking into account that the information disclosed and provided can serve as a basis for constructive dialogue with shareholders.

4. The board of directors of a listed company should, based on its fiduciary responsibility and accountability to shareholders, in order to promote the company's sustainable growth and medium- to long-term enhancement of corporate value and improve profitability and capital efficiency; (1) set a broad direction for corporate strategy, (2) ensure that senior management is able to take appropriate risks, and (3) appropriately fulfill its roles and responsibilities, including providing highly effective supervision of management (including executive officers and so-called "executive officers") and directors from an independent and objective standpoint.

   These roles and responsibilities should be fulfilled equally and appropriately regardless of whether the company adopts any institutional design, such as a company with a board of corporate auditors (some of these roles and responsibilities will be assumed by corporate auditors and the board of corporate auditors), a company with a nominating committee, or a company with an audit committee.

5. Listed companies should engage in constructive dialogue with their shareholders outside of the general meeting of shareholders in order to contribute to sustainable growth and enhancement of corporate value over the medium to long term.

   Through such dialogue, senior management and directors (including outside directors) should listen to the voices of shareholders and pay due attention to their interests and concerns, while making efforts to clearly explain their own management policies in a manner that is easy for shareholders to grasp and to gain their understanding, and they should achieve a balanced understanding of the position of stakeholders, including shareholders, and should strive for comprehension and appropriate responses based on such understanding.

Thus, we can see a structure in which, along with institutional investors who have a medium- to long-term perspective to fulfill their stewardship responsibilities, companies are expected to demonstrate their entrepreneurial spirit under "aggressive governance" by making prompt and decisive decisions, while taking into consideration various stakeholders.

Sandwiched between the enactment of both codes, two reports have been published by the Ministry of Economy, Trade and Industry (METI), one known as the Ito Review (METI, 2014). This report finds Japan's low profitability in terms of return on assets and return on sales, despite the country's expected innovation potential, to be a problem. It also notes that the distinction between market and internal, the lack of management discipline in terms of capital efficiency, and the lack of guidance in terms of long-term corporate value enhancement, as well as the lack of a clear vision for the future, are all problems that need to be addressed. Furthermore, the report contends that there are doubts about the ability of Japanese institutional investors, among others, to evaluate long-term corporate value and provide returns to their clients (the ultimate beneficiaries) by making proactive investments. Therefore, it seeks to promote dialogue between companies and investors to maintain and build Japan's national wealth by improving capital efficiency and corporate value (METI, 2014, 1-5). The basic messages for this are: departing from practices and legacies that impede sustainable growth; becoming a "model nation-state" in the simultaneous realization of innovation and high profitability; sustainable value creation through "collaborative creation" by companies and investors; towards a capital efficiency revolution in which ROE exceeds the cost of capital; becoming a "dialogue-rich country" that pursues high-quality dialogue between companies and investors; and reforming and optimizing the "investment chain" (METI, 2014, 6-12).

In addition, METI published another report (METI, 2015) in April 2015. Based on the same background as Japan's Stewardship Code, this report states that "in order to realize a virtuous cycle of value creation, companies, which play a leading role in it, and investors (including shareholders), who are the providers of risk money, should deepen mutual understanding through high-quality dialogue and work together toward sustainable growth and the creation of corporate value over the medium to long term." (METI, 2015, 1-2). On the other hand, the report raises awareness of the question of whether Japan has an environment conducive to high-quality dialogue between companies and investors with an eye toward the creation of sustainable corporate value (METI, 2015, 2-3). And, based on the Ito Review mentioned above, in order for the two codes to be effective, the report examine the current status, issues, and desirability of the current situation concerning the following three elements that shape the environment for dialogue, taking into account the international situation, and makes recommendations: (1) the state of corporate information disclosure, (2) the state of the shareholder meeting process (and opportunities for daily and ongoing dialogue), and (3) the state of awareness and behavior of companies, investors, and others involved in the dialogue.

These reports serve to support the efforts of investors and corporations by embodying and supplementing the two principle-based codes.

Subsequently, the Financial Services Agency (FSA) issued a report (FSA, 2016) clarifying its approach to constructive dialogue between companies and shareholders/investors with its main focus on reflecting the above series of initiatives in institutional disclosures, such as Securities Reports and Financial Results. Specifically, the report examines the organizing, standardizing, and streamlining of disclosure content, the schedule and procedures for disclosure to promote dialogue, and the enhancement of disclosure of non-financial information.

These are the first phase in a corporate governance reform that is characterized by dialogue between companies and investors, or in other words, by using the power of investors to increase economic value.

*2017-2018*

The revised Japan's Stewardship Code (The Council of Experts Concerning the Japanese Version of the Stewardship Code, 2017) was enacted in May 2017. The revision is based on the recognition that institutional investors need to engage in a deep and "constructive dialogue" with companies in order to deepen corporate governance reform from "form" to "substance." To this end, effective checks by asset owners, governance and conflict-of-interest management of investment management institutions, dialogue in passive management, enhanced publication of voting results, and self-assessment by investment management institutions are newly included. In addition, it includes the requirement for voting advisory firms themselves to provide services with sufficient management resources and to publicly disclose their own initiatives, and the option for multiple institutional investors to collaborate and engage in dialogue with companies (collective engagement). Environment, social, and governance (ESG) factors that are considered important based on the situation of the investee company include those that affect medium- and long-term corporate value in terms of both risks and profit opportunities in the business.

Meanwhile, a revised version of the Corporate Governance Code (TSE, 2018), which is the counterpart to this revised Japan's Stewardship Code, was enacted in June 2018. This revised version of the Corporate Governance Code includes the disclosure of the company's policy and approach regarding the reduction of policy shareholdings, the principle that the company should not engage in transactions with policy shareholders that are detrimental to the company or the common interests of shareholders, and notes the insufficiency of non-financial information on ESG factors in the disclosure of information, in order to evolve corporate governance. Also, it includes the need to enhance the effectiveness of the board of directors, such as the appointment of a sufficient number of outside directors, in the design of the compensation system and the selection and dismissal of the CEO.

Again, sandwiched between the enactment of the revised versions of both codes, two reports have been identified by METI. The first is the Value Co-Creation Guidance which was released in May 2017 (METI, 2017a). It presents a basic framework for improving the quality of dialogue and disclosure between companies and investors based on both codes and the Ito Review, which are aimed at governance reform and sustainable corporate value enhancement, and is expected to serve as a "guide" for voluntary efforts (METI, 2017a, 3). It is anticipated that it will be instructive for corporate managers and investors to this end (METI, 2017a, 3-4), and provides direction on six items: values, business models, sustainability and growth, strategy, outcomes (performance) and key performance indicators, and governance.

In addition, a revised version of the Ito Review, Ito Review 2.0 (METI, 2017b), was released in October 2017. By way of background, the issues to be addressed in the evolution of corporate governance reform from "form" to "substance" include the promotion of ESG investment, how corporate management and investment should create sustainable corporate value and how to evaluate it, and how to optimize investment in human, intellectual, and manufacturing capital based on long-term management strategies. The report also notes the need to consider governance mechanisms that promote the improvement of governance, how management's investment decisions and investors' evaluations should be made, and how information should be provided (METI, 2017b, 4). This is because, among other things, "the factors that are the source of a company's competitiveness and that determine corporate value are shifting from tangible to intangible assets, and as global M&A activity increases, the investment decisions of management and corporate governance are expected to have a greater impact on medium- to long-term corporate value than ever before" (METI, 2017b, 6-7). Furthermore, "even if limited capital is allocated to the creation of intangible assets, it is essential that such corporate investment behavior be understood by investors" (METI, 2017b, 7). The project attempts "to provide a pathway to move to a level where a series of governance reforms and dialogue and engagement practices are incorporated into the decisions and actions of corporate management and investors, and where a series of voluntary and spontaneous ‘co-creations’ is generated one after another” (METI, 2017b, 7).

