

**Research Report on
CSR Management of Companies
(Summary)**

March 2015

CSR FORUM, JAPAN

Contents

I	Recognition of Issues for Approaches to CSR of Companies.....	1
1	Preface	1
2	International Evaluation of CSR by Japanese Companies	2
3	Recognition of Issues for Approaches to CSR Management of Companies (Objectives of This Research).....	2
II	CSR Management of Companies (Analysis of the Current Situation).....	3
1	Current Situation of the CSR Management for the Whole Company	3
2	Current Situation of CSR Management at Overseas Bases.....	5
3	Current Situation of CSR Management in Supply/Value Chains.....	11
4	Envisaged characteristics of CSR management by Japanese companies.....	15
5	Challenges for CSR Management by Japanese Companies	17
III	Approach to CSR Management by Japanese Companies (Recommendations).....	19

I Recognition of Issues for Approaches to CSR of Companies

1 Preface

Globalization of the economy is in progress. It is evidenced by the expansion of trade and international capital transactions, as well as the movement of labor force and management resources beyond borders. In the roughly 30 years from 1980 to 2012, the amounts of both Japan's imports and exports increased approximately six fold, while those of the whole world by about nine fold¹. Despite these circumstances, global expansion of business by Japanese companies is proceeding as well. FY2012 saw record highs for the ratio of overseas production (20.3%), the ratio of overseas investment (25.8%), the number of employees (5.58 million people) etc. of the manufacturing sector². Moreover, the number of M&As by Japanese companies with overseas companies also reached a record number (557 cases) in 2014³. With increased global business expansion, various problems (related to labor, human rights, the environment, and bribery) have emerged as issues for CSR (*1) at overseas sites and in supply and value chains (*2). For such problems (including labor, human rights, the environment, and bribery), Japan's parent companies are pursued for damages by NGOs and others, in many cases for their past activities.

Against such background, it has become increasingly important to sufficiently institute CSR practices at overseas sites. In other words, strengthening of "Global management of CSR" appears to be required both in Japan and in satellite countries where Japanese companies operate in order to promote the efforts for CSR. In particular, it is urgent to promote and spread CSR to supply chains and value chains, including in overseas bases.

With the awareness of such problems, this research survey intends to examine and present recommendations on approaches to CSR management for the future global expansion of Japanese companies by collecting and assimilating recent international trends in CSR, the characteristics of the spread of CSR in overseas bases etc., and also studying and analyzing how companies in Japan and abroad are strengthening their "CSR management."

(*1) Generally speaking, "CSR" is said to be the "responsibility for the effects of corporate decisions and activities on the society and environment." While bearing this interpretation of "CSR" in mind, the "CSR management" in this survey refers to the "management reflecting and integrating CSR into business and projects."

(*2) ISO26000 defines the value chain as a series of activities or relevant persons as a whole which provide or receive value in the form of products or services, including suppliers, commissioned workers, contractors, customers, consumers, counterparties, members, and others. While the supply chain is sometimes understood to be synonymous with the value chain, the term is more simply defined as "a series of activities or relevant persons which provide organizations with products or services." In this report, the supply chain is used when it refers to procurement and purchase activities from the viewpoint of companies, whereas the value chain will be written along with it when it includes sales destinations and customers.

¹ UN Conference on Trade and Development (UNCTAD) "Values and shares of merchandise exports and imports, annual, 1948-2013"

² Ministry of Economy, Trade and Industry, "The 43rd Survey of Overseas Business Activities (July 2013 Survey): Summary"

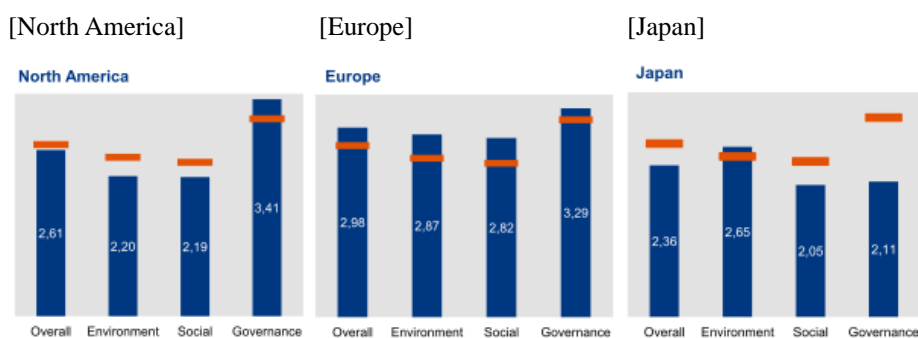
³ Researched by RECOF Corporation. <http://www.marr.jp/marr/entry/4941>

2 International Evaluation of CSR by Japanese Companies

How are overseas CSR activities of Japanese companies generally evaluated internationally? This section summarizes the recent evaluation by ESG evaluation organizations and international NGOs, focusing on Asia.

