

Securing Corporate Japan from Chinese Economic Nationalism: The Growing Importance of Social Engagement in the Socialist Market Economy

Keikoh Ryu¹

¹ Graduate School of Business Administration, Ritsumeikan University, Osaka, Japan

Abstract

The long and complex history between China and Japan, and in particular the 'Negative heritage' of the Second World War, has effectively alienated the two countries and led to a pervasive culture of Anti-Japanese sentiment throughout China. The widespread dissemination of anti-Japanese propaganda by the Chinese media has further contributed to this negative image of Japanese corporations. This pervasive climate of anti-Japanese sentiment has forced Japanese companies seeking to expand their businesses abroad to grapple with the unique challenges of navigating the highly politicized environment of Chinese harmonious society. Still, the success of any foreign companies in China fundamentally depends on whether China's market economy continues to develop in the face of harsh political conditions and growing social unrest. To date, only a handful of studies have addressed the effects of Chinese harmonious society on the performance of Japanese corporations operating in China. All of this has forced Japanese companies seeking to expand their businesses abroad to grapple with the unique challenges of operating within the highly politicized environment of Chinese nationalism. This begs the question: how should Japanese corporations respond to Chinese nationalism in pursuing their business objectives? This study is an attempt to fill that gap.

Keywords: Chinese Nationalism, Business-Society Relations, Social Engagement Anti-Japanese sentiment, Harmonious Society, Socialist Market Economy.

I. INTRODUCTION

The long and complex history between China and Japan, and in particular the "negative heritage" of the Second World War which has been exacerbated by recent territorial disputes involving the Senkaku Islands and the natural resources of the East China Sea¹, has effectively alienated the two countries and led to a pervasive culture of anti-Japanese sentiment throughout China. Following the violent anti-Japanese demonstrations of 2012, China's hostility towards Japan has also had an effect on the economic prospects of Japanese corporations, creating apprehension over the future of Japanese corporate and trade relations in China. The widespread dissemination of anti-Japanese propaganda by the Chinese media has further contributed to this negative image of Japanese corporations. This pervasive climate of anti-Japanese sentiment has forced Japanese companies seeking to expand their businesses abroad to grapple with the unique challenges of navigating the highly politicized environment of Chinese economic nationalism. Although the Chinese mainland remains an important market for a variety of Japanese industries, these economic ties have formed against a historical backdrop characterized by complex and thorny political issues that cannot be resolved through compromise alone. Hence, despite Japan's continued support for China's economic and technological development, mutual misunderstandings and historical grudges are likely to dictate Sino-Japanese relations in both the public and private sector for some time to come.

Anti-Japanese sentiment aside, China is currently in the midst of a strategic crossroads in its development which begs a radical re-examination of the last thirty years of economic reform since the Cultural Revolution.² As the world's second largest economy, third largest trader, and the largest recipient of foreign direct investment with two trillion dollars in foreign reserves, China's status in the global economy is impressive. Yet its rapid growth is unbalanced and possibly unsustainable. In an effort to maintain a delicate equilibrium between continuous economic growth, environmental protection and social stability, President Hu Jintao³ and Premier Wen Jiabao⁴ have developed political ideologies based on the prioritization of social issues rather than purely economic ones. This shift is at the heart of the notion of the "harmonious society," a national vision geared toward continuous stable development and based on the recognition that social problems can only be addressed by paying greater attention to the impact of economic development on society at large.

All of this begs the question: how should Japanese corporations respond to Chinese economic nationalism in growing their business? The performance of Japanese enterprises in China has always been an important topic of study, though very few have directly addressed the effects of Chinese economic nationalism on the performance of Japanese corporations operating in China. Based on field research, this study begins with an analysis of the state of Sino-Japanese relations and the theoretical framework behind strategies for dealing with economic nationalism, and goes on to discuss economic nationalism in China and its impact on Japan's commercial prospects in terms of the growing importance of "business-society relations" in reversing this trend. The study concludes by recommending strategies for social engagement that deal effectively with these issues. Japanese corporations attempting to make inroads into China must not only compete with domestic and multinational corporations, but also work to improve their public image by focusing on social issues of environmental protection and social stability.

II. The Sino-Japanese Predicament

A. Politics and Economics of Sino-Japanese Relations

This section focuses on the recent political and economic history of Sino-Japanese relations in order to identify the obstacles posed by the rise of Chinese economic nationalism and to place the competitive market faced by Japanese corporations in context. Sino-Japanese relations are perhaps best described as both "near and far" -- near in terms of geography, culture and economics, yet far in terms of politics, customs and ways of thinking. In particular, the "negative heritage" of the Second World War has effectively led to a history of hostility and alienation between the two countries that continue to this day.⁵ Anti-Japanese sentiment in China continues to be informed by territorial disputes over the Senkaku islands and the natural resources of the East China Sea, as well as the controversy over the visits of high-ranking officials to the Yasukuni Shrine, where the spirits of Japanese war criminals are honoured.

Anti-Japanese sentiment aside, China is currently in the midst of a crossroads in its development which begs a radical reexamination of the last thirty years of economic reform since the Cultural Revolution. As China has evolved from a "planned socialist economy" to a "socialist market economy" and a "harmonious society," the Chinese government has begun to espouse political ideologies which prioritize social issues to maintain a delicate balance between economic growth and social stability. Japanese corporations must not only compete with domestic and multinational corporations, but also consider these ideologies in formulating new and creative approaches to localization.

Thus far, Japanese enterprises have relied on superior product quality and advanced technology to compete in the Chinese marketplace. As the product quality and technical expertise of Chinese companies improve, however, this will no longer constitute a competitive advantage. Yet while brand recognition is essential to attract competent personnel and maintain managerial loyalty, recognition and respect for Japanese brands in the Chinese market remains low due to the political tension between the two nations. Japanese brands rarely make it into the top echelon of corporate rankings by the Chinese media, and whatever social contributions Japanese companies have made in China are inadequately publicized. In a market where competition is fierce and technology readily available, brand recognition represents one of the few ways in which corporations can distinguish themselves from their competitors. Moreover, and insofar as the ability to maintain good relations with local governments and communities also depends on positive brand recognition, effective localization ultimately depends on maintaining a good corporate image.

