Realities of Japanese Corporate Web IR Practices

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Abstract

This paper examines Investor Relations (IR) websites of Japan's leading companies, the Nikkei 225 companies, to identify what Japanese Web IR lacks. Recent changes have encouraged the Japanese firms to invest in the IR activities of providing the fair and timely information for their decision-making by shareholders and investors. We, however, find the Japanese companies' Web IR, as a whole, is at a far from satisfying level and needs further improvement. In particular, there is a large room to improve the important practices including the disclosure of company's position in market segment and differentiation strategy, and the adoption of the latest technological developments in providing information online.

Key words: Investor Relations, Web IR, Cross shareholdings, Japan
JEL Code: P51, G14, G30

I. Introduction

The discipline of Investors Relations ("IR") has grown significantly in the last 20 years, particularly in economies with strong equity market (Marston and Empson 2003). As the traditional cross-shareholding structure has crumbled, the percentage of shares held by individual and foreign investors has recently increased in Japan. This change has encouraged the Japanese firms to take into consideration the IR activities of continuously providing the fair and timely information for their decision-making by shareholders and investors.

Investor relations can be described as the business function through which companies communicate with their stakeholders, principally their investors (Rowbottom *et al.* 2005; NIRI 2003; IRS 2003). The objective of IR is not only to service the information demands of current and potential stakeholders (investors, lenders, the company (Rowbottom *et al.* 2005, p.33). The nature of IR information typically provided extends beyond the financial reports including share price data, analyst reports, press releases and "financial" and "non-financial" data on future.

Financial reporting on the Internet is an activity that has been increasing in recent years (Marston and Wu 2000; Ettredge *et al.* 2002). Web-based investor relations device facilitates the rapid dissemination of information at a greater reach, versatility and low marginal cost (Rowbottom *et al.* 2005). Web IR may also become a means for compliance with fair disclosure regulation, such as "Regulation FD" in the US, where material, price sensitive information must be released publicly rather than in selective, non-public disclosures (*ibid.*). The importance of IR through the use of Internet has been increasing in Japan, also, as Web IR allows companies to disclose information quickly and impartially. Recognizing the importance of Web IR, Japanese companies are starting to take action. This paper has looked into leading Japanese companies' web IR, assuming that if companies wish to realize fair and timely IR activities, in particular, for individual (households) investors, enhancing web IR is the

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way they should pursue. The flip-side of it is that companies' websites are mirrors that reflect their stance on IR.

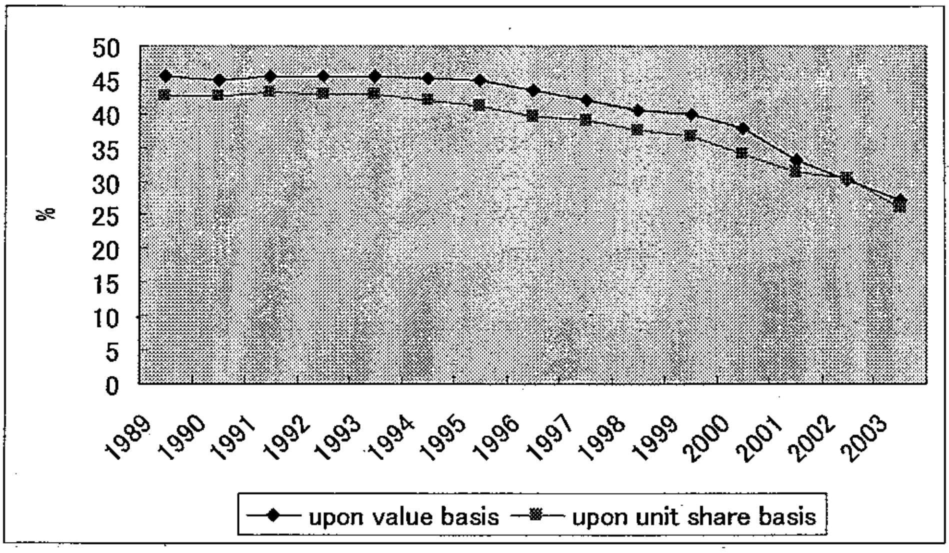
Section II overviews the recent trend in cross stockholdings in Japan. Section III reviews the prior research on this topic and explains our approach. Section IV examines IR websites of leading Japanese companies, the Nikkei 225 companies. Section V concludes.