Overall, evaluation of Japanese companies cannot be thought to be substantially worse than that of U.S. and European companies when compared to the ranking on CSR in the Asian region and the information on lobbying activities by international NGOs which are engaged in environment, labor and human resources problems. For example, in the foreign companies segment of “the Research Report on Corporate Social Responsibility of China 2013” published by the Chinese Academy of Social Science⁴, there are seven Japanese listed companies among the top 20 companies on the “Social responsibility development index ranking”. These companies are Panasonic, Sony, Canon, Toshiba, Sharp, Toyota Motor Company, and Hitachi.

Moreover, compared to the U.S., European and Korean companies etc., the number of Japanese companies mentioned in the criticism of companies in the Asian region by large-scale NGOs which are active internationally on environment, human rights, and labor issues (Greenpeace International, Rainforest Action Network, China Labor Watch Human Rights Watch, and Amnesty International) is quite small. On the other hand, looking at ESG scores for investors by ESG evaluation organizations, the average scores of Japanese companies for the social and governance aspects are lower than those of European companies. For instance, the graph below shows the comparison of the average ESG scores of major listed companies in the world by Allianz Global Investors (a management company headquartered in London). The “Environment aspect” of the Japanese companies shows a higher score than the world average, while the “Social” and “Governance aspects” a lower one.



(Source) Allianz Global Investors documents

3 Recognition of Issues for Approaches to CSR Management of Companies (Objectives of This Research)

With the above recognition, the following three objectives were set for this research:

- (1) Pay attention to the relationship between the head office and overseas bases, understand the current situation and issues, and present points for improvement going forward;
- (2) Understand the current situation and CSR-related issues for supply/value chains by Japanese companies, especially those overseas, and present points for improvement going forward; and
- (3) In terms of CSR, understand if they are recognizing the characteristics of Japanese companies and differences from the U.S. and European companies etc., and present how to utilize them.

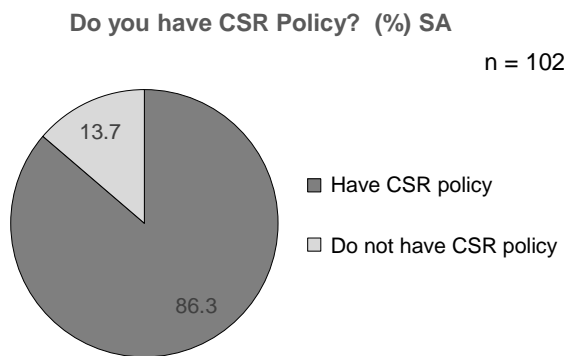
⁴ <http://www.aicj.org/ajiakomyunikeshon-yan-jiu-suo/xin-zhe-qing-bao>

II CSR Management of Companies (Analysis of the Current Situation)

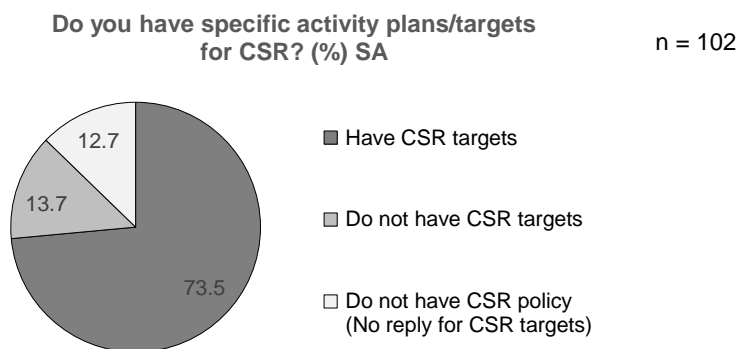
In order to collect information to understand the CSR management situation at overseas bases of companies, three kinds of research was conducted; questionnaires, case studies (interviews, and case presentations at this study group), and literature reviews. In the questionnaire, questions were asked about CSR management of the whole company and overseas bases.