In the 1990's, when the business model was to import components to be assembled in China and exported to foreign markets, foreign enterprises had little need for direct contact with Chinese society. With the development of China's consumer markets, however, they have now begun to use China as a base for their sales and service departments in addition to manufacturing. In essence, these bases have now become "self-completion companies" equipped to handle production and sales simultaneously. Hence, as China's economy has developed and matured, Japanese companies from the manufacturing industry up have begun to attach greater importance to the Chinese market itself instead of simply using it as a convenient and low-cost production base.

For too long, however, Japanese companies have remained stagnant in their economic approach to doing business in China. If anything, the anti-Japanese demonstrations of 2012 made it clear that this traditional approach to localization was ineffective precisely because it did not consider the role of business-society relations in the Chinese marketplace. Thus, for Japanese companies hoping to succeed in China, the way forward is clear: they must either learn to improve brand recognition by incorporating corporate responsibility initiatives and the notion of "business-society relations" into their localization strategies or continue to lose ground to their Chinese and international counterparts. Nonetheless, improved economic ties have not led to better political relations, which is why analysts have continued to refer to the Sino-Japanese dynamic as "cold in politics but hot in economics."⁶

B. China's Evolution toward a "Harmonious Society"

Despite the apparent success of China's "economic miracle," it is important to keep in mind that the country's continued growth fundamentally depends on whether its market economy continues to develop in the face of harsh political conditions and growing social unrest. From its establishment in 1949 until the emergence of the so-called "socialist market economy" in 1978, China had been run as a planned socialist economy for almost 30 years. The economic reform policy of 1978 resulted in a dramatic shift characterized by unprecedented growth which only accelerated following China's acceptance into the World Trade Organization (WTO) in 2001. Under this unique framework, rapid economic development has been achieved through the widespread introduction of foreign capital. Yet while China's economy continues to grow at an annual rate of around 10%, the last 30 years have also witnessed their fair share of social problems, including economic inequality and rampant pollution on an unprecedented scale. One of the most significant shifts in policy to come about since economic reforms began, the "harmonious society" envisioned by President Hu Jintao represents an effort to address these problems by laying out a national vision geared toward "continuous stable development," as opposed to rapid and unrestrained growth. Underlying this vision is a growing awareness of how economic development is inextricably linked to various social and environmental issues.

The severity of these issues has been well-documented. Yet for all their severity, these scandals have also brought to the fore various social problems that have emerged as a direct result of rapid economic growth, bringing China to a crossroads in its development which begs a radical reexamination of the last thirty years of economic reform since the Cultural Revolution. In recent years, this has prompted the government into action and led to the adoption of an ideology that prioritizes social issues to maintain a delicate balance between economic growth and social stability. This is why President Hu Jintao's regime has officially sought to promote "continuous stable growth"⁷ through the creation of a "harmonious society" that is to inherit the strategy of "prioritized economic construction."⁸ In its simplest form, the "harmonious society" envisioned by the Chinese Communist Party⁹ refers to a national vision geared toward continuous stable development, as opposed to rapid and unrestrained growth. Underlying this ideology is the recognition that the social problems discussed above only be addressed by paying greater attention to the impact of economic development on the society at large.

While the underlying policy shift behind China's government espousal of a "harmonious society" was no doubt an attempt to deal with these social and environmental problems, it also represents, to some extent, a disenchantment with Western capitalism and the idea that the introduction of foreign investment and technology has come at too great a cost to both local industry and the population at large.

III. A Theoretical Framework

In some respects, the difficulties facing Japanese corporations in China are emblematic of those facing all multinational enterprises (MNEs) seeking to take advantage of emerging markets. To the extent that their interests differ from the policies of the state in which they conduct business, MNEs often find themselves in conflict with local government, with which they must learn to collaborate as both a means of fostering economic development and as a strategy for corporate survivability. Because mutual misunderstandings and historical grudges are difficult to eradicate, however, anti-Japanese sentiment is likely to dictate Sino-Japanese relations in both the public and private sectors for some time to come. This begs the question: what sort of localization strategies should Japanese corporations adopt in a country fraught with cross-cultural hostility and subject to dramatic economic change? The following presents a theoretical discussion of the role of "business-society relations" and the importance of social engagement for MNEs, and Japanese corporations in particular, seeking to do business in China.

Given the aim of "constructing a harmonious society" espoused by the Chinese Communist Party, it is increasingly important that corporations be recognized as socially active by the national media. The emergence of the notion of a "harmonious society" in China has further led to greater emphasis on the importance of social engagement, forcing Japanese corporations to live up to various corporate responsibilities imposed by the Chinese government. Such recognition is not only beneficial for localization insofar as it fosters good relations with the local community, but is also an effective means of attracting the interest of potential investors and expanding the number of corporate stakeholders.

The research conducted to date has identified two basic theories of "strategic sociality" for the development and cultivation of business-society relations through social engagement initiatives.¹⁰ Given unpredictable markets and the intensified competition arising out of globalization, one school of thought holds that social engagement must be approached purely from the perspective of economic value. Another school of thought, however, believes that social engagement arises out of profound concern for the underlying social issues and should therefore be approached from the perspective of social value. The following provides an overview of these approaches to strategic sociality.