Thus, this phase is a process that aims to move governance reform from “form” to “substance” and to better create corporate value by more clearly reflecting the recognition of the importance of ESG factors and intangibles that has become particularly apparent since the enactment of both codes.

Subsequently, the FSA put out a new report (FSA, 2018). In this report, the agency noted that the speed of change in the business environment is increasing, management issues are becoming more complex and diverse, and the shareholding ratio of institutional and foreign investors is rising, while individual investors continue to occupy an important position, and efforts to reform corporate governance and ensure the credibility of accounting audits are making further progress. Furthermore, efforts are being made in Europe, the United States, and other countries to enhance disclosure, including descriptive information. Based on the above, the report comprehensively examines the disclosure of corporate information, with a view to disclosure in annual securities reports (FSA, 2018, 1).

These are the second phase of corporate governance reforms that harness the power of investors.

*2020-2021*

The re-revised Japan’s Stewardship Code (The Council of Experts Concerning the Japanese Version of the Stewardship Code, 2020) was enacted in March 2020. In order to enhance the effectiveness of corporate governance reform, it is important to improve the quality of investor-company dialogue and to encourage voting advisory firms and pension management consultants to provide advice and support to institutional investors in order to improve the overall functionality of the investment chain. The proposal is based on this recommendation.

The Code also includes the following new provisions: enhancement of explanations and provision of information on reasons for approval or disapproval of the exercise of voting rights by investment management institutions, as well as dialogue activities, their results, and self-evaluations; awareness of objectives in dialogue on sustainability issues, including ESG factors; encouragement of corporate pension plan stewardship activities; development of systems at voting advisory firms, including specific disclosure of the advice formulation process, and active exchange of opinions with companies; improvement of systems for conflict-of-interest management of pension management consultants and explanation of the status of their efforts. In addition, the code also emphasizes that stewardship activities should be conducted with an awareness of the need to enhance corporate value and sustainable growth over the medium to long term, that sustainability issues, including ESG factors, should be integrated into the investment process, given that consideration of ESG factors not only reduces business risks but also leads to profit opportunities, and that, in light of the rapid changes in global ESG trends in recent years, such changes themselves can affect risk and profit opportunities, that the Code aims to enhance corporate value over the medium to long term, and institutional investors who invest in assets other than listed equities, such as bonds, may find it beneficial to apply the Code to such assets, and that those who are responsible for supporting institutional investors should manage conflicts of interest.

On the other hand, a re-revised version of the Corporate Governance Code (TSE, 2021), which is a counterpart to the re-revised Japan’s Stewardship Code, was enacted in June 2021. This revised code is in response to the above-mentioned revision of Japan’s Stewardship Code, and also in anticipation of the change in the listing classification of the TSE, which was implemented in April 2022. The main changes made in this revision are as follows.[7] First, in order for boards of directors to function effectively, companies listed on the prime market are required to appoint independent outside directors for at least one-third of their members (if necessary, consideration should be given to appointing a majority), establish a nominating committee and a compensation committee (companies listed on the prime market are required to appoint independent outside directors as committee members), publicize the relationship between the skills (knowledge, experience, and abilities) that the board of directors should have in light of the management strategy and the skills of each director, and appoint management personnel with management experience at other companies to serve as independent outside directors. Second, to ensure diversity in the company's core human resources, the company should set a concept and measurable voluntary targets for ensuring diversity in management positions (including women, non-Japanese, and mid-career hires), and disclose its human resource development policy and internal environmental policy for ensuring diversity, along with the status of their implementation. Third, to address issues surrounding sustainability, prime market listed companies should enhance the quality and quantity of their climate change disclosure based on the Task Force on Climate-related Financial Disclosures (TCFD) or an equivalent international framework, and develop a basic policy on sustainability and disclose their initiatives. In addition, there are several other directives for prime market listed companies.

Again, the report (METI, 2020) was published by METI in September 2020, sandwiched between the enactment of both revised codes. This is based on the recognition that intangible assets, especially human capital, are the main determinant of corporate value in achieving

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[7] The following website contains a brief description of the key points of the change. https://www.jpx.co.jp/news/1020/20210611-01.html. Accessed 31 March 2022.

sustainable growth in corporate value, which is the main focus of the corporate governance reforms of the 2010s. It indicates that, in light of the Covid disaster from 2020, there is a need to review human capital from the perspective of corporate value creation and ESG, as well as the need to strive to improve corporate value over the medium to long term through a process of synchronizing human strategies and management strategies (METI, 2020, 1-2).

Thus, in this phase, the linkage between economic value and ESG in corporate value creation is presented more clearly, and the importance of intangibles is emphasized. Among the intangibles, particular focus is placed on human capital. This can be seen both at the board and the employee level. And, by linking the two aspects of economic value creation and ESG, the report seeks to encourage the creation of better corporate value and the realization of initiatives for a better society.

A new Disclosure Working Group of the Financial System Council of the FSA was established in September 2021 to discuss how corporate information should be disclosed to provide investors with the information they need to make investment decisions in a timely and easy-to-understand manner and to contribute to constructive dialogue between companies and investors. Currently, this working group is discussing recent changes in light of the re-revision of both codes, as well as the disclosure of corporate initiatives related to sustainability, such as climate change and human capital.

These are the third phase of corporate governance reforms that harness the power of investors.

*Summary*

Japan's corporate governance reforms since the 2010s have consistently exhibited the following characteristics. First, the use of governance by investors, especially institutional investors with strong financial resources and expertise, to create lasting corporate value, is a prominent feature. This is evidenced by the fact that the series of corporate governance reforms, both as a whole and at each stage, have always been preceded by the establishment or revision of stewardship codes governing the decision-making and behavior of institutional investors. Second, by pairing the Stewardship Code with the Corporate Governance Code, which governs corporate decision-making and behavior, they seek to enhance the effectiveness of the Corporate Governance Code and the effectiveness of corporate governance reform. Third, the guidance and reports for companies and investors are published in a manner sandwiched between the two codes. Since METI is leading this effort, it is clear that the main focus is on corporate policy and the revitalization of the Japanese economy through it. Fourth, after the enactment and revision of both codes based on the principle-based approach, the FSA is taking the lead in trying to reflect what has been considered and implemented in both codes in the statutory disclosure. Fifth, through the enactment of the two codes on three occasions, it has been working to create better corporate value by linking economic value and social value through dialogue between companies and investors.

Specifically, the first phase is to reform corporate governance by utilizing the power of investors, and to increase economic value through this reform. The second phase aims to shift corporate governance reform from "form" to "substance," to reflect more clearly the recognition of the importance of ESG factors and intangibles that has become particularly apparent since the enactment of both codes, and to create better corporate value. And in the third phase, the connection between economic value and ESG in corporate value creation will be presented more clearly, and the importance of intangibles, especially focusing on human capital, will be emphasized to encourage efforts toward better corporate value creation and a better society, while linking the aspects of economic value creation and ESG. In this way, it attempted to incorporate the social issues of the moment and encompass the resolution of social issues within the framework of corporate value creation.

The foundation that underlies all three of these phases is dialogue between the company and its investors. This is supported by Principle 3 of the Corporate Governance Code, which states that companies should ensure appropriate information disclosure and transparency. And Principle 3 of the Corporate Governance Code states that listed companies should independently engage in providing information other than disclosure required by law. In Japan, one important tool for this purpose is integrated reporting (FSA, 2016; FSA, 2018; METI, 2014; METI, 2015; METI, 2017b; METI, 2020).

## Changes in the Form of Capitalism in the United States and the Competition over Standards for Non-financial Information

### *Pressures for change in the form of capitalism*

To date, U.S. companies have outdone Japanese firms in terms of economic performance, and the gap in market capitalization of listed companies between the United States and Japan has been growing. One of the initial aims of corporate governance reform in Japan since the 2010s was to improve economic performance.