II. Recent trend in cross stockholdings in Japan

The Japanese financial system is usually characterized as involving production groups, in each of which there is a bank at the centre. These banks are closely involved with production firms (Stiglitz 1994, p.226). In the past, the Japanese "main bank" system (Aoki 1994) used to work as an important institutional setting of corporate control. One salient feature in its corporate governance system was based on cross-shareholdings and long-term relationships among a group of firms or *keiretsu*, where the main bank was the major lender to other firms in the group and the bank and the group's firms usually held the largest block of equity. Empirical studies suggest that the corporate decisions coordinated by the main bank, while taking into consideration the interest of other stakeholders including the lending bank, customers, suppliers and other firms in the group, used to work effectively for contributing to the success of the Japanese economy, at least, during the post-war and catching-up period (Aoki, Patrick and Sheard 1994, Patrick 1998, Chan-Lau 2001). In effect, the main bank used to maintain a substantial stockholding in the firms to which it acts as main bank, usually at, or close to, the level permissible by law. Although the Japanese Anti-Monopoly Law allows banks to hold up to 5 percent of a firm's stock, the main bank can mobilize, if necessary, shareholdings by the group-affiliated trust bank, insurance company, trading company, and other firms for concerted voting (Aoki *et al.* 1994); they collectively (and mutually) hold the potential voting power in case of emergency as well as the ability to protect a customer from hostile takeover. Aoki *et al.* (1994) point out that the main bank system involves a unique contingent corporate governance system in which management control shifts between internal management and the main bank, depending on the financial state of the firm, given the strategic place occupied by the main bank in the network of interlocking stable shareholdings. The main bank used to seldom sell its shares in the market unless it abandoned its main bank positions.

However, since the 1997 financial crisis in Japan, the Japanese banks accelerated to sell their shares and to reduce cross shareholdings. Initially, the sales of shares by banks during the 1997-98 financial crisis was urged for the purpose of funding as well as seeking for capital gains as sources for writing off non-performing loans. Then, the sale of shares was accelerated by the Governmental policy of establishing a system for limiting the shareholdings of banks. The Japanese government (Financial Services Agency or "FSA") set a measure to limit the shareholdings of banks within the risk management capacities of banks, that is, within the Tier I equity capital upon the definition of the Basel Accord, in order to reduce the price fluctuation risk arising from the shareholdings, that is, the risk of capital inadequacy by marking to lower market values (see press release on 26 June, 2001 by FSA).

Nippon Life Insurance Research ("NLIR") is known as a watcher of the trend in cross shareholdings (they started the watch since the mid-1990s). According to a survey by Nippon Life Insurance Research (NLIR 2003), the ratio of stable shareholdings to total issued shares has recently decreased rapidly in the last few years. Stable shareholdings are defined as those including the shares in cross shareholdings as well as the shares held by banks' and publicly listed parent or sister companies.



Reconstructed based upon the data in NLIR (2003)

Figure 1: Changes in stable shareholdings (Unit: percent)

NLIR (2002) suggests that the ratio of stable shareholdings is in general higher in banks (over 50 percent until mid-1990s) than that in the non-financial firms (around 30% until the mid-1990s), and also that the stock price of banks has fallen more sharply than that of the non-financial firms since the 1997-98 financial crisis. Even if we should take into account these factors which might have partly contributed to the falling ratio of stable shareholdings as a whole, the above table shows that the tie of cross and stable shareholdings has been apparently loosen since the mid-1990s, probably having undermined a contingent corporate governance system featured by the main bank system.