Yamakura (1993) classifies all business strategies into the following three categories: (1) business structure strategies; (2) international business strategies; and (3) social strategies. According to Yamakura, social strategies are unique in that they are geared towards "achieving a function beyond the domain of corporate productivity" and are therefore not limited to achieving success in the marketplace. In his definition of social strategies as "the basic principle for selecting the methods and resources for fulfilling a corporation's social responsibilities," Morimoto (1994) adopts the hierarchy of social responsibilities developed by Archie Carroll (1996). According to Carroll, these responsibilities are comprised of economic, legal, ethical and philanthropic obligations, with legal responsibilities regarded as an inherent duty and economic responsibilities subsumed under business strategies. Accordingly, it is of primary importance that managers learn to supplement their business tactics with various social strategies.

Yet while these studies stress the importance of social strategies for maintaining corporate legitimacy and garnering support from the community, few if any address the ways in which social strategies are informed by business and economic considerations. Nor do they adequately take into account the complex and sometimes disingenuous relationship between a company's participation in social activities and its pursuit of the bottom line. In his attempt to identify their underlying connection to business strategies, Ansoff (1990) assesses various "social strategies" in terms of their political and profit-earning potential rather than focusing on the social obligations they are meant to fulfill. Matsuno and Kosaka (1999) similarly views social strategies as an effective means of securing a competitive advantage in the marketplace. The notion of social strategies as a core competency that makes economic growth possible is developed further by Burke and Logsdon (1996), who analyze the impact of social strategies on corporate revenue.

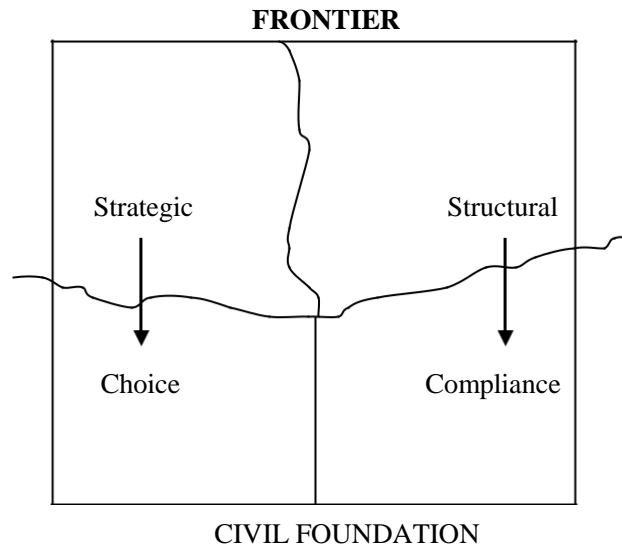


FIGURE 1. The Virtue Matrix of Social Responsibility

Source: Martin, R.L. (2002) "The Virtue Matrix: Calculating the Return on Corporate Responsibility," *Harvard Business Review*, March, pp.69-75.

The theory of social engagement developed by Martin (2002) is derived from the notion that social strategies are pursued for the sole benefit of the shareholders, though the activities themselves may have nothing to do with the shareholders' self-interest (Fig.1). Within the "virtue matrix" depicting the forces that generate corporate social responsibility, the bottom two quadrants represent the "civil foundation," which consists of norms, customs, and laws that govern corporate practice. Companies engage in practices consistent with the civil foundation either by choice or by necessity, though such engagement represents nothing more than the satisfaction of society's baseline expectations. Martin refers to this behavior as "instrumental" because it explicitly serves the cause of maintaining or enhancing shareholder value.

IV. Economic Nationalism in the Socialist Market Economy

In several other respects, however, the difficulties facing Japanese corporations are unique among MNEs insofar as they have been confronted with renewed calls to boycott Japanese products in response to various political disputes. Thus, though there is little evidence that it has had a long-term impact on the general trend of Japan's economic activities, Chinese economic nationalism is viewed by Japanese corporations as a risk of doing business that is likely to continue for some time.

The repercussions of the September 2012 protests, for example, have taken the form of ongoing disputes between labor and management as well as unwillingness on the part of Chinese consumers to purchase Japanese products or invest in Japanese enterprises. According to the results of a June 2013 survey conducted by JETRO

(Japan External Trade Organization) and entitled "Special survey of Japanese business in China: Impact of the April anti-Japan demonstrations", anti-Japanese demonstrations have had an appreciably negative effect on Japanese activities in the Chinese market in the form of, *inter alia*: "decreased in sales" (19.1%), "tarnished image of Japanese products" (16.4%), "worsened relationships with Chinese employees" (9.7%), "impact on production activities, such as suspension of plant operations" (8.5%), and "difficulty in securing personnel locally" (8.0%) (Table 1). During these demonstrations, sales representatives from one of the Japanese manufacturers interviewed for this study conducted field research in response to reports that its products were being withdrawn from stores. They found that competing foreign and domestic enterprises were passing out leaflets "strongly urging storeowners to withdraw Japanese products from their shelves." There was also evidence of discriminatory treatment of Japanese corporations bidding on some of the more high-profile and politically sensitive public works projects.

At the same time, the evidence suggests that Chinese attitudes toward Japan remain somewhat ambivalent. Many of the individuals who participated in the 2012 demonstrations, for example, did so with mixed emotions, while the Chinese media's attempts to highlight governmental corruption in Japan have gone largely unnoticed among Chinese youth. Although the slogan "do not buy Japanese products," for example, originated from a collective resentment over the continued veneration of Japanese war criminals, there is little evidence that this boycott extended beyond the realm of politics. As reflected in the September 2012 strike by Chinese workers at a Honda transmission factory in southeastern China, the Chinese government has also taken steps to inflame anti-Japanese sentiment in an effort to divert attention away from the domestic origins of its own social unrest. In this respect, the underlying origins of anti-Japanese sentiment in China, as reflected by the political and commercial repercussions of the 2012 protests, goes beyond blind economic nationalism or Communist propaganda.

In any case, given such overwhelming evidence of discriminatory treatment, it is essential that Japanese corporations refine their understanding of anti-Japanese hostility in order to improve Sino-Japanese relations and expand market share in China. This would involve working toward rebuilding the trust and confidence of the Chinese populace, including both workers and consumers, and making an effort to conduct business in a manner designed to earn the respect of the local populace. The following section discusses various strategies for achieving such a goal in the context of cultivating "business-society relations."