As mentioned earlier, the United States has traditionally been positioned as a traditional shareholder capitalism country. Today, however, we can observe a gradual change in this position. In addition to the awareness of serious social and environmental issues, there is also the Principles for Responsible Investment (PRI), which was launched in 2006 and promoted by the UN. The PRI is "the world's leading proponent of responsible investment. It works to understand the investment implications of ESG factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions."[8] The six principles are as follows.[9]

> Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
>
> Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
>
> Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
>
> Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
>
> Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
>
> Principle 6: We will each report on our activities and progress towards implementing the Principles.

Since 2006, both the number of signatories and the amount under management have increased, and especially since 2015, the rate of increase has been significant (see Figure 9). Currently, the PRI has 4,909 signatories, broken down by region (see Figure 10). The United States, which has traditionally been characterized by shareholder capitalism, is the largest with 1,022 (21 percent), followed by the U.K. and Ireland with 829 (17 percent) (figures as of 3 April

[8] https://www.unpri.org/about-us/about-the-pri. Accessed 31 March 2022.
[9] https://www.unpri.org/about-us/about-the-pri. Accessed 31 March 2022.

2022). In other words, it is becoming increasingly natural for investment-related institutions in the United States to reflect ESG factors in their investment decisions.

Meanwhile, there are signs of change in the corporate sector as well. The BRT, the management association of major U.S. companies, released a statement on the purpose of corporations (BRT, 2019) in August 2019, which has sparked much debate. There, it states, “While each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all of our stakeholders,” and stakeholders are said to include customers, employees, suppliers, local communities, and shareholders. Notably, shareholders are listed last. This statement can be seen as a major shift from the shareholder-first approach in the BRT’s previous statement (BRT, 1997), and was received with surprise in Japan as a major change in the corporate perspective of American companies.

We must ask ourselves, however, whether this change in the United States is accompanied by substance, and, if it is, whether it is the same as the various types of stakeholder-oriented management that have been observed in many top Japanese firms. For example, Bebchuk and Tallarita (2020), based on their own research, are not convinced about a shift from a shareholder-first approach.

In addition, the United States ranks last among the countries surveyed both in the number of companies implementing integrated reporting and in the quality of integrated reports issued (Eccles et al., 2019). There are several possible reasons for the weak practice of integrated reporting in the United States. One may be the strong short-term orientation of institutional investors, which companies, especially startups, are not fond of. For example, the number of listed companies in the United States has decreased: in 1996, there were more than 7,400 listed companies on the U.S. stock exchanges; by 2017, that number had dropped by more than half.

The reasons given for this decline include the existence of smaller companies that stay private longer and prefer to raise venture capital or other private money rather than going public and being subject to strict regulations, and the activity of mergers and acquisitions.[10]

Another reason why there are not many companies in the United States that implement integrated reporting is that Regulation S-K of the United States Securities and Exchange Commission (SEC) specifies disclosure items and methods for non-financial information on ESG and issues other than financial statements, and the annual report (Form 10-K) is the medium for disclosure. In response to Regulation S-K, in 2016, the PRI requested the SEC to require companies to include ESG data in their annual reports and to ensure consistency between ESG data and material financial data.[11] In addition, a revision was made in August 2020 to require more information on human capital (Item 101(c)(2)(ii)).

Furthermore, the Investor Stewardship Group (ISG), which consists of some of the largest U.S.-based institutional investors and global asset managers, has adopted a set of six stewardship principles (17 in the bylaws) (ISG, 2017a) and a set of six corporate governance principles (24 in the bylaws) (ISG, 2017b). The bylaws of the stewardship principles state "good corporate governance is essential to long-term value creation and risk mitigation by companies. Therefore, institutional investors should adopt and disclose guidelines and practices that help them oversee the corporate governance practices of their investment portfolio companies. These should include a description of their philosophy on including corporate governance factors in the investment process, as well as their proxy voting and engagement guidelines" (ISG, 2017a, B.1). The bylaws of the Corporate Governance Principles also state "it is a fundamental right of

[10] Dow Jones Institutional News "Fewer Listed Companies: Is That Good or Bad for Stock Markets?" 4 January 2018.
[11] https://www.unpri.org/Uploads/i/f/g/PRI-Response---SEC-Concept-Release-FINAL.pdf. Accessed 31 March 2022.

shareholders to elect directors whom they believe are best suited to represent their interests and the long-term interests of the company. Directors are accountable to shareholders, and their performance is evaluated through the company's overall long-term performance, financial and otherwise" (ISG, 2017b, 1.1), and "as part of their oversight responsibility, the board or its compensation committee should identify short- and long-term performance goals that underpin the company's long-term strategy. These goals should be incorporated into the management incentive plans and serve as significant drivers of incentive awards. Boards should clearly communicate these drivers to shareholders and demonstrate how they establish a clear link to the company's long-term strategy and sustainable economic value creation. All extraordinary pay decisions for the named executive officers should be explained to shareholders" (ISG, 2017b, 6.1).

Thus, there is a movement among U.S. institutional investors and corporations toward long-term corporate value creation and ESG considerations through dialogue between investors and corporations.

*Competition over standards for non-financial information*

Traditionally, economic value has been captured and communicated through financial information (accounting information). Although accounting standards exist for financial information in various countries, the IFRS are becoming the de facto standard worldwide. Accounting standards in various countries have been harmonized with the IFRS. On the other hand, much of the information on sustainability, including ESG, is captured and communicated through non-financial information. Countries continue to expand and enhance disclosure of sustainability information. In addition, various institutions have published their sustainability information standards, and companies have been forced to respond to these standards, while the disorder and low comparability of the standards have been seen as problems. In recent years, however, these standards are being systematized into two major groups. One axis is the United States and the U.K., and the other is the European Commission (EC).

In the United States, the SASB was established in 2012 to support the disclosure of sustainability-related information. The SASB has been working on setting industry-specific sustainability accounting standards. "SASB Standards guide the disclosure of financially material sustainability information by companies to their investors. Available for 77 industries, the Standards identify the subset of ESG issues most relevant to financial performance in each industry."[12] The SASB was then merged with the IIRC, which had promoted integrated reporting, in June 2021 to form the VRF.

The IFRS Foundation, which set up the IFRS, established the International Sustainability Standards Board (ISSB) on November 3, 2021. The impetus for the ISSB is that "international investors with global investment portfolios are increasingly calling for high quality, transparent, reliable and comparable reporting by companies on climate and other environmental, social and governance (ESG) matters."[13] "The intention is for the ISSB to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions."[14]

The IFRS Foundation, which includes the ISSB, incorporated the Climate Disclosure Standards Board (CDSB) (headquartered in London) into the newly established ISSB on January

[12] https://www.sasb.org/about/. Accessed 31 March 2022.
[13] https://www.ifrs.org/groups/international-sustainability-standards-board/. Accessed 31 March 2022.
[14] https://www.ifrs.org/groups/international-sustainability-standards-board/. Accessed 31 March 2022.

31, 2022 to support the work of the ISSB. The CDSB is “an international consortium of business and environmental NGOs” and is “committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital.”[15] In addition, the aforementioned VRF will be also incorporated into the IFRS Foundation by June 30, 2022.