1 Current Situation of CSR Management for the Whole Company

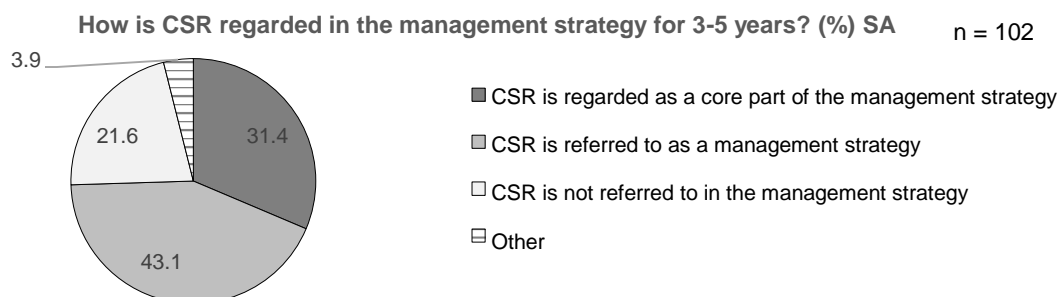
1.1 Most companies (86.3%) have formulated CSR policy



1.2 Over 70% of companies (73.5%) have specific activity plans/targets for CSR



1.3 Over 70% of companies (74.5%) regard CSR as a management strategy; more than 30% regard it as a core part.

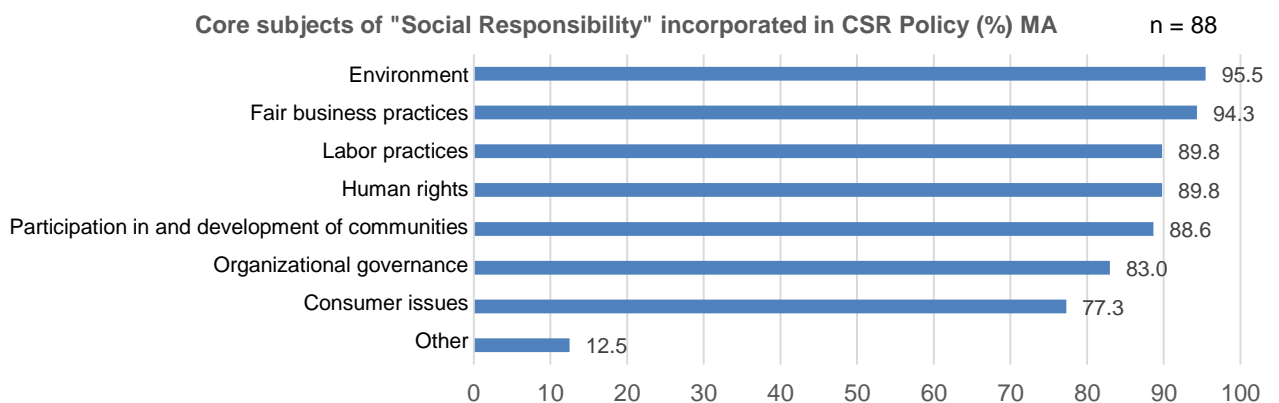


In the case studies, some examples confirmed that some companies regard CSR as a core part of their management strategy. Another example confirmed that companies are realizing that CSR efforts create value.

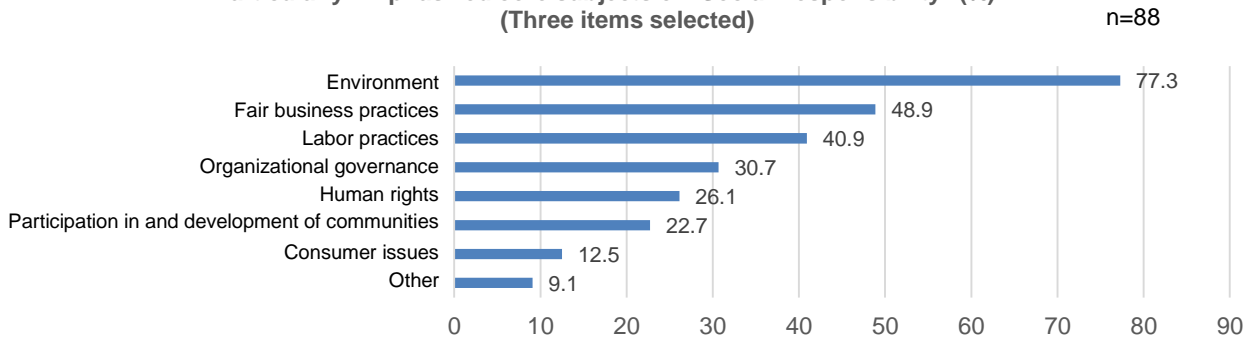
While the connection between the main business and CSR differs depending on individual situations of companies, the following are examples in which companies have clarified their management policy regarding CSR.