V. Dealing with Economic Nationalism in the Socialist Market Economy

A. The Role of Business-Society Relations

China's evolution from a "planned socialist economy"¹¹ to a "socialist market economy"¹² and a "harmonious society,"¹³ together with the unprecedented rise of Chinese consumerism, have compelled Japanese companies to approach localization in new and creative ways.¹⁴ In the 1990's, when the business model was to import components to be assembled in China and exported to foreign markets, foreign enterprises had little need for direct contact with Chinese society. With the development of China's consumer markets, however, they have now begun to use China as a base for their sales and service departments in addition to manufacturing. In essence, these bases have now become "self-completion companies" equipped to handle production and sales simultaneously. Hence, as China's economy has developed and matured, Japanese companies from the manufacturing industry up have begun to attach greater importance to the Chinese market itself instead of simply using it as a convenient, low-cost production base. This shift from "made in China" to "sold in China," a direct result of China's growing consumer class, has forced Japanese firms to adopt an entirely new approach.

Essentially, effective localization and sustainable development in China are the products of a symbiotic relationship between the business model and local management style of Japanese corporations and the political agenda of the Chinese government. The contributions made by Japanese corporations to Chinese society, as well as their eventual acceptance as good corporate citizens, should enable them to expand market share by gaining the acceptance of Chinese consumers. Accordingly, in order for Japanese corporations to begin to realize their outsized expectations for the Chinese market, they must first learn to prioritize an active participation in grassroots activities outside the scope of their respective businesses.¹⁵ They must realize that economic success in China necessarily depends on addressing economic, environmental and social issues in a way that benefits local communities and society as a whole in addition to compliance with local laws and regulations.

Given the emergence of economic nationalism discussed above, it is of the utmost importance that Japanese corporations develop the ability to adapt quickly to social and political contingencies while at the same time navigating the changing contours of China's ideological landscape. This necessarily requires that they work toward rebuilding the trust and confidence of the Chinese populace by focusing on social initiatives. Japanese firms doing business in China should also seek to understand and predict changes in China's increasingly strict regulatory framework by attempting to grasp the underlying intentions of the government before pursuing a given strategy.

Thus far, Japanese enterprises have relied on superior product quality and advanced technology to compete in the Chinese marketplace. As the product quality and technical expertise of Chinese companies improve, however, this will no longer constitute a competitive advantage. Moreover, while brand recognition is essential to attract competent personnel and maintain managerial loyalty, recognition and respect for Japanese brands in the Chinese market remains low due to the political tension between the two nations. Japanese brands rarely make it into the top echelon of corporate rankings by the Chinese media, and whatever social contributions Japanese companies have made in China are inadequately publicized. In a market where competition is fierce and technology readily available, brand recognition represents one of the few ways in which corporations can distinguish themselves from their competitors. Insofar as the ability to maintain good relations with local governments and communities also depends on positive brand recognition, effective localization ultimately depends on maintaining a good corporate image.

As a result, Japanese companies with operations in China must not only compete with local businesses and multinational corporations, but also strive to counteract anti-Japanese sentiment by improving their public image. Under the assumption that strong relations between Japan and China are a prerequisite for doing business in China, many Japanese companies have therefore been promoting mutual understanding among their expanding network of stakeholders by seeking to overcome cultural and social differences between the two countries. This is why acceptance as a good corporate citizen, in addition to the adoption of a management style suitable to local conditions, has become increasingly important for Japanese companies to gain the trust of the Chinese populace and to reach out to the Chinese consumer.

For too long, however, Japanese companies have remained stagnant in their economic approach to doing business in China. If anything, the anti-Japanese demonstrations of 2005 made it clear that this traditional approach to localization was ineffective precisely because it did not take into account the role of business-society relations in the Chinese marketplace. Thus, for Japanese companies hoping to succeed in China, the way forward is clear: they must either learn to improve brand recognition by incorporating corporate responsibility initiatives and the notion of "business-society relations" into their localization strategies or continue to lose ground to their Chinese and international counterparts.

B. Strategies for Social Engagement

As discussed above, effective localization in China requires that foreign companies foster better relations with society by focusing on social engagement. Whatever social activities corporations engage in, however, must be conducted strategically to ensure that their underlying conception of social engagement is compatible with that of the host country. There are several concerns that need to be addressed in connection with this issue of cultural compatibility. In the case of Japanese corporations operating in China, distinct strategies must be developed for overcoming the obstacles to business in the Chinese market, keeping up with technological innovations, and navigating local regulations governing commercial transactions (Fig.2).