As a result of the above, the ISSB, CDSB, and VRF (originally IIRC and SASB) will come together under the IFRS Foundation, as well as the International Accounting Standards Board (IASB), which handles financial information (financial statements). The aggregation of the knowledge and networks of these organizations involved in both financial and non-financial aspects of corporate valuation and corporate reporting will have two major effects. First, by combining and integrating the knowledge that has been developed and accumulated in different organizations, it will lead to the creation of a more comprehensive and effective system that integrates economic and social values. For example, the Integrated Thinking Principles (VRF, 2021) released by the VRF in December 2021 explains its significance as follows:

> The Integrated Thinking Principles (‘Principles’) provide a structured approach, rooted in the International Integrated Reporting Framework—or <IR> Framework—to embed integrated thinking into an organization’s intangibles and communicate this to investors through an integrated report, based on the <IR> Framework and international financial and sustainability accounting standards. This, in turn, may lead to better assessments by providers of financial capital of how an organization creates, preserves or erodes value over time. It can also support a stronger weighted average cost of capital (WACC) and more robust forecasts of future cash flows, which may lead to higher market capitalization. (VRF, 2021, 1)

The Integrated Thinking Principles are comprised of six principles: Purpose, Strategy, Risk and Opportunity, Culture, Governance, and Performance. “These six Principles, which align with the architecture of the TCFD Recommendations, provide a structured approach for

[15] https://www.cdsb.net/our-story. Accessed 31 March 2022.

considering how to create the right environment within an organization, as well as for reviewing what can, at times, go wrong" (VRF, 2021, 1). Thus, there is an interaction with the standard on financial information and other findings on non-financial information.

Another effect is that it can have a stronger influence than other standards. Currently, another axis of sustainability standards is the European Financial Reporting Advisory Group (EFRAG) (headquartered in Brussels), which is supported by the EC. According to its mission statement, the EFRAG is "to serve the European public interest in both financial reporting and sustainability reporting by developing and promoting European views in the field of corporate reporting and by developing draft EU Sustainability Reporting Standards."[16]

The difference between the U.S.- and the U.K.-based IFRS Foundation group's view and the EC group's view on sustainability information can be explained as follows.

To begin with, reporting deals with material information, and the concept of materiality has two meanings: materiality for disclosures based on an organization's impact on the economy, the environment, and people, and materiality for corporate value creation (CDP et al, 2020a, 4-5). So, as shown in Figure 11, first of all, there is reporting on matters that reflect the significant impact of the organization on the economy, the environment, and people (the blue area in Figure 11). This is called sustainability reporting. This is the reporting to the "various users with various objectives, who want to understand the enterprise's positive and negative contributions to sustainable development" (CDP et al., 2020b, 7), i.e., to diverse stakeholders. And as part of this, there is a report (the purple area in Figure 11) on a subset of sustainability issues that are material for corporate value creation. This is called sustainability-related financial disclosure. It is aimed at "users with specific interest in understanding enterprise value" (CDP et al., 2020b, 7-8),

[16] https://www.efrag.org/About/Facts. Accessed 31 March 2022.

primarily those who provide financial capital. Furthermore, as part of this, there is reporting that is already reflected in the financial statements (the pink area in Figure 11). This is referred to as financial accounting and disclosure. Together, sustainability-related financial disclosure and financial accounting and disclosure are called enterprise value reporting (CDP et al., 2020b, 7-8).

The sizes of each of these areas, however, are fluid, and sustainability issues can move gradually or rapidly between them. The dotted lines in Figure 11 represent this. This concept is called dynamic materiality (CDP et al., 2020a, 4-5; CDP et al., 2020b, 6).

And as Figure 11 shows, the scope of the IFRS Foundation (IASB, IIRC, SASB, CDSB) and the Financial Accounting Standards Board (FASB), the financial accounting and reporting standard-setting body in the United States, is sustainability-related financial disclosure and financial accounting and disclosure, that is, enterprise value reporting. In other words, the main focus is on understanding and communicating sustainability issues related to the economic value of a company in an integrated manner with economic value. Amel-Zadeh and Serafeim (2018), in a survey of investment professionals in asset-managing institutions and asset-owning institutions, found that the main focus is on the understanding and communication of sustainability issues related to the economic value of a company in an integrated manner with its economic value, and the majority of investors use ESG data for economic rather than ethical reasons.[17] Such a concept and practice can be positioned as the new stakeholder capitalism that has moved on from the traditional shareholder capitalism.

On the other hand, organizations involved in the EC and GRI have a perspective that includes two types of materiality. The Non-Financial Reporting Directive, which regulates non-

[17] Respondents were primarily from Europe (40 percent), North America (34 percent), and Asia (15 percent).

financial information in the EC, has a double materiality perspective (EC, 2019, 6-8). The two perspectives are as follows.

- The reference to a company's "development, performance [and] position" indicates that financial materiality, in the broad sense of affecting the value of the company. Climate-related information should be reported if it is necessary for an understanding of the development, performance and position of the company. This perspective is typically of most interest to investors.

- The reference to "impact of [the company's] activities" indicates environmental and social materiality. Climate-related information should be reported if it is necessary for an understanding of the external impacts of the company. This perspective is typically of the most interest of citizens, consumer, employees, business partners, communities and civil society organisations. However, an increasing number of investors also need to know about the climate impacts of investee companies in order to better understand and measure the climate impacts of their investment portfolios.

"These two risk perspectives already overlap in some case and are increasingly like to do so in the future," so the materiality perspective of the Non-Financial Reporting Directive covers both materiality perspectives (EC, 2019, 7). The EC group and GRI are particularly interested in the latter (CDP et al, 2020a; CDP et al, 2020b), which is a major difference from the IFRS Foundation's interest. There, it can be seen that the character of the traditional stakeholder capitalism remains.[18]

[18] The CDP (formerly the Carbon Disclosure Project) (headquartered in London, but with offices around the world) is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts (https://www.cdp.net/en/info/about-us. Accessed 15 May 2022). The CDP provides a platform for stakeholders to access corporate performance on climate, water and forests (CDP et al., 2020a, 8).

*Summary*

Traditionally, the United States has been one of the countries with the traditional shareholder capitalism, but today a change in this trend can be observed. In addition to the awareness of social and environmental issues, there is also the influence of the increase in the number of institutional investors signing the PRI. Both the number of signatories in the United States and their share of the total number of signatories are the highest in the world. As for integrated reports, which are voluntary disclosures, the number of companies issuing integrated reports and the level of integrated reports are not necessarily high in the United State. The impact of regulations by the SEC regarding disclosure items and methods of non-financial information related to ESG, however, cannot be ignored.

These pressures are gradually leading to ESG considerations on the part of companies. One indication of this is the release of a statement by the BRT in 2019 affirming that it shares a commitment to all stakeholders.

Thus, a move toward ESG considerations among U.S. institutional investors and companies can be seen.

In addition, a number of U.S.- and U.K.-based organizations have merged to create organized de facto standards for non-financial information. Compared to the EC-based groups which have a double materiality perspective, the U.S. and U.K.-based groups have adopted a single-materiality approach that emphasizes ESG factors linked to the corporate value creation and economic value of the company. Specifically, the group deals with sustainability-related financial disclosure and systematizes enterprise value reporting by combining it with financial accounting and disclosure that focus on corporate valuation and corporate reporting for investors.

In this way, the United States is adapting to the new stakeholder capitalism while retaining the influence of the traditional shareholder capitalism.

**Conclusion**

The purpose of this study is to analyze how the United States and Japan, conventionally positioned as opposites in their forms of capitalism, are trying to respond to the new stakeholder capitalism of recent years, each from different standpoints. The following assumptions are made: there are various types of ideas about the purpose of corporations and what value they are expected to bring and to whom (forms of capitalism), and the forms of capitalism observed and the forms of capitalism that people consider desirable depend on the country, the era, and the impact that corporations have on society.

The existence of various social issues and the growing expectations for the role of corporations in solving them create a strong demand for understanding and communicating sustainability efforts and results, as well as corporate value to various stakeholders. The increasing importance of intangibles in corporate activities is also similar. Both of these factors have led to the expanding importance of non-financial information.

We described the concept and approach of integrated reporting, which organically links financial and non-financial information to communicate a company's value creation process. Integrated reporting is not just corporate reporting, but also has the aspect of management improvement. Although there are many companies issuing integrated reports in Japan, it is pointed out that there are some issues at the level of integrated reporting that still remain to be addressed. This means that corporate governance, dialogue with stakeholders, and the process of corporate value creation based on these issues may still be in the process of development.