- ✓ From FY2011, in addition to the medium-term management challenges, a three-year CSR roadmap (a total plan for CSR linked to the management strategy) was introduced, and its target fiscal years are coincided with the target fiscal years of the medium-term management challenges. As a result, it has become easier to point out risks associated with the medium-term management challenges, from the viewpoint of CSR. [Material manufacturer]
- ✓ Based on ISO26000, our “CSR Policy and 9 Themes” has the structure to place high value on “What are CSR measures for?” (Recognition) and “How should we implement measures to improve management?” (Confirmation and improvement). [Machinery manufacturer]
- ✓ In the 2005-2010 Six-Year Medium-Term Management Plan, “CSR management” was set forth as one of the management policies. (...) If the lack of resources including personnel and capital which are necessary to promote CSR are recognized as expenditures not only promoting CSR but which will additionally improve brand image and ultimately to enhance competitiveness, the circumstances surrounding those issues should improve. [Food manufacturer]
- ✓ Before the term “CSR” came into existence, we had been dealing with social needs through our main businesses (products and technologies) along with the development of environmental and ICT technologies. And, in the 2011 CSR report, we clearly stated for the first time: “Our CSR activity is contributing to society through our main businesses.” (...) If CSR efforts are closely related to the main businesses, and it is clear that they can be a tool to developing relationships with customers or they can lead to improving the presence in the region of operation, there should not be any objection from within the company to promote CSR, even without evaluating the efforts in monetary terms. [Machinery manufacturer]
- ✓ As Chile, Australia, and African countries are resource rich mining regions, we are strongly encouraged by the mining companies operating in the regions to ensure CSR as a supplier which produces mining machinery. As a result, it has become essential for us as a supplier to respond to such demand in doing our business. Accordingly, CSR is not a type of “charity” for us but has become an important part of our business. [Machinery manufacturer]

1.4 In CSR policy, many companies cover most of the ISO26000 core subjects. Regarding the particularly emphasized core subject, the environment is exceptionally high at 77.3%, followed by fair business practices (48.9%) and labor practices (40.9%).



Particularly Emphasized core subjects of "Social Responsibility" (%) MA
(Three items selected)

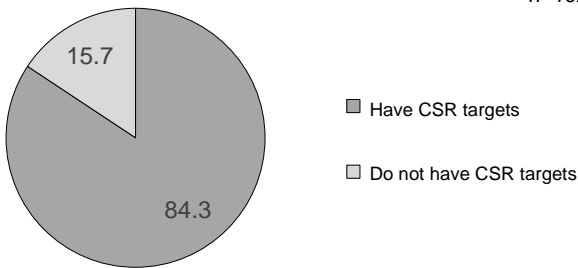


n=88

1.5 Among companies with CSR policy, more than 80% have established more specific activity plans/targets (84.3%). Over 90 % of companies' efforts cover some of their consolidated companies.(93.3%)

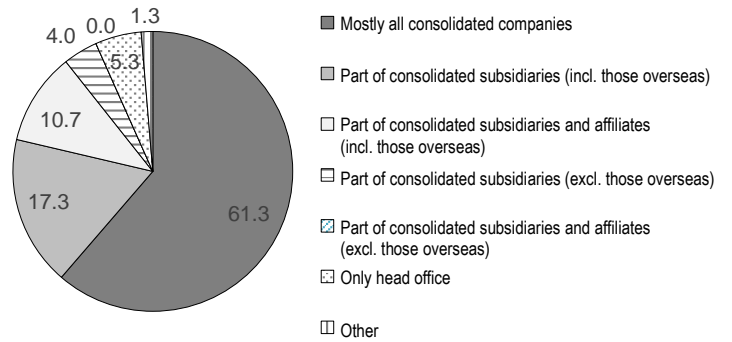
Do you have specific activity plans/targets for CSR?
(%) SA

