A Comparative Study On The Delisting Ratings Of Firms From The Un Global Compact In The International Management Environment

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Abstract
This study clarifies unique characteristics of Japanese manufacturing firms in the international management environment using the United Nations Global Compact delisting ratio. Firms have adopted voluntary standards provided by non-governmental organizations and international institutions. Although there are various standards that are not legal binding, there is a recent trend toward integration to achieve comparability for firms’ management, which then binds firms’ management as a de facto standard. This study examines the firms’ delisting ratio by comparing countries.

Keywords: United Nations Global Compact delisting ratio, multi-stakeholder initiative, Japanese manufacturing, international management environment

1. Introduction

The international environment regarding firms’ sustainability has changed, and there is also a transition in the firms’ international relationship with stakeholders and solutions to sustainability. After the 1990s, many guidelines and principles for firms were developed by public institutions and non-governmental organizations such as the United Nations Global Compact (GC), Global Reporting Initiative (GRI), and Integrated Reporting (IR) to improve international firms’ activities. For example, over 9,000 firms participated in GC.

Although there are various guidelines and principles that are not legally binding such as GC, there is a recent trend toward integration to achieve comparability for firms’ international management of sustainability. This binds firms’ management as a de facto standard. GRI does not have legal power to force firms to use the GRI guideline; however, nowadays, this guideline is the most common way to report a firm’s sustainability worldwide.

One of the feature of these guidelines and principles is that as the organizations are based on multi-stakeholder initiatives, firms not only adopt the guidelines and or principles in their management but also participate in the platforms to discuss them with other stakeholders to make decisions and develop a process for the guidelines, principles, and related actions.

Sustainability is a very important agenda for a firm’s international management. However, not all firms archive their sustainable management with such international actors; some firms are expelled from GC at fixed intervals. The agenda surrounding firm’s environment are complicated recently. It is difficult for firms to solve it solely. However, firms are often expected to approach it by their stakeholders.

Using the GC delisting list, this study clarifies Japanese manufacturing firms’ characteristics in the
international environment. It contributes to its international strategy on sustainability.

2. Literature Review and Research Object

The recent international environment is a complex web of “soft” low that has constructed new social norms for several important dimensions of business conduct. The part regarding dimensions has institutionalized in corporate and industry codes, multi-stakeholder initiatives, and private standard-setting bodies.4

How do firms develop good relationships with such bodies to archive their sustainable management goals efficiently? Many Japanese firms participate in GC and use the GRI guideline.5 It is one of the result that firms responded to the pressure from their stakeholders.

GC is one representative initiative, and its participant firms are from both advanced and developing countries. Business associations seem to be most involved in the discussion at the UN level, as reflected in the ‘post-2015 business engagement architecture’, leading to an issue area priorities framework published by GC.6

As noted above, some firms are delisted from GC although the participation norm is only to submit the report to GC. Particularly, the delisting ratio of Japanese Small and Medium Sized Enterprise (SME) is the highest in the GC participants’ top-10 ranking by country including all sectors7, however, ref. 8 shows that domestic governance institutions are crucial in assisting firms fulfill the GC requirement based on the World Bank Governance Indicators which shows high level of the governance in Japan.

The emerging literature lacks information on the practice of Japanese firms. Because, most of guidelines and principles have been developed in advanced Western countries as the concept of sustainability and Corporate Social Responsibility (CSR) also developed mainly in the countries historically. Some of guidelines and principles oriented in Japan adopted by Japanese firms. None of them have not spread globally like GRI whose head office is in Netherlands.

This study focuses on the manufacturing sector, with one of the largest values of foreign direct investment from Japan, to clarify Japanese firms’ characteristics in the international environment through a comparative study of Japanese, Chinese, Spanish, and US firms by size, sector, and country.

3. Method and Dataset

This analysis used the data from the GC database of participants. Firms are expelled if they fail to submit their reports to GC at least one year. The first date of delisting in GC is March 27, 2002. Therefore, the data of firms are used from March 27, 2002 to November 11, 2016. The number of delisting firms during this term is shown in Table 1.

According to GC, a company is defined as a firm having over 250 employees, while an SME has under 250 employees except for under 10 employees.

The target countries are Japan, Spain, China, and the U.S. Because Spain ranks at the top of the GC participants by country. I selected the countries based on the ranking in each region.

This study focuses on the manufacturing sector. According to GC, this sector includes automobile and parts, construction and materials, electronic and electrical equipment, healthcare equipment and service, household goods and home construction, industrial engineering, personal goods, and technology hardware and equipment.