We then looked at various efforts in Japan and the United States to cope with the new stakeholder capitalism. Since the 2010s, Japan has been promoting corporate governance reforms centered on the establishment and revision of two codes, Japan's Stewardship Code and the Corporate Governance Code, to improve economic efficiency, incorporate ESG factors, and promote investment in intangibles. All of them are efforts to create corporate value by integrating economic and social values through dialogue between companies and investors. In the United States, on the other hand, the same efforts are being made by institutional investors, and the impact is being exerted through regulations by the SEC. In addition, institutions based in the United States and the U.K. are collaborating and merging to systematize corporate value reporting by establishing de facto standards for non-financial information and by organically linking this with financial information.

The discussion in this paper shows that Japan and the United States are trying to respond to the new stakeholder capitalism, but with different objectives and focuses due to their different original standpoints. In other words, it does not indicate that different forms of capitalism will simply converge in the future. Probably there are two forces at work here: convergence and diversification. Convergence is likely to act on rules, standards, and information, while diversification is likely to act on each country's intention to improve the competitiveness of its firms. The values of citizens about how companies should behave also have the power to both converge and diversify forms of capitalism. Even if there is convergence on the environment, human rights, and diversity and inclusion as a whole, diversification may remain strong in detailed regulations and actual corporate behavior.

We expect that the initiatives of some advanced companies on the new stakeholder capitalism are gradually beginning to show results, but they are still a work in progress. In particular, it will take time for the economic benefits to become apparent. In this sense, the discussion in this paper is both timely and ongoing.

## TABLES

### Table 1 Tradeoffs between shareholder vs stakeholder priorities

| | Costs / Dangers | Benefits / Gains |
|---|---|---|
| **Stakeholder priority** | slack, no urgency | long-term view |
| | no risk-taking | longevity |
| | limited competition | predictability |
| | rigidity of worker careers | social cohesion |
| | in-house focus, no cross-fertilization | re-investments in assets(people, R&D, facilities, etc.) |
| | incrementalism | innovation |
| | inefficiencies and low profits | stability |
| **Shareholder priority** | no long-term value creation | immediacy / speed |
| | no personal responsibility by shareholders | risk-taking |
| | short-term gambling | huge technology bets |
| | no social contribution; layoff and restructuring | labor mobility and career opportunities |
| | market focus: nore-investment | efficiency and high profit margins |

Source: Schaede, 2021, 16.

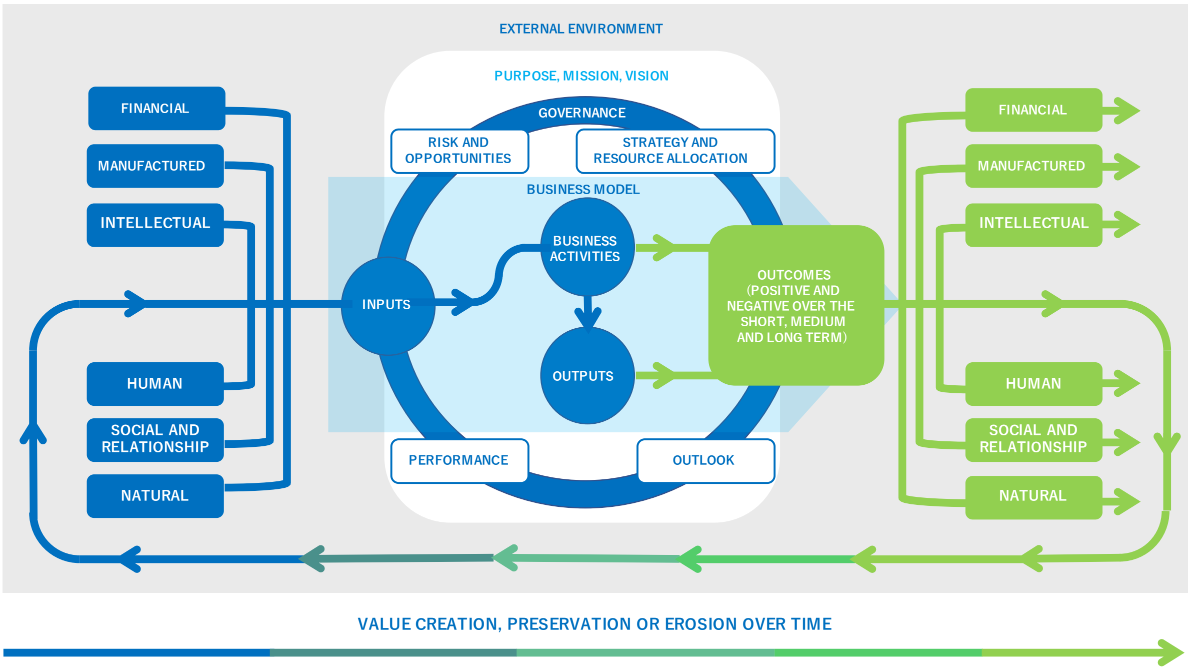
**Table 2 Corporate governance reform in Japan since the 2010s**

| | | |
|---|---|---|
| Feb. 2014 | Financial Services Agency | Japan's Stewardship Code |
| Aug. 2014 | Ministry of Economy, Trade and Industry | Ito Review of Competitiveness and Incentives for Sustainable Growth – Building Favorable Relationships between Companies and Investors– Final Report（「持続的成長の競争力とインセンティブ～企業と投資家の望ましい関係構築～」プロジェクト（伊藤レポート））|
| Apr. 2015 | Ministry of Economy, Trade and Industry | Report of the Study Group on Promoting Dialogue between Companies and Investors Toward Sustainable Growth: Corporate Information Disclosure and Shareholder Meeting Processes for Countries with Advanced Dialogue（持続的成長に向けた企業と投資家の対話促進研究会 報告書～対話先進国に向けた企業情報開示と株主総会プロセスについて～）|
| Jun. 2015 | Tokyo Stock Exchange | Corporate Governance Code |
| Apr. 2016 | Financial Services Agency | Financial System Council Disclosure Working Group Report - Toward the Promotion of Constructive Dialogue -（金融審議会 ディスクロージャーワーキング・グループ 報告ー建設的な対話の促進に向けてー）|
| May 2017 | Financial Services Agency | Japan's Stewardship Code (revised) |
| May 2017 | Ministry of Economy, Trade and Industry | Integrated Disclosure and Dialogue Guidance for Value Creation -ESG, non-financial information and intangible asset investment- (Value Co-Creation Guidance)（価値協創のための統合的開示・対話ガイダンスーESG・非財務情報と無形資産投資ー（価値協創ガイダンス））|
| Oct. 2017 | Ministry of Economy, Trade and Industry | Ito Review 2.0 Long-Term Investment for Sustainable Growth (ESG and Intangible Assets Investment) Study Group Report（伊藤レポート2.0　持続的成長に向けた長期投資（ESG・無形資産投資）研究会 報告書）|
| Jun. 2018 | Tokyo Stock Exchange | Corporate Governance Code (revised) |
| Jun. 2018 | Financial Services Agency | Financial System Council Disclosure Working Group Report - Toward a Virtuous Circle in Capital Markets -（金融審議会 ディスクロージャーワーキング・グループ 報告ー資本市場における好循環の実現に向けてー）|
| Mar. 2020 | Financial Services Agency | Japan's Stewardship Code (revised again) |
| Sep. 2020 | Ministry of Economy, Trade and Industry | Report of the Study Group on Improvement of Sustainable Corporate Value and Human Capital（持続的な企業価値向上と人的資本に関する研究会 報告書（人材版伊藤レポート））|
| Jun. 2021 | Tokyo Stock Exchange | Corporate Governance Code (revised again) |
| Jan. 2022 | Cabinet Office | 知財・無形資産の投資・活用戦略の開示及びガバナンスに関するガイドライン Ver 1.0 |

Source: Created by the author.