n=102



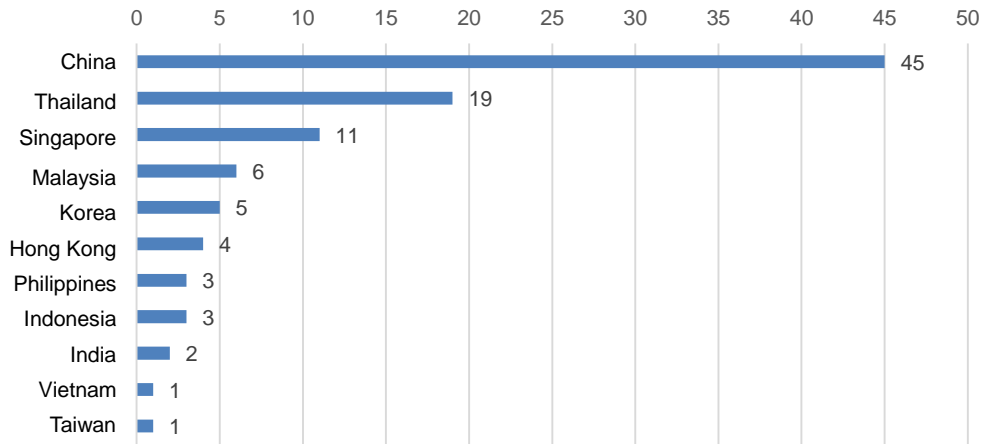
Ratio of group companies covered for CSR targets (%) SA

n=75



2 Current Situation of CSR Management at Overseas Bases

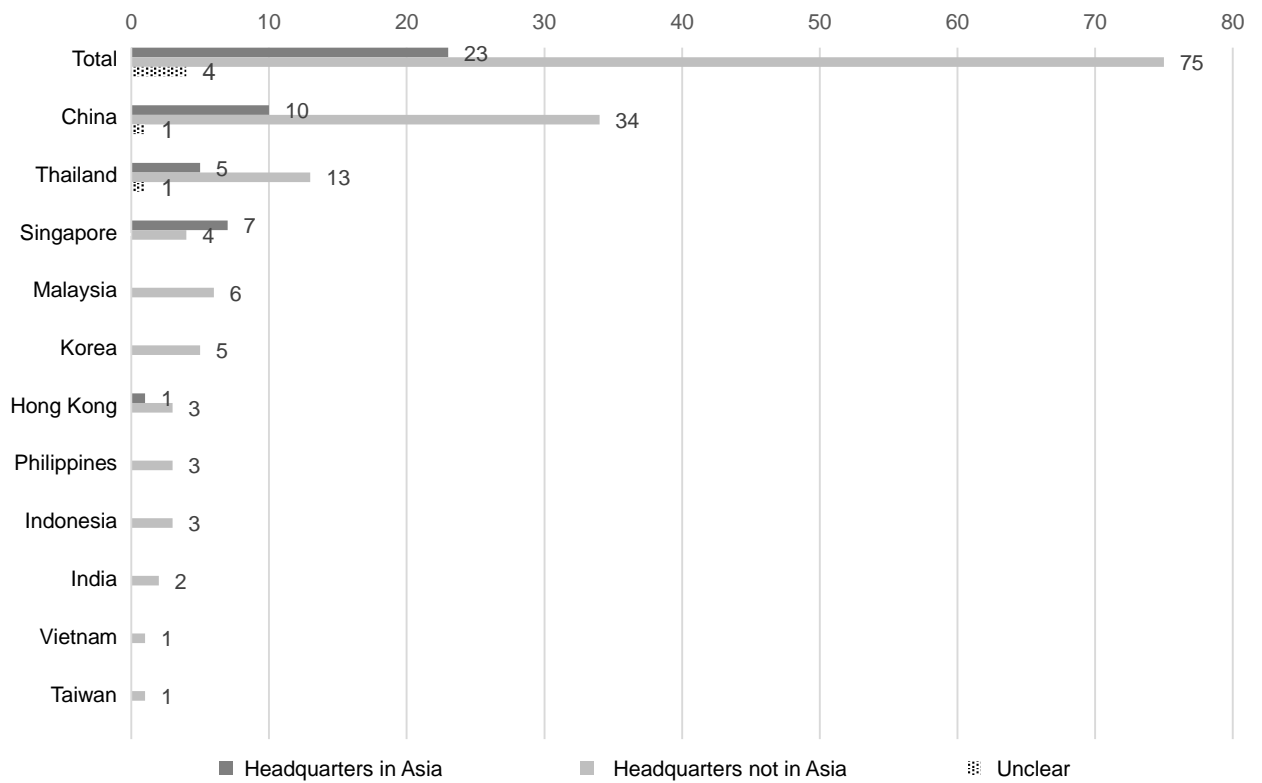
In terms of overseas bases, since substantial differences exist between overseas expansion destinations. This survey focused of "Asia" as a region with ever-increasing participatin of Japanese corporations and which has a wide variety of issues related to CSR. Specifically, each company was asked to choose one base as their "representative base in Asia" and that base was the subject for the survey. As shown below, among the 102 respondent companies, 45 answered questions about their base in China.



By Country: Is the overseas base selected for the survey the regional headquarters in Asia or not?

