

Japanese disclosure sets the pace

Despite coming late to the environmental reporting party, corporate Japan is catching up fast. **Chris Knight** and **Paul Scott** report

Japan is rapidly becoming a leader in environmental reporting – but by following a very different model to Western economies. Despite the wishes of governments, financial communities, campaign groups and others, national trends in disclosure in the West tend to be as diverse as the reporting companies themselves.

This reporting diversity is largely a result of governments tending to leave reporting to the private sector in the West. But while Japanese companies were slow to make the first move, recent government encouragement has precipitated a flood of high quality – if similar – environmental reports.

Corporate environmentalism in Japan

Japan has 64 of the world's largest 500 corporations¹. As a whole, environmental concern does not figure highly among Western perceptions of corporate Japan. However, with corporate environmentalism increasingly a competitive issue, environmental performance may well become a new battleground in Japan as companies compete to gain green credentials.

For example, ISO14001, the international standard for environmental management systems launched in 1996, has the potential to act either as a key or as a bar to international markets for Japanese companies. The Japanese response was to rush to meet the new standard. Five years later and Japan (along with Germany) now dominates international tables

of ISO14001 accreditations, with a total of 6,261 companies certified in March 2001 out of a world total of approximately 28,000 (see figure 1).

In a parallel development, the number of published reports from Japanese companies is pointing to success in adopting another trend in corporate environmentalism – environmental reporting (see figure 2).

Government guidance

Japanese companies' recent interest in environmental reporting has been encouraged by a series of guidance papers. The first of these was issued by the Environment Agency in 1997, entitled *Environmental Reporting Publication Guideline*. Since then, the Japanese Ministry of the Environment has also issued: *Environmental Accounting Guidelines* (May 2000); *Environmental Reporting Guidelines* (February 2001); and *Environmental Performance Indicators for Business* (February 2001).

Companies have been quick to act on this guidance, resulting in a flood of reports of very similar structure and general content.

Other factors responsible for encouraging reporting include an annual government-endorsed environmental reporting awards scheme since 1997 and increasing interest from the Japanese ethical investment community in whether or not listed companies produce environmental reports.

Reporting styles

The surge of reports from Japan since the mid 1990s is a welcome trend, but how good is the actual quality of these reports? In the UK, one of the major arguments against a government-led approach to reporting is that it could stifle innovation and lead to a 'lowest common denominator' approach. The Japanese take has resulted in many reports of strikingly similar structure and content, often lacking the different presentational aspects applauded in European reporting awards schemes.

However, their structured presentation of data allows greater comparison between com-

pany performances and encourages companies to use similar language and standardised performance units – seen as an important issue by financial analysts.

One aspect of Japanese reporting that appears idiosyncratic to Western observers is the tone used – particularly their often 'eco-Utopian' titles. 'In Harmony with Nature' is popular: other titles include 'Spinning the Dreams of Tomorrow', 'Heartful Ecology Report', 'Love the Future – What We Can Do Now for the Future' and 'For a More Beautiful Earth and a More Prosperous Life'.

Nonetheless, the coverage of many Japanese reports is credible. Companies have produced comprehensive information on their environmental impacts and targets. A traditionally weak area in environmental reporting methodologies has been in environmental accounting – the practice of attaching a monetary value to environmental programmes. In this area Japanese companies such as Toyota lead the way, compiling full 'accounts tables' which detail the monetary implications of new equipment, environmental non-compliance, energy and materials savings and staff training.

Scope

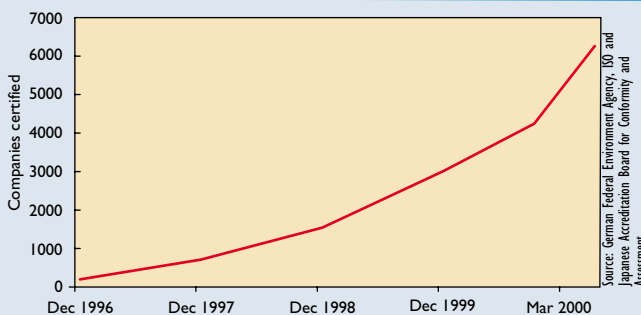
However, there is – inevitably – room for improvement. While making good progress on environmental reporting, very few Japanese companies are looking beyond, to social issues and the wider concept of sustainability. These are not covered in government guidance, and again it appears that companies are reluctant to set a trend, but successful in following a model.

Very few reports have been externally verified, but this is still an area of many potential pitfalls with little international consensus as to scope, methodology and form.

Widespread reporting to a general standard is preferable to a few lead companies forging ahead and the majority doing nothing. However, best practice reporting develops not by following a 'painting-by-numbers' approach, but in dialogue with corporate stakeholders, and this is an area Japanese companies have yet to address. **✉** Chris Knight is senior consultant, Paul Scott is director of Next Step Consulting. Email: post@nextstep.co.uk Fax: 44 (0)20 8930 9222. Readers interested in searching for reports may like to visit the specialist website developed by Next Step Consulting – www.corporate-register.com – which gives details of over 2,400 individual reports and offers extensive search facilities.

¹ Financial Times Global 500 Annual Rankings

1. Japanese ISO 14001 uptake



2. Environmental reporting in Japan