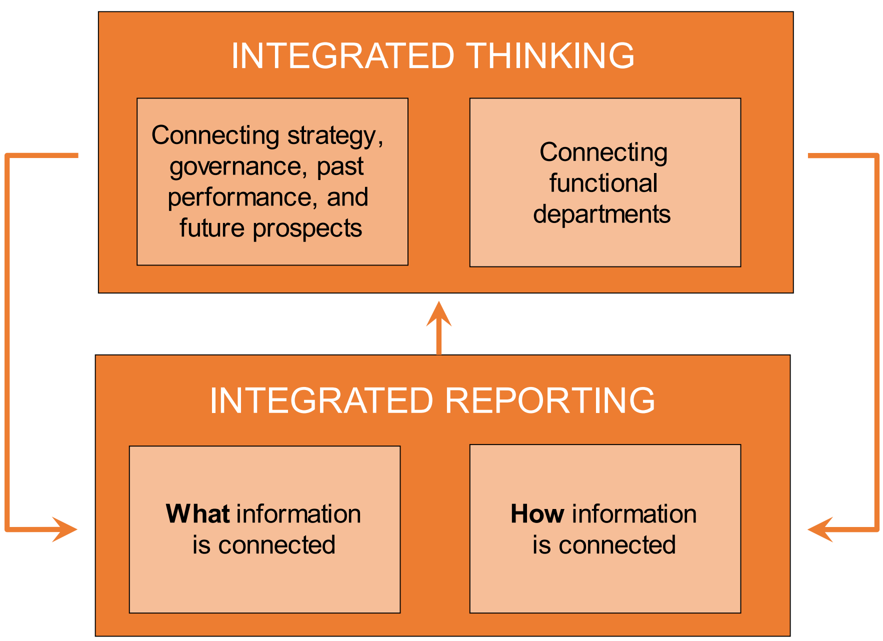
## FIGURES

**Figure 1 Process through which value is created, preserved or eroded**



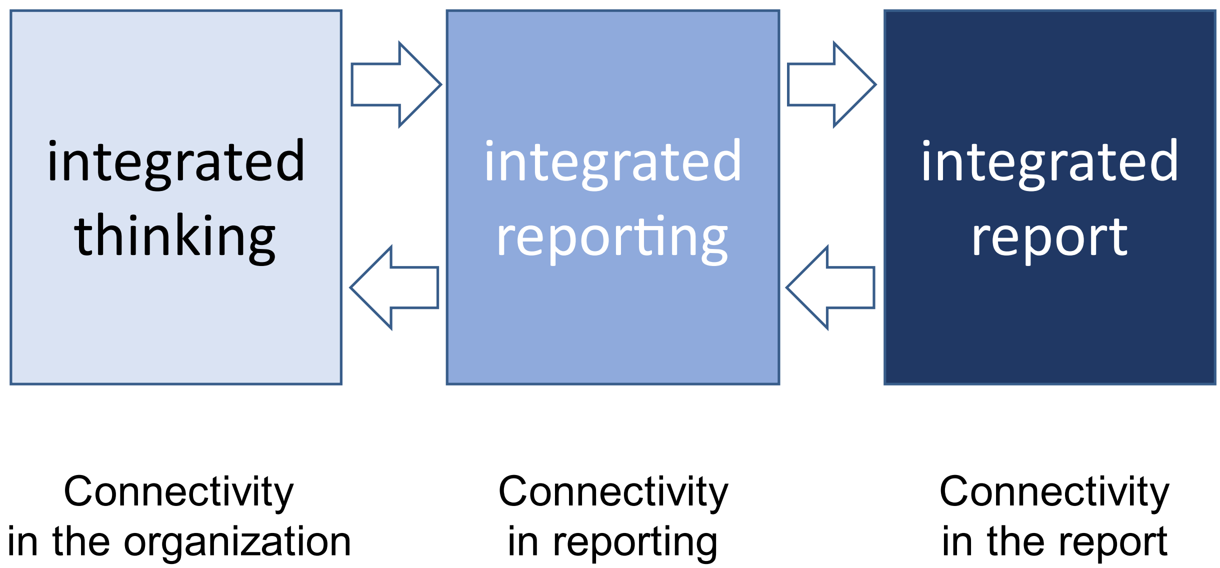

Source: IIRC, 2021, 22, Figure 2.

**Figure 2 Mutual reinforcement between integrated reporting and integrated thinking**



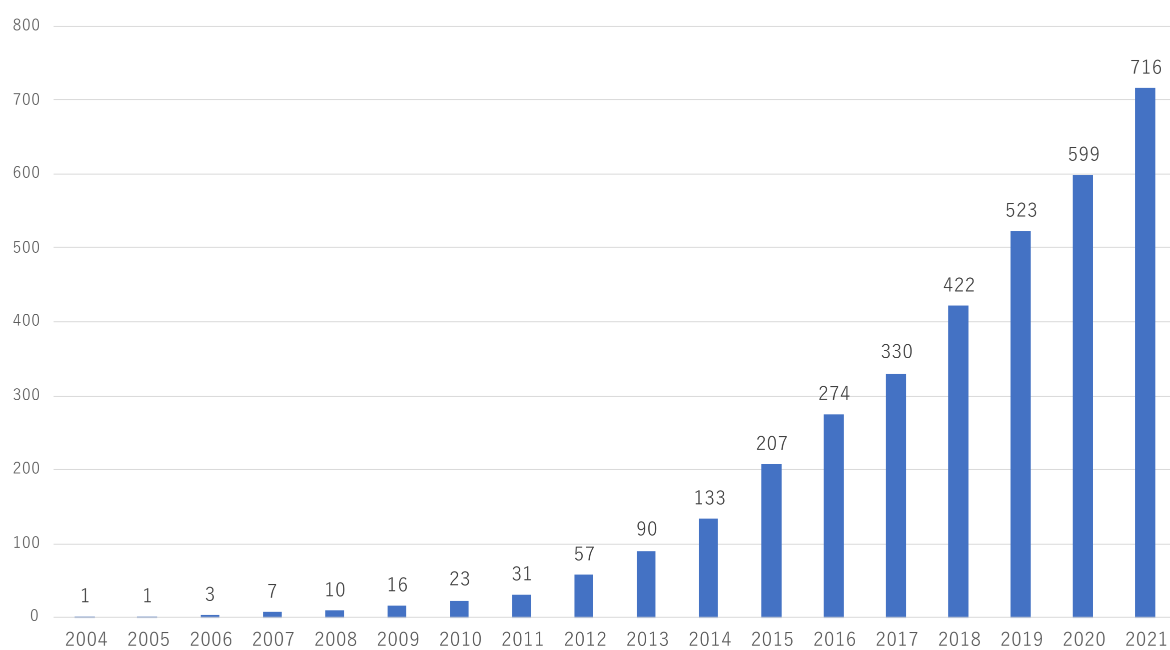

Source: IIRC, 2013a, 1.