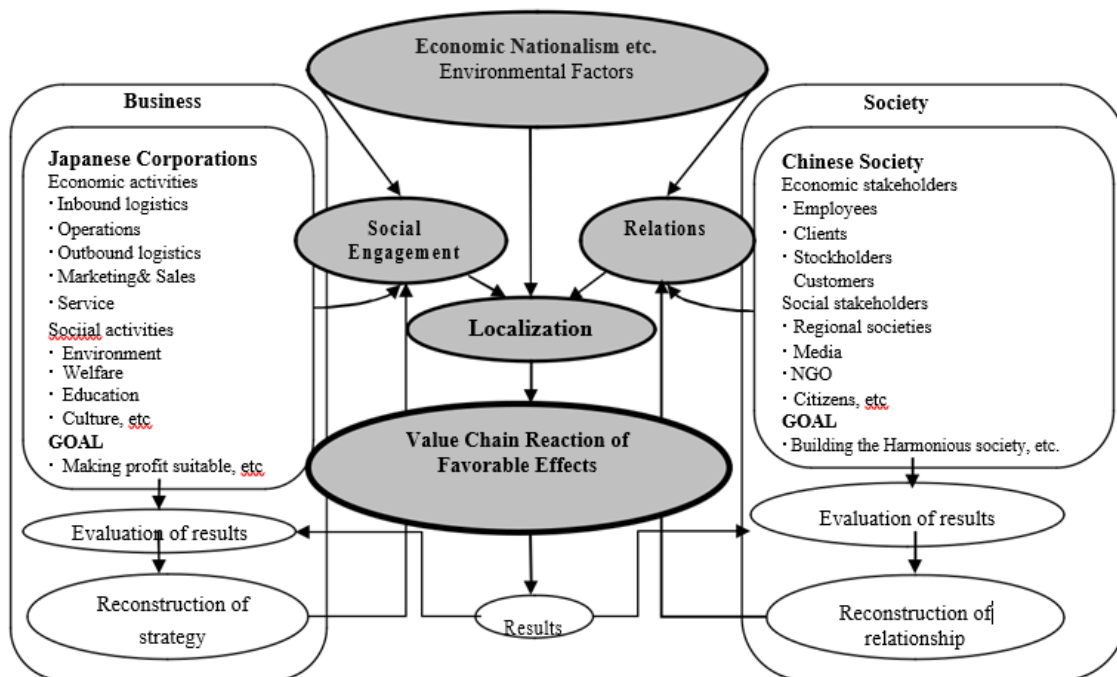


FIGURE 2. Social Engagement as a Means of Promoting Business-Society Relations in China
 Source: Drafted by author based on Duning, J. H. (1993) *Multinational Enterprises and the Global Economy*, Addison-Wesley, pp.550-551.

As a preliminary issue, it is important that corporations be recognized as socially active by the national media. Such recognition is not only beneficial for localization insofar as it fosters good relations with the local community, but is also an effective means of attracting the interest of potential investors and expanding the number of corporate stakeholders. Second, Japanese corporations must learn to exploit their comparative advantages in order to navigate China's vast network of management resources, emerging commercial infrastructure, and pro-corporate policies. Such comparative advantages may include anything from superiority in product development and manufacturing methods to innovative marketing techniques and technology. Second, localization demands that Japanese companies go one step further by using these comparative advantages in furtherance of China's own policies and goals, including but not limited to improvements in the domestic economy, the expansion of social welfare, and environmental conservation.

At a time when China's "socialist market economy" is in full swing, there is a growing interest, on the part of the government as well as society, in the importance of corporate social responsibility for sustainable development. For Japanese corporations operating in China, brainstorming about what they can do to address the needs and demands of Chinese society, even before such demands materialize, is a prerequisite for expanding market share. As a result, Japanese companies must not only seek to address existing social and environmental problems but also learn to predict the emergence of new issues and structure their localization strategies accordingly. Only when social concerns become the standard for corporate performance can they begin to gain a competitive edge in the Chinese market.

C. Case Studies of Social Engagement

Based on field research conducted, the following discussion offers an analysis of the various social activities adopted by two prominent Japanese corporations as part of their localization strategies in China. The purpose of this research was to gain a better understanding of the ways in which Japanese corporations view the inevitable cost of social engagement in connection with its potential benefits for localization.

1. Redefining the Value Chain

The localization strategy adopted by NEC (China) is grounded in the belief that corporations can best achieve sustainable development by redefining the value chain through the promotion of environmental awareness.¹⁶ Based on its belief that addressing pollution should be part of its core business, NEC (China)'s environmental strategy is two-fold: (1) to reduce the impact of its business operations on the environment; and (2) to provide high-quality products and services that help consumers conserve energy and resources.

In the case of NEC (China), localization begins with so-called "environmental compliance" with China's laws and regulations as well as to the demands of local consumers. Yet mere compliance with environmental requirements is just the beginning, for NEC also makes an effort to design its products so as to comply with proposed regulations that have not yet been passed into law. Since it takes five years for this to occur, NEC is in the practice of designing its products a full five years in advance of China's environmental regulations.

This focus on environmental protection is exemplified by the development of NEC (China)'s line of personal computers. In comparing two models with the same functions and quality, NEC discovered that the energy necessary to keep 100 hours for one model was a third of that for the other. It thereby chose to manufacture the first model on the assumption that the Chinese consumer would prefer to save on electricity costs, and that such savings would improve consumer satisfaction and translate into additional sales and revenue -- by all accounts a win-win situation. Another example of NEC's innovation is the emergence of QSU ("quick start-up") technology, which is developed in 1999. An ordinary PC requires 30 seconds to warm up, a process that consumes considerable amounts of electricity. QSU technology effectively shortened this "warm-up" time to 10 seconds, resulting in a 95% reduction in power consumption from 130w to 7w.