The accumulation of a huge volume of non-performing loans in the Japanese banking industry sector cast doubts on their capability of monitoring the corporate sector. Furthermore, as Chan-Lau (2001) points out, a number of official initiatives have recently made it increasingly difficult for firms in a *keiretsu*[2] to maintain their cross-shareholdings. Significant accounting changes are forcing firms to mark-to-market their tradable financial assets and to report more realistic estimates of their pension funding gaps. In consequence, firms are being pressured to sell poorly performing stocks. Indeed, cross-shareholdings have declined slowly as a result of increased profitability pressures on banks and corporations, making *keiretsu* firms more vulnerable to hostile takeovers.

2 Japanese corporate conglomerates, what we call "*keiretsu*", are characterized by presidential meetings, cross shareholdings and preferential transactions and so an.

III. Prior research and our approach

Marston and Wu (2000) examine the extent of financial disclosure on the Internet by the top 99 Japanese companies in 1998. They find that the majority of these companies (78) had a website in English and that of these 68 reported some financial information with 57 providing detailed accounting information. They use ten items from an annual report to measure the level of disclosure; financial highlights, directors or management report, financial review, summary for the recent years, balance sheet, income statement, statement of shareholder equity, statement of cash flow, accounting notes and auditor report. Apparently, they focus on checking the dissemination of "financial" information with paying little attention to "non-financial" one.

We extend the work of Marston and Wu (2000) in the following ways; First, we have checked and compared IR websites of Japan's leading companies, the *Nikkei 225* companies. We have looked into leading Japanese companies' web IR, in collaboration with Made In Japan Direct Co., Ltd. (MIJD), an IR consulting firm. Staff members of Made in Japan Direct Co., Ltd. (MIJD), including the author, visited each company's IR website, and spent 90 man-hours checking and scoring them. We have also identified what Japanese Web IR lacks. Second, this research has evaluated the IR websites as follows; with the investors' perspectives in mind, we have defined what points should be evaluated and how they should be scored. We have also used the key criteria for the best practice in online IR, jointly developed by the London Stock Exchange and the Investor Relations Society of England (IRS, 'IR Best Practice Website Guidance Criteria'), as a reference. As a result, we have chosen ten evaluation points and scored each on a scale of zero to three according to consistent criteria (see the below for the details of each evaluation point). The evaluated websites are those as of October 17, 2003.

<Evaluation Points of Web IR and Scoring Criteria>

1. Strategy and Vision Disclosure

Score 0 : No strategy or vision disclosed

Score 1 : Explains only what kinds of business the company engages in

Score 2 : Offers only general information, but lacks critical information on its core strategy or vision

Score 3 : Gives a clear statement regarding all critical points

2. Disclosure of Company's Position in Market Segment and Differentiation Strategy

Score 0 : No information on the company's position and differentiation strategy disclosed

Score 1 : Explains its position only

Score 2 : Delivers only some general information on its differentiation strategy and the source of competitiveness

Score 3 : Delivers all the important information clearly

3. Impartiality to All Investors

Score 0 : No English IR information

Score 1 : Limited information in English

Score 2 : Most Japanese IR information is translated into English, but some parts omitted

Score 3 : Delivers enough information in English

4. Update Frequency

Score 0 : Few updates since the web page opening
Score 1 : The most recent financial information not posted
Score 2 : Recent press releases not posted
Score 3 : Frequently updated

5. Direct Contact System with Investors

Score 0 : No contact information provided
Score 1 : Contact information provided, but is difficult to locate
Score 2 : Contact E-mail address is available
Score 3 : Frequently Asked Questions (FAQ) and Conference Page are available

6. Use of Latest Technical Developments in Providing Information Online

Score 0 : Does not make use of the latest technical developments
Score 2 : Makes some effort to use the latest techniques, including Webcast
Score 3 : Makes use of the latest technical developments

7. Web Usability

Score 0 : Unfriendly, as no site-map/index provided
Score 1 : Not friendly, as different file formats such as PDF are used
Score 2 : Index is available and the whole site structure is easy to understand
Score 3 : Inventive to enhance usability

8. Financial Information Disclosure

Score 0 : No financial information
Score 1 : Provided only in the form of downloadable files
Score 2 : Summaries provided, but no graphic displays
Score 3 : Chronological charts provided

9. Shareholder Information Disclosure

Score 0 : No shareholder information
Score 1 : Information on the company's stock price presented
Score 2 : Analyst reports and IR calendar presented
Score 3 : All the important information contained, plus other useful information such as credit ratings.