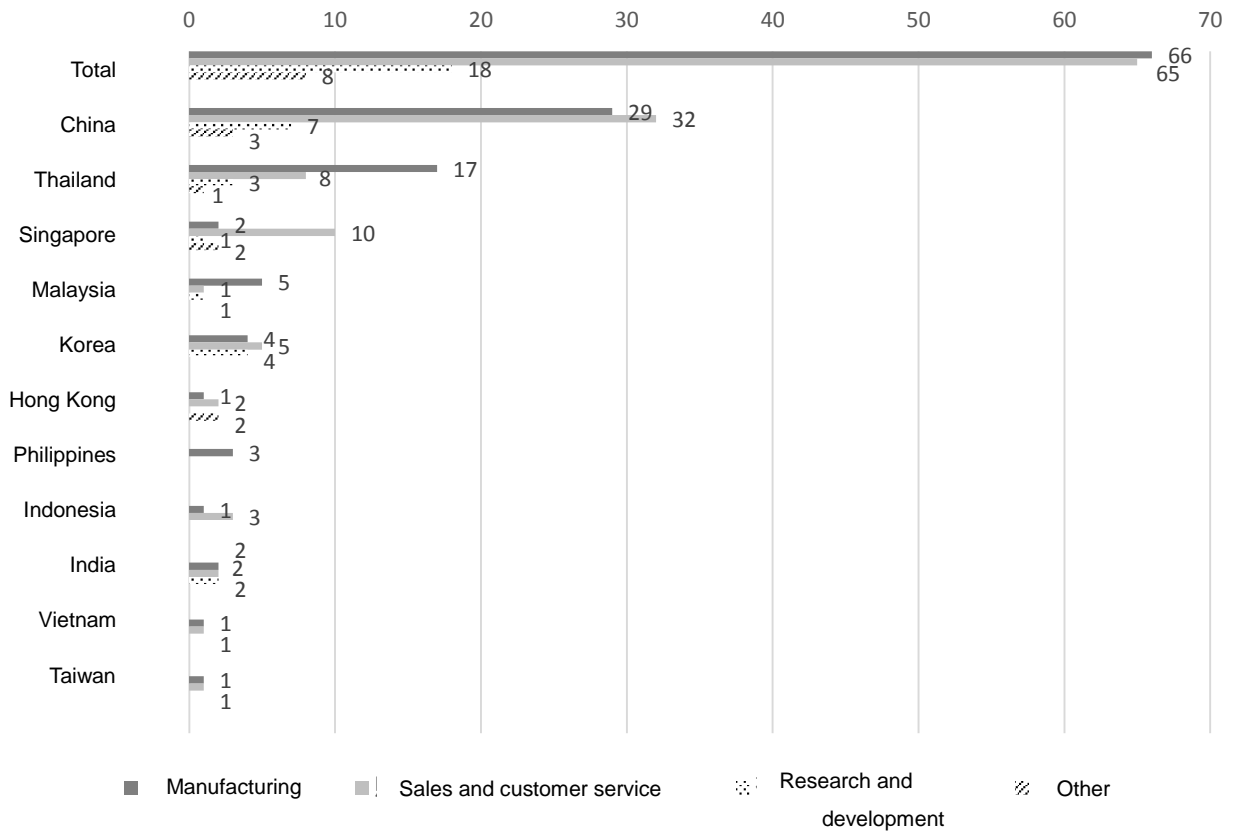
(No. of companies) SA

n=102



**By Country: Functions of the overseas base selected for the survey
(The number of companies) MA**

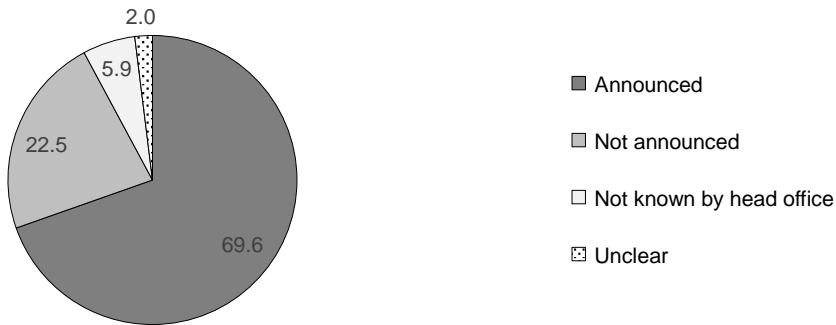
n=102

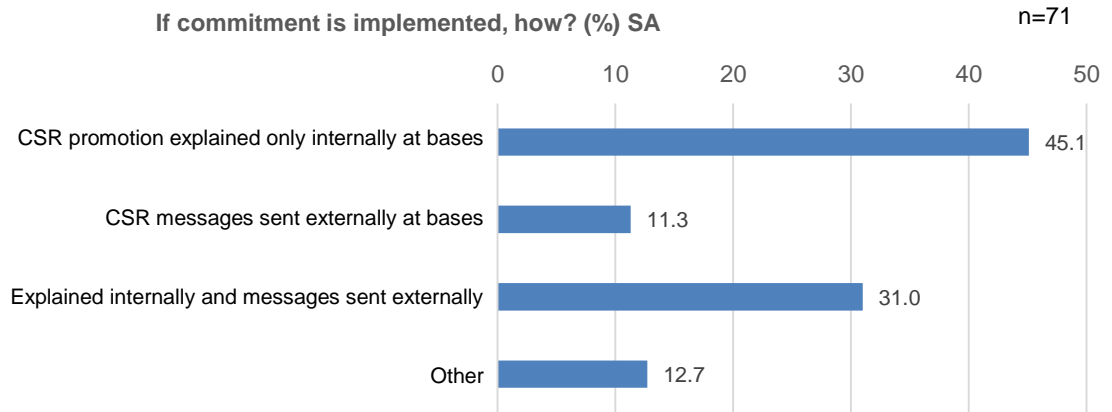


2.1 Approximately 70% (69.6%) of the representatives