**Figure 3  The relationship of integrated thinking, integrated reporting and integrated reports**



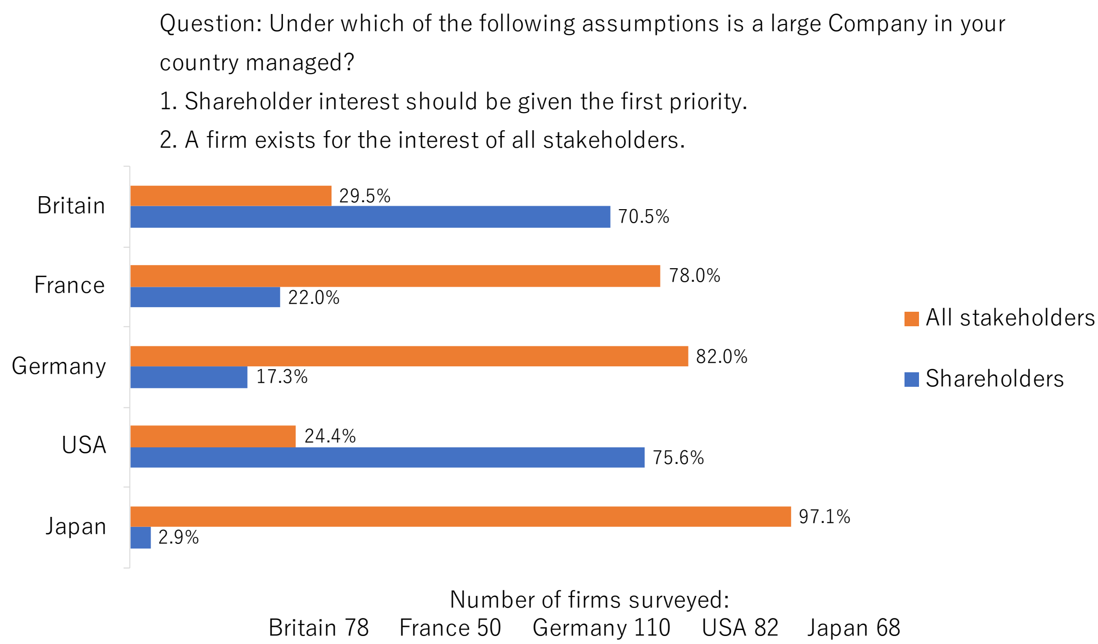

Source: Uchiyama, 2015b, 36, Figure 1.

**Figure 4  Number of companies, etc. issuing domestic self-assessment integrated reports in Japan**



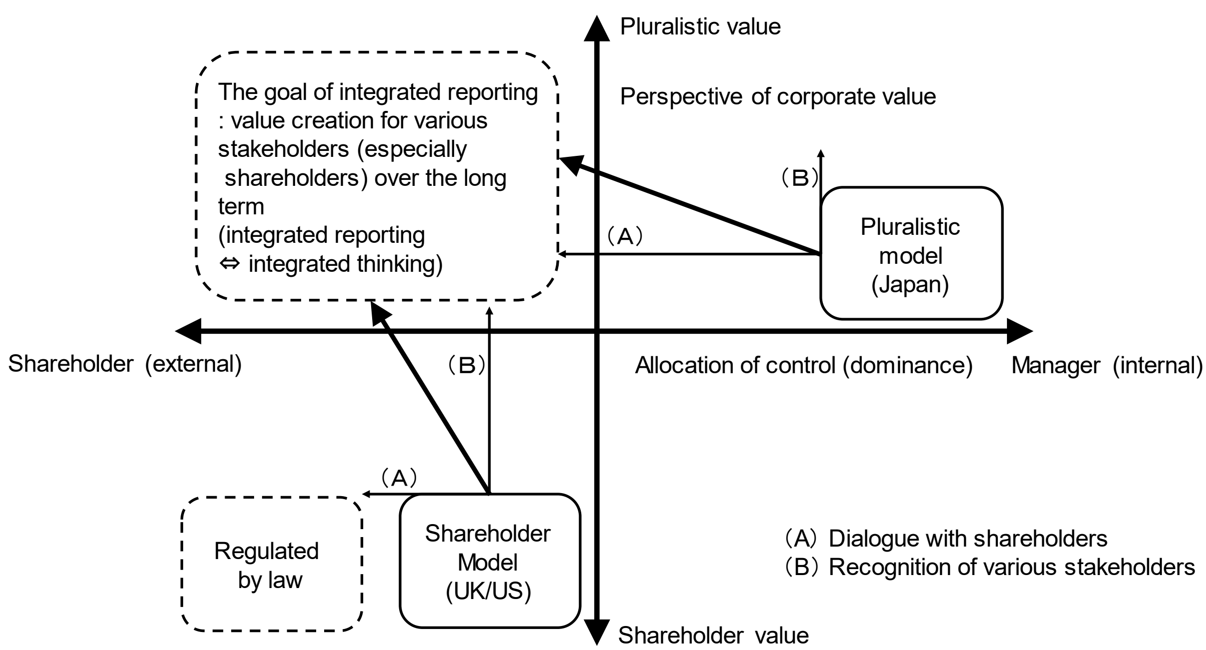

Source: Corporate Value Reporting Lab, 2022, 2.

**Figure 5 Whose company is it?**



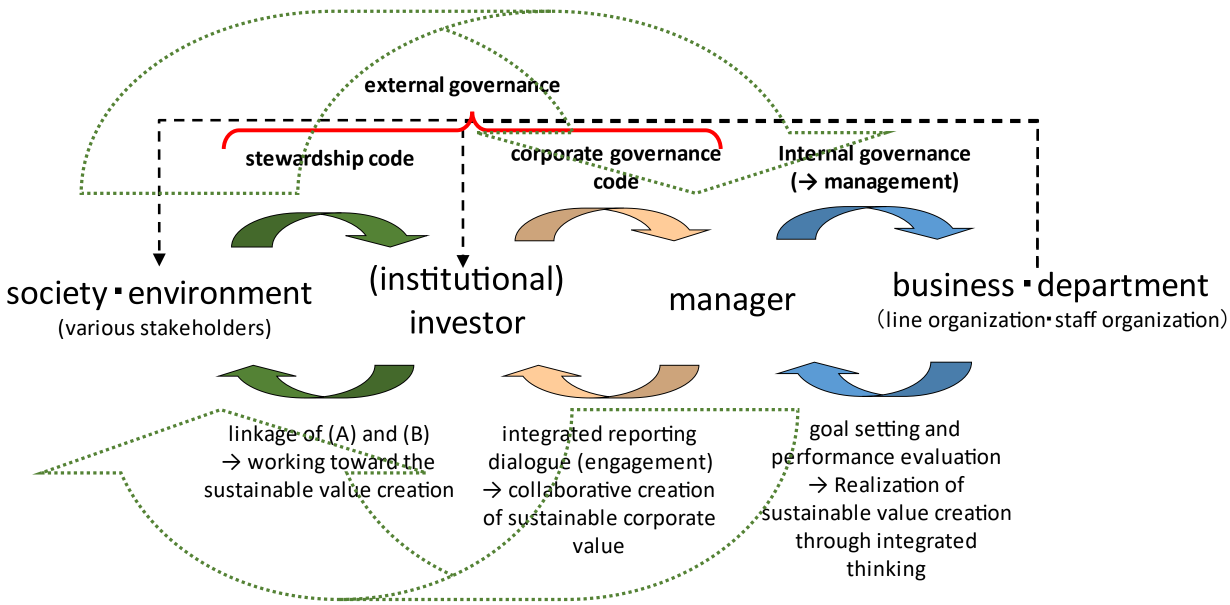

Source: Yoshimori, 1995, 34, Figure 1.