Table 1. The number of delisting firms by country and size

<table>
<thead>
<tr>
<th>Country and size</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spanish company</td>
<td>54</td>
</tr>
<tr>
<td>Spanish SME</td>
<td>320</td>
</tr>
<tr>
<td>Chinese company</td>
<td>53</td>
</tr>
<tr>
<td>Chinese SME</td>
<td>44</td>
</tr>
<tr>
<td>Japanese company</td>
<td>0</td>
</tr>
<tr>
<td>Japanese SME</td>
<td>64</td>
</tr>
<tr>
<td>US company</td>
<td>36</td>
</tr>
<tr>
<td>US SME</td>
<td>113</td>
</tr>
</tbody>
</table>

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4. Result and Findings

Table 2 shows the delisting ratios of the four countries by size and sectors.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Spain Delisting</th>
<th>China Delisting</th>
<th>Japan Delisting</th>
<th>USA Delisting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automobiles and parts</td>
<td>9.00%</td>
<td>55.33%</td>
<td>38.46%</td>
<td>75.00%</td>
</tr>
<tr>
<td>Construction and materials</td>
<td>34.78%</td>
<td>60.29%</td>
<td>66.67%</td>
<td>46.67%</td>
</tr>
<tr>
<td>Electronic and electrical</td>
<td>40.00%</td>
<td>41.86%</td>
<td>60.71%</td>
<td>70.83%</td>
</tr>
<tr>
<td>General industrials</td>
<td>46.15%</td>
<td>55.70%</td>
<td>75.00%</td>
<td>64.71%</td>
</tr>
<tr>
<td>Healthcare equipment and</td>
<td>12.50%</td>
<td>30.56%</td>
<td>25.00%</td>
<td>33.33%</td>
</tr>
<tr>
<td>Household goods and home</td>
<td>100.00%</td>
<td>35.71%</td>
<td>50.00%</td>
<td>50.00%</td>
</tr>
<tr>
<td>Industrial engineering</td>
<td>46.15%</td>
<td>41.10%</td>
<td>75.00%</td>
<td>72.73%</td>
</tr>
<tr>
<td>Personal goods</td>
<td>56.25%</td>
<td>60.00%</td>
<td>57.14%</td>
<td>14.29%</td>
</tr>
<tr>
<td>Technology hardware and</td>
<td>25.00%</td>
<td>50.00%</td>
<td>80.00%</td>
<td>88.89%</td>
</tr>
<tr>
<td>equipment</td>
<td></td>
<td></td>
<td></td>
<td>100.00%</td>
</tr>
</tbody>
</table>

4.1. Size

Actions undertaken by large firms are more visible, so firm size is an important factor for analysis. It is applicable to Japanese and US firms, but firms in China and Spain are not influenced by size, as shown in Table 1.

Focusing on the manufacturing industry, the features of Japanese firms are shown as the same. In brief, SMEs’ delisting ratios are higher than any company in Japan. US firms show the same trend. However, the gap in the ratio between Japanese firms is larger than that in US firms.

On the other hand, Spanish and Chinese firms’ delisting ratios are different. They depend on the sector, and gaps between their companies and SMEs are smaller than those of Japanese firms.

4.2. Sector

The ratios of SMEs delisting are higher than for companies in the automobiles and parts, electronic and electrical equipment, and technology hardware and equipment sectors in four countries.

In the construction materials, personal goods, and general industrials sectors, only Chinese companies’ ratios are higher than those of their SMEs.

Only Japanese SMEs have ratios over 80% in all sectors, and only Japanese companies’ have ratios at 0%. There are no gaps among sectors.

5. Considerations and Further Research

From the comparative study in the manufacturing industry, it is clarified that Japanese companies’ delisting ratios are the lowest, whereas that of SMEs are the highest, and the trend is similar to the U.S.

Ref.6 noted what multinationals do face, however, especially if they are large, visible and active in countries with different norms and standards than their home country, is the growing pressure to account for social, environmental and ethical problems occurring in various locations of operation. Although not all company in the GC do business globally, companies tend to be pressured stronger than SMEs as the reasons. The result of ratios in Japan and US by size support it.

It is also clarified Japanese companies respond to the expectation by their stakeholders globally. Additionally, there is not large change about the Japanese companies.
and SMEs delisting ratios between manufacturing sector and all sectors.

It is believed that delisting ratios are influenced by the number of firms whether they are supplier or not in the global supply chain. Some firms request their suppliers to behave virtuously.\(^1\) The results indicate a lot of firms in Spain and China participate in GC and use the GRI guideline although Japanese SMEs have better financial conditions. However, western firms provide little to no financial assistance to suppliers to meet their standards.\(^4\) The result of their delisting ratios partly explains it quantitatively.

How can the Japanese SMEs’ ratios be explained? It is thought that their main clients are Japanese companies that generally do not request such norms for their suppliers instead of each company’s code. In addition, their home country’s consumers do not strongly request to be more responsible than in Europe and the U.S.

However, more research is needed to explain the result explicitly to add more data; reason of delisting, the other sectors and countries. It is also needed to explore the relationship between the GC and internal elements such as the governance of management.

References
3. K. Tanimoto, Kigyō to syakai no gabanansukouzou no henka, in Proc. 90th Annual Meeting of the Japan Academy of Business Administration (2016).