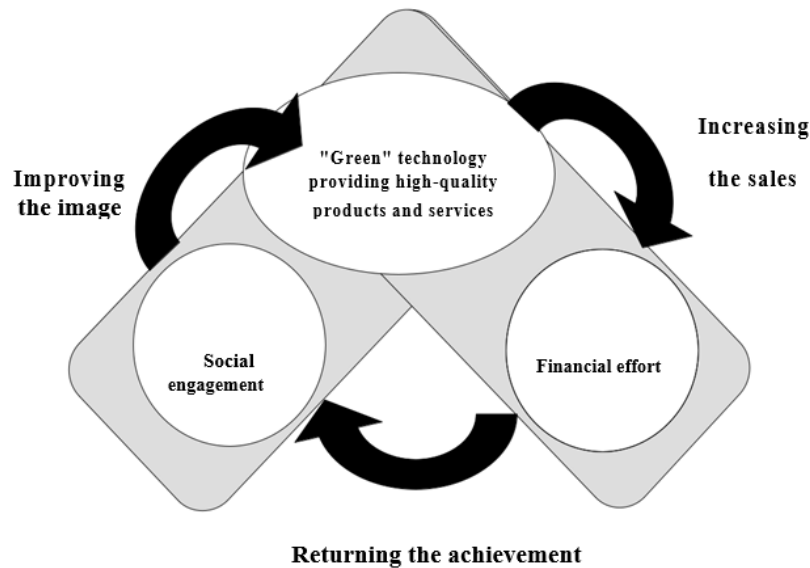


FIGURE 3. NEC (China)'s Strategies for Social Engagement

Source: based on survey results

Under the belief that environmental protection should not be limited to the manufacturers themselves, NEC (China) imposes similarly stringent standards on its suppliers. Perhaps even more importantly, the company goes to great lengths to market the energy-saving functions of its products addition to their effects on the environment. Only when Chinese consumers are aware of these options can their impact on the environment be lessened and the associated savings is enjoyed. Hence, the development of "green" technology not only protects the environment (Fig.3), but also serves to improve the product's image and to strengthen consumer confidence in the brand -- all of which results in enhanced revenue for the corporation.

2. Going to Great Lengths

Sony (China) has achieved sustainable development in China by going to great lengths to promote social engagement.¹⁷ In the early stages of China's economic reform, Japanese electronics, which were known for their excellent quality and expensive prices, were hard to come by. Over the years, however, what was once considered prohibitively expensive has now become a ubiquitous component of middle-class Chinese life. Sony remains the leading example of a Japanese electronics corporation that has managed to become nothing less than a way of life for millions of Chinese.

In 2007, with total sales revenue of US \$70.92 billion, Sony was listed 69th on Fortune's Global 500. Unlike most other Japanese corporations, overseas sales accounted for 50% of this revenue, a testament to the company's strong comparative advantage in the overseas market. China is currently Sony's largest independent market after the United States and Japan, no doubt due to its vast population as well as the growing purchasing power of the Chinese consumer class. Eager to take advantage of China's growing market, Sony has invested an enormous amount in its overseas marketing and operations.

In 1991 Sony established offices in both Dalian and Hangzhou, and in 1996 Sony (China) Co., Ltd. was founded. In 2000, in an effort to position China as a base of operations for sales, production and research development, Sony expanded its business to include such products as digital televisions, portable computers, and semi-conductors. As part of its strategy to redefine the value chain, Sony has also contributed substantial resources to the promotion of environmental protection and energy conservation (Fig.4) such that mainland China has rapidly become the epicenter of Sony's global business operations.

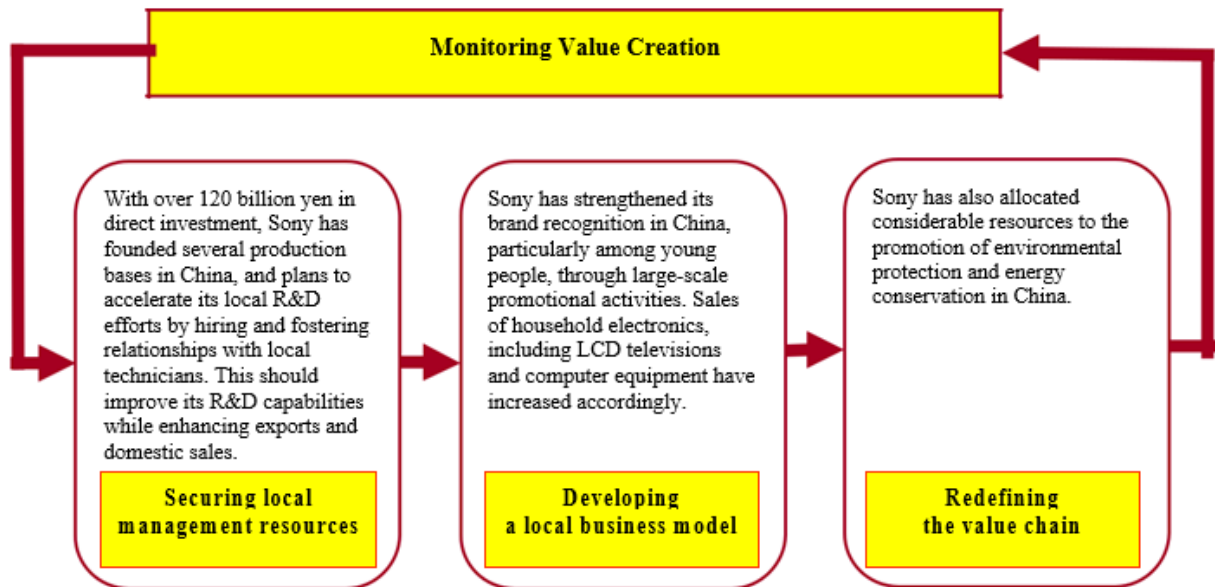


FIGURE 4. Sony (China)'s Strategies for Social Engagement

Source: Based on survey results

Notwithstanding the quality of its electronics, Sony's considerable success in China is partially attributable to its efforts to develop a local business model based on appealing to China's youth, which is at the heart of the country's growing consumerist culture. By targeting the young, Sony's marketing campaign has strengthened its brand recognition and enhanced its corporate image throughout China. Recognizing that corporations which focus exclusively on revenue will not be in a position to gain social recognition, Sony has also gone to great lengths to promote social engagement. In 2006 alone, Sony (China) participated in more than ten large-scale social activities, which ensured its place as one of the most respected Japanese corporations in the country.

In 2001, Sony also founded the Research & Development Center in Shanghai as part of its strategy to secure local management resources while gaining an understanding of the psychology of the Chinese consumer. The purported aim of the Center was to assess the popularity of various technologies in China by hiring local technicians. In essence, however, the Center was established to answer a fundamental question put forth several years ago by foreign enterprises hoping to enter the Chinese market: how to transform "made in China" to "created in China" (i.e. how to design products suitable for consumption by the Chinese market). With technology one of its strongest advantages in the global marketplace, Japan's development is far ahead that of China. Sony's China R&D Center was established to bridge this gap by providing a forum for Japanese technicians to communicate with their Chinese counterparts so as to develop technologies designed to meet the unique demands of the Chinese consumer.