**Figure 6 The goal of integrated reporting**



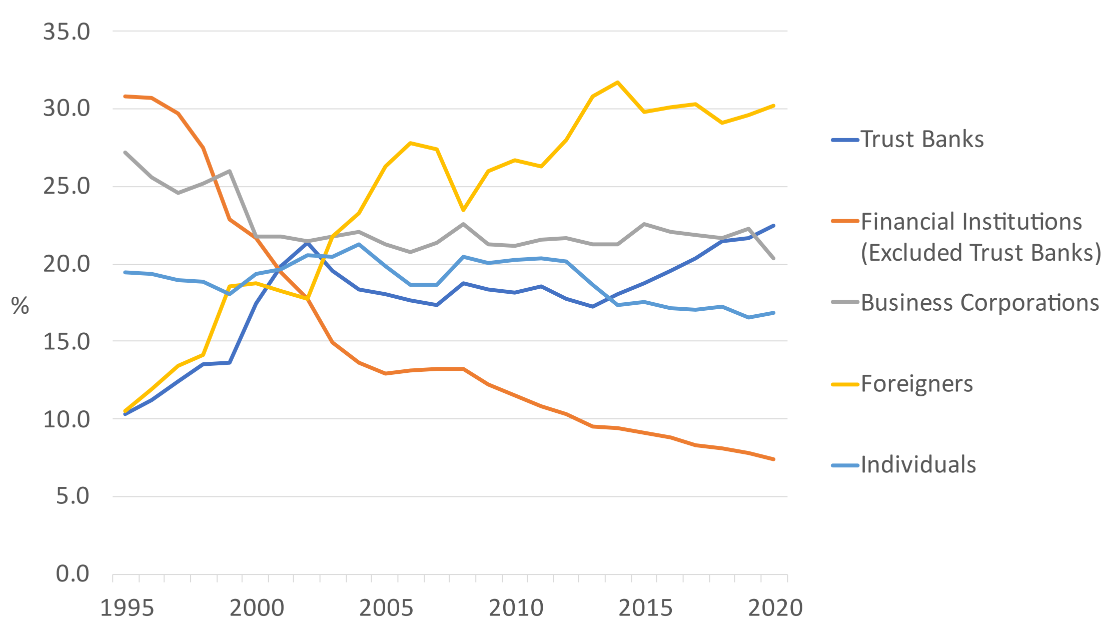

Source: Uchiyama, 2015a, 52, Figure 8.

**Figure 7 Triple-loop model**



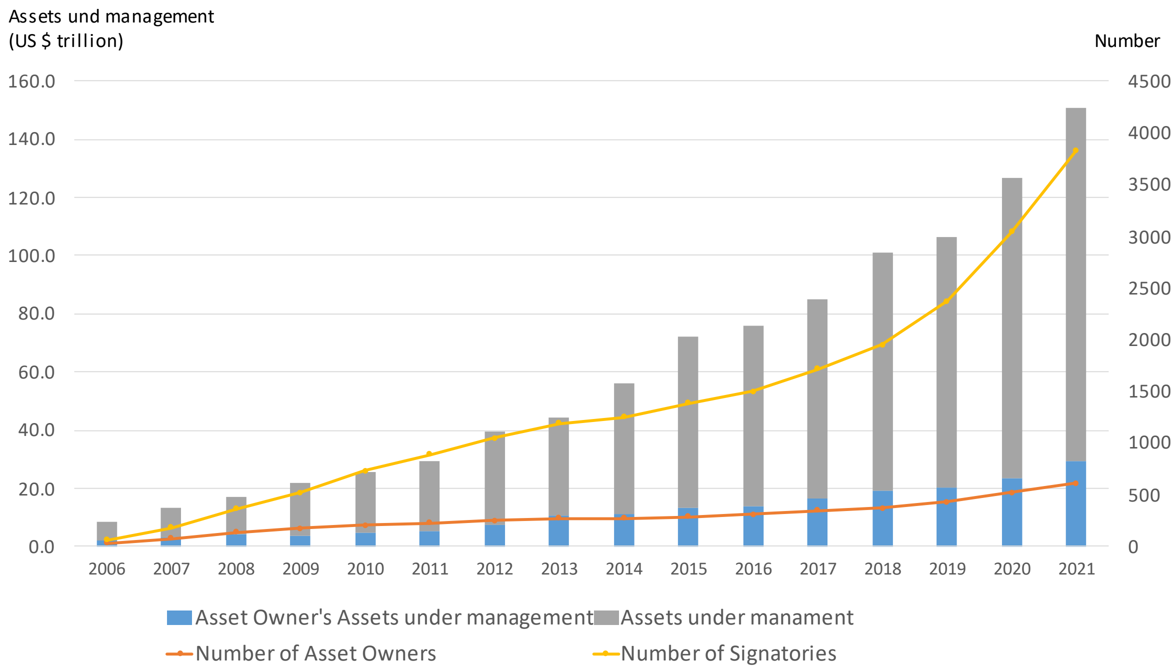

Source: Uchiyama, 2020, 117, Figure 3.

**Figure 8 Distribution percent of market value owned by type of shareholder**



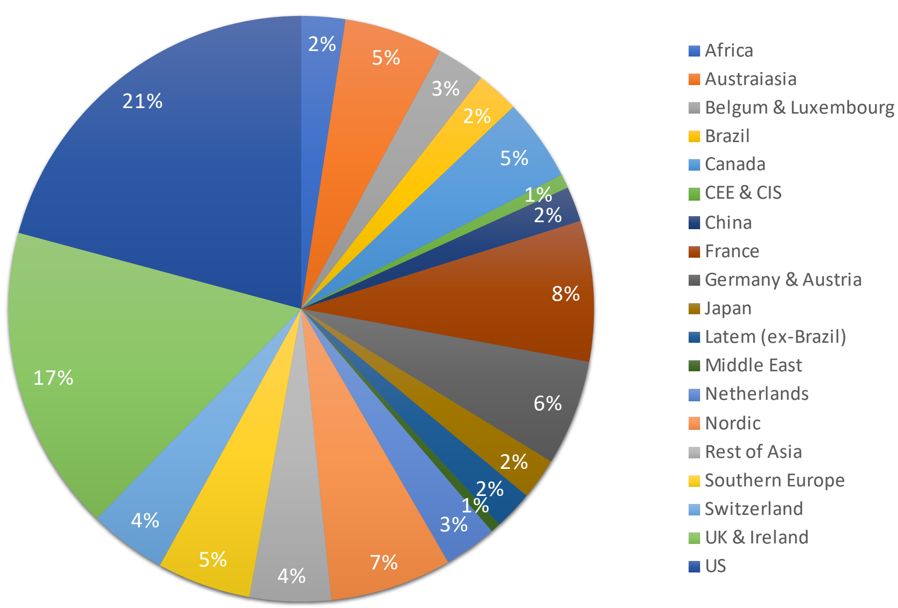

Source: Created by the author based on 2020 ownership survey of TSE.

**Figure 9 PRI growth 2006-2021**



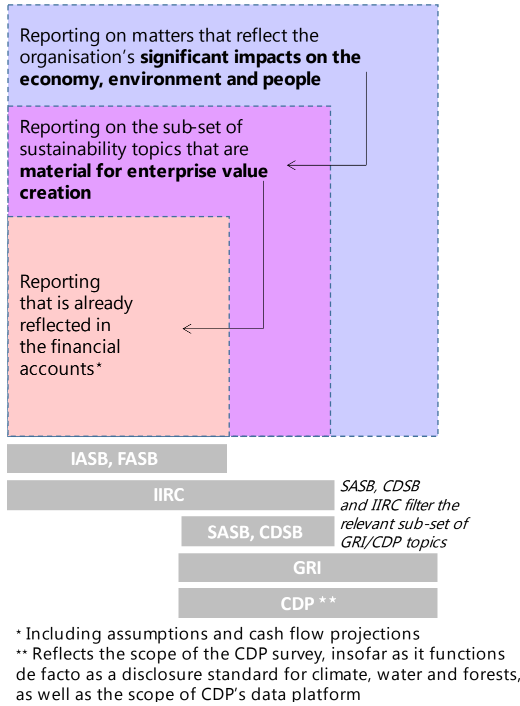

Source: Created by the author based on the data from PRI website (https://www.unpri.org/about-us/about-the-pri).

**Figure 10 Regional distribution of PRI signatories**




Source: Created by the author based on PRI website (https://www.unpri.org/signatories/signatory-resources/signatory-directory).

**Figure 11 Standards address distinctive materiality concepts**




Source: CDP et al., 2020a, 8, Figure 2.

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