* We checked criteria such as whether the site has share price information, analyst reports, IR calendar and credit ratings and made a comprehensive assessment based on the evaluation.

10. Corporate Governance Information Disclosure

Score 0 : No information on corporate governance
Score 1 : Corporate governance mentioned, but not in detail
Score 2 : Outside director system introduced and directors' profiles presented
Score 3 : Information on Corporate Social Responsibility (CSR) including its environmental policy and compliance codes of conduct is presented.

* We checked criteria such as whether the site has information on corporate governance, compliance code, and environmental policy, and made a comprehensive assessment based on the evaluation.

Table 1: Results of scoring (N=225)

The number of companies applied for each score by the key criterion

	1. Strategy	2. Dif. In Market Segment	3. Impartiality	4. Update Frequency	5. Direct Contact	6. Latest Tech.	7. Web Usability	8.Financial Info. Disclosure	9. Share-holder Info.	10. Corporate Governance
Score 0	17	95	13	0	22	148	15	0	36	19
Score 1	74	58	70	5	98	36	133	90	89	120
Score 2	89	59	82	41	75	38	58	57	75	65
Score 3	45	13	60	179	30	3	19	78	25	21

The average score and standard deviation in each criterion

Average	1.72	0.96	1.84	2.77	1.5	0.53	1.36	1.95	1.4	1.39
Standard Deviation	0.87	0.96	0.89	0.47	0.85	0.82	0.73	0.86	0.89	0.77

IV. Results on Japanese corporate Web IR practices

The comments on the results by each category are as follows;

1. **Strategy** (Strategy and Vision Disclosure)
   Average Score 1.72 (The average score of all the surveyed websites.)
   Most websites provide the company's strategy to some extent, but usually in the form of a "mid-term management plan" in a downloadable file, etc. Only a limited number of sites carry a summary on the website's upper-layer pages. Content-wise, most sites consciously seek to describe all the business the company handles equally, but few sites give a clear statement on their core strategies.
2. **Differentiation in Market Segment** (Disclosure of company's position in market segment and differentiation strategy) Average Score: 0.96
   Only 13 out of 225 sites scored the full mark. The possible reason behind the relatively poor score is that companies hesitate to disclose such information for competitive reasons. The result, however, is that investors cannot obtain enough information to make a fair judgment. Most IR websites are somewhat "self-complacent".
3. **Impartiality** (Impartiality to all investors)
   Average Score: 1.84
   We evaluated English websites, as foreign investors' dealings now account for about the half of the turnover of the Japanese stock market. Some sites have only limited English information, thus 83 sites scored less than one. Considering that they are leading Japanese companies, this is disappointing. However, some companies are taking a progressive approach. For example, some companies including Asahi Breweries, LTD., provide Chinese pages and other companies, including Sony Corporation, provide a global website.
4. **Update Frequency** (Whether information is kept up-to-date)
   Average score: 2.77
   As might be expected for leading Japanese companies, they frequently update information on websites, including timely posting of press releases.
5. **Direct Contact** (Direct contact system with investors)
   Average score: 1.5
   The score is unexpectedly low. As many as 22 companies do not provide direct contact information with investors at all. They might think IR is simply one of the formalities of placing information. In addition, a considerable number of websites are unfriendly. In some cases, even if the sites have contact information, the contact is not IR-related, or such contact information is hard to find in the first place. This is in sharp contrast to other companies including Minebea Co., Ltd. They send E-mail news alerts to provide up-to-date information to registered members.
6. **Latest Technology** (Use of the latest technological developments in providing information online)
   Average score: 0.53
   Not well advanced. Some exceptional companies, such as Teijin Limited, are quick to embrace the latest techniques including Webcast (a transmission of sound and images via the Internet). Despite this, some of those companies leave an impression that they are just satisfied with how such new techniques introduce their sites but don't care much about the user experience.
7. **Web Usability** (User-friendliness of the website)
   Average score: 1.36