at overseas bases are committed to CSR. While internal commitments account for the majority at over 70% (76.1%), a substantial number—over 40% (42.3%)—of companies publicize their CSR efforts externally.

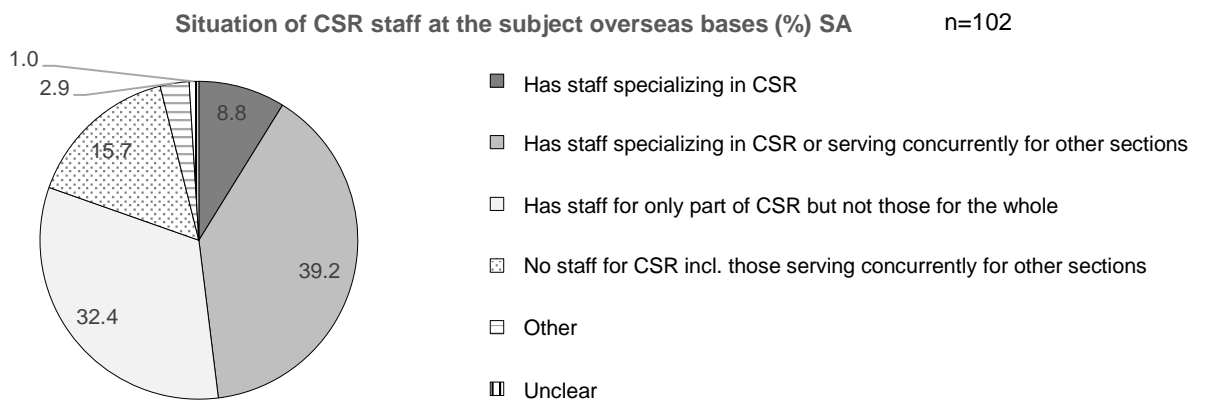
Commitment of representatives at the subject overseas bases (%) SA