3. Remaining Obstacles to Social Engagement

Based on the notion of social engagement as a solution to the challenges of localization for Japanese corporations in China, the two cases discussed above strongly support the theory that social activity and economic performance are inextricably linked and that corporations have the capacity to create economic profit by contributing to the collective value of society. As shown in Figure 5 below, while participation in social activities was found to increase overhead, it also held enormous potential to facilitate greater localization. Specifically, the data indicates that the decision of Japanese corporations to pursue social engagement within China has measurably improved brand recognition and enhanced profitability by improving shareholder satisfaction, attracting investment and enhancing productivity. More importantly, however, it has also shown how the efforts of these companies to contribute to society have significantly improved relations between China and Japan.

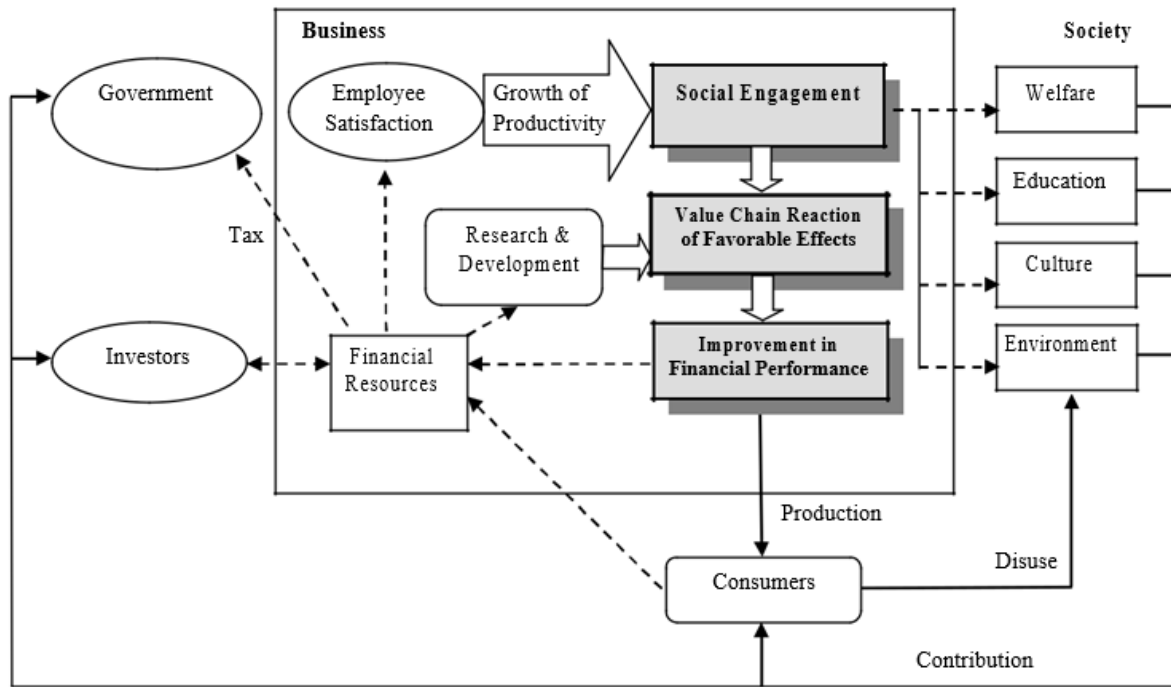


FIGURE 5. The Impact of Social Engagement on Financial Performance

Source: edited by author based on survey results. Solid and broken lines represent products/service and investment, respectively

At the same time, however, it is equally important not to underestimate the importance of China's economic nationalism. The Chinese are a proud people, and China's emergence as an economic superpower is as much a product of their cultural heritage as their political agenda. Proponents of economic nationalism argue that China's economic growth has come at too great a cost to both the general populace and the environment, and that unrestrained growth must be checked by governmental policies geared toward a more sustainable form of development. In the case of Japan, the obstacles posed by this ideological shift are compounded by the history of cross-cultural hostility originating from the Second World War. Accordingly, Japanese corporations must learn to embrace the emerging emphasis on social responsibility reflected in China's unique brand of economic nationalism by working toward rebuilding the trust and confidence of the Chinese populace. Only by seeking to strengthen mutual understanding between the two cultures can Japanese corporations successfully navigate the risks of doing business in China.

VI. Conclusion

As discussed above, society's appraisal of modern corporations is no longer based on economic performance alone, but also on their environmental impact and degree of social engagement. Ideally, these three elements should be of equal importance in formulating strategies for social engagement, yet many Japanese corporations have begun to engage in social activities for the sole purpose of enhancing their reputation in the Chinese market without regard for the underlying causes they purportedly seek to promote. Thus, the ethical incentives for social engagement have not yet been fully incorporated into Japanese corporate culture.

The appraisal of Japanese corporations in China is based on traditional standards of economic achievement as well as instances of social engagement by local stakeholders. The promotion of social activities by both the Chinese government and society at large should encourage Japanese corporations to pay increasing attention to the latter without losing sight of the former. It is hoped that the empirical and anecdotal data collected here will contribute to our understanding of the standards by which Chinese society evaluates Japanese corporations, and demonstrate how a greater awareness of such standards can be used to improve localization performance.

It is well-established that social engagement goes a long way to facilitate the localization of Japanese corporations in China. Yet to fully understand the mechanism through which this occurs, it is necessary to analyze corporate responsibility in terms of "social engagement" as well as the "social impact" of such engagement. This study deals primarily with the former by discussing corporate activities dedicated to the promotion of various social issues and by gathering empirical and anecdotal evidence to corroborate the effectiveness of such activities. It is also important, however, for corporations to determine the potential impact of these activities in advance, which necessarily involves formulating ways to prevent their potentially harmful effects on society as well as employees of the corporation itself. These are all vital considerations for assessing social engagement and should be the subject of further research.