Although people tend to judge usability subjectively, we try to evaluate this according to common standards of user-friendliness. For example, a pull-down menu is judged unfriendly, as it's hard to get the whole picture of the menu items at a glance. The score varied widely related to points including whether the menu items can be listed at a glance, whether brief explanations are given in each section's contents, or whether it is easy to return to the top page from each page. Also, a website with a lot of downloadable information scores low if it doesn't have a summary of such information on an upper-level page. The length of time necessary to get information is also an important criterion. Some companies such as Mitsui Fudosan Co., Ltd. make a favorable impression because their top page is designed as an IR-specialized page, not a simple menu page, and provides summaries of their key information.

8. Financial Information Disclosure (Disclosure of Financial Information)

Average score: 1.95

It is no surprise that most companies score high, as disclosure of financial information is mandated. However, it is regrettable that many sites provide various kinds of reports in the form of downloadable files. Basically, we rated the sites from the perspective of whether they have summaries of the fundamental data or not, and whether they have clear graphic displays of the fundamental data or not. However, we score low if only graphic displays are presented without clear explanations. The visual displays with explanation, such as those of Nippon Light Metal Company, Ltd., are preferable. We also score high when sites have processed information, such as chronological charts of financial indicators, and on this point, the scores vary.

9. Shareholder Information (Disclosure of information related to shareholders)

Average score: 1.4

Generally, companies do not disclose enough information. Although some companies post stock price information, only a limited number of companies, including Itochu Corporation, post analyst reports, IR calendar and others. In addition, although many sites carry a "Frequently Asked Questions" (FAQ) section, the section's contents are mediocre and not highly rated.

10. Corporate Governance (Disclosure of corporate governance-related information)

Average score: 1.39

Some sites that present environment-related information such as environmental reports and code of conduct got high marks. However, most sites do not offer clear statements on corporate governance policy, with just a few exceptions including Konica Minolta Holdings, Inc., which takes progressive action in the area of corporate governance.

V. Conclusion

Marston and Wu (2000) conclude that Internet reporting was well established among leading Japanese companies at the time of the survey. The results of our research endorse that many leading companies got higher marks in disclosure of financial information (evaluation point 8) and impartiality to all investors (point 3). However, the results show that many IR websites still do not show clear positioning of Web IR or disclose information in an inappropriate way. In particular, there is a large room to improve the disclosure of company's position in market segment and differentiation strategy (point 2) and to adopt the latest technological developments in providing information online (point 6). Those highly rated companies are making every effort to improve their sites under the clear guidance of their management. However, Japanese companies' Web IR, as a whole, is at a far from satisfying level and needs further improvement. Although an IR site should contain all the necessary information, in reality, many sites have their company profiles on other pages, which would not be user-friendly.

As was mentioned earlier, the change in the traditional cross-shareholdings has encouraged the Japanese firms to take into consideration the IR activities of continuously providing the fair and timely information for their decision-making by shareholders and individual investors. Meanwhile, more arguments have recently shed light on the Japanese household *risk-averse* preference in portfolio (see Suzuki 2002, Okina 2002). A salient feature of the breakdown in the outstanding financial assets held by the Japanese households sector is that the weight of "safety assets" such as currency and deposits was large (55.2% to the total financial assets in March 2004), while the weight of "risk assets" such as shares, equities and securities was small (13.2%), reflected in their *risk-averse* preferences for portfolio selection (Bank of Japan 2004). Noticeably, their *risk-averse* preferences have intensified through the 1990s, even after the millennium. On the one hand, the improvement of Japanese corporate disclosure and Web IR practices would be necessary to develop the diversified base of investors. On the other hand, their *risk-averse* preference in the Japanese households may have discouraged the Japanese companies to invest in enhancing their IR websites from the expectation of a low marginal benefit, and possibly makes it still difficult to develop the base. Insufficient Web IR practices by the Nikkei 225 companies may be related to this dilemma.

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