End Notes

¹ The Senkaku Islands, also known as the Pinnacle Islands in English and Diaoyu Islands in Chinese, are a group of disputed, uninhabited islands controlled by Japan but claimed by the People's Republic of China. Located roughly northeast of Taiwan, due west of Okinawa, and due north of the end of the Ryukyu Islands in the East China Sea, these islands are regarded by the Japanese government as part of Okinawa Prefecture.

² Spanning from 1966 until Chairman Mao's death in 1976, the Cultural Revolution was the result of a power struggle within the Chinese Communist Party that manifested itself in wide-scale social, political, and economic violence and chaos, eventually bringing the country to the brink of civil war.

³ The successor to Jiang Zemin as the Paramount Leader of the People's Republic of China, Hu Jintao had been the General Secretary of the Communist Party of China since 2002, President of the People's Republic of China since 2003, and Chairman of the Central Military Commission since 2004. Since assuming power, Hu has reinstated certain controls over the economy and been largely conservative with political reforms. His foreign policy is seen as less conciliatory than that of his predecessor, though China's global influence has increased while he has been in office.

⁴ Wen Jiabao is the Premier of the State Council of the People's Republic of China and responsible for leading the country's cabinet. He also serves as a member of its Leading Party Members' Group and is the Secretary of the Financial Work Committee of the CPC Central Committee. Since taking office in 2003, Wen ranks third in the hierarchy of the Politburo Standing Committee and has played a key role in the Communist Party's fourth generation of leadership.

⁵ Relations between the two countries have not improved despite the expansion of Sino-Japanese labor exchange, which exceeded 5 million in 2007 alone.

⁶ See, e.g., Hughes, L. and Y. He, "Hot Economy and Cold Politics? Commerce and Nationalism in Sino-Japanese Relations," *Meeting of the International Studies Association*, Mar. 22, 2006.

⁷ The policy of "continuous stable growth" was adopted by the Chinese government in an effort to shift the driving force of economic expansion away from exports and foreign direct investment and towards domestic consumption.

⁸ Adopted in 1978 by Deng Xiaoping and various pragmatists within the Communist Party, "prioritized economic construction" is a program of economic reform based on the notion of "socialism with Chinese characteristics." The purported goal of this program is to generate sufficient surplus value to finance the modernization of the Chinese economy. Neither the socialist command economy favored by conservatives nor the shift from socialism to communism instigated by the Maoist Great Leap Forward managed to accomplish this. The initial challenge of economic reform was to find a way to motivate workers and farmers to produce a larger surplus and to eliminate imbalances common in command economies. Prioritized economic construction has since managed to bring the poverty rate down from 53% of the population in 1981 to 8% in 2001.

⁹ The Chinese Communist Party (CCP) is the founding political party of the People's Republic of China and the largest of its kind in the world. While not a governing body recognized by China's constitution, the CCP remains the country's supreme political authority through its control of the state apparatus and the legislative process. Along with the "*xiaokang* society" which aims to create a "basically well-off" middle-class, the construction of the so-called "harmonious society" is the dominant socio-economic vision arising out of Hu Jintao's signature ideology.

¹⁰ As used in this discussion, the term "social engagement" refers to any corporate activity geared toward cultivating better business-society relations.

¹¹ Referred to as a "command economy," "centrally planned economy" or "command and control economy" in its most extreme form, China's "planned socialist economy" consisted of an economic system managed entirely by the government. In such systems, the state controls all major sectors of the economy and makes all decisions concerning the use of resources and distribution of income. In unplanned or market economies, however, production, distribution, pricing, and investment decisions are made by the private owners of the factors of production based upon their own and their customers' interests. Less extreme forms of planned economies, sometimes referred to as "planned market economies," include those that use indicative planning whereby the state employs subsidies, grants and taxes to further some overarching macroeconomic plan.

¹² The so-called "socialist market economy," also called "socialism with Chinese characteristics," is an economic form practiced in the People's Republic of China.

¹³ The "harmonious society" refers to the dominant socio-economic vision that is said to be the end result of Hu Jintao's signature ideology based on the pursuit of "scientific development." Along with the *xiaokang* society, which aims for a "basically well-off" middle-class, the harmonious society was first proposed by the Hu Wen

administration during the 2005 National People's Congress and is widely considered to be the ultimate goal of the Chinese Communist agenda. Visible in banners all over China, this ideology reflects the underlying shift in focus from pure economic growth to social balance and harmony.

¹⁴ The term "localization" can be defined as the process through which foreign-owned corporations effectively utilize local resources so as to enable the management model and style of the host corporation to adapt to the environmental conditions of the local subsidiary.

¹⁵ "Grassroots" activities are those driven by the constituents of a community. The term implies that the creation of the movement and the group supporting it are natural and spontaneous, as opposed to having been orchestrated by traditional power structures. Although they are often local, grassroots movements have the potential for widespread impact, such as when the efforts of community volunteers to encourage voter registration affects the outcome of a national election.

¹⁶ Additional information concerning NEC (China) is available at <http://www.nec.com.cn>

¹⁷ Additional information concerning Sony (China) is available at <http://www.sony.com.cn>

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Acknowledgements

This paper massively extended one of my previous research on stakeholder social responsibility in Japan. This study built a brand new connection between the corporate Japan and the socialized China and hopefully will deepen the understanding in corporate studies in these two countries. It primarily with the former by discussing corporate activities dedicated to the promotion of various social issues and by gathering empirical and anecdotal evidence to corroborate the effectiveness of such activities. In writing this paper, I have attempted to draw from my extensive professional background and experience abroad in the hope that my work can help counteract this hostility and facilitate the localization of Japanese corporation in China.