n=102

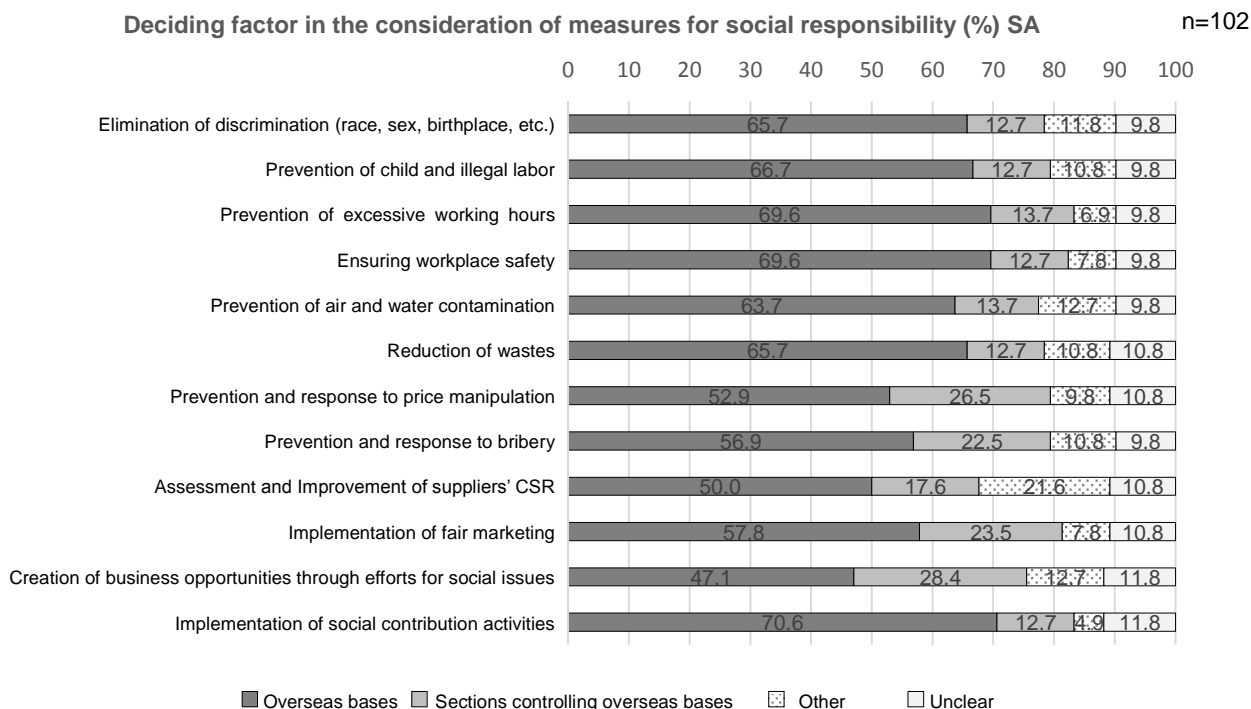




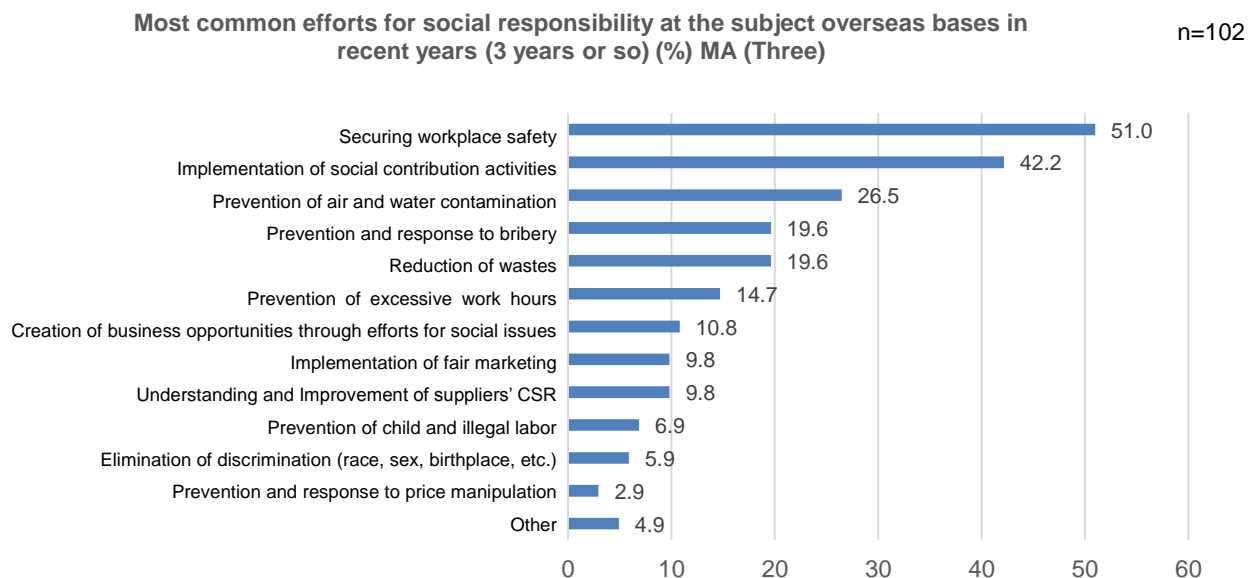
2.2 While less than 10% (8.8%) have full-time CSR staff, about 80% (80.4%) of overseas bases have specialized CSR staff.



2.3 Many measures for social responsibility are decided by overseas bases. However, higher percentages of companies deal with them on a company-wide basis or at the overseas headquarters regarding the creation of new business opportunities for social issues or supplier management.



2.4 CSR efforts which receive the most attention - many companies mention ensuring safety in the workplace (51.0%), followed by activities contributing to society (42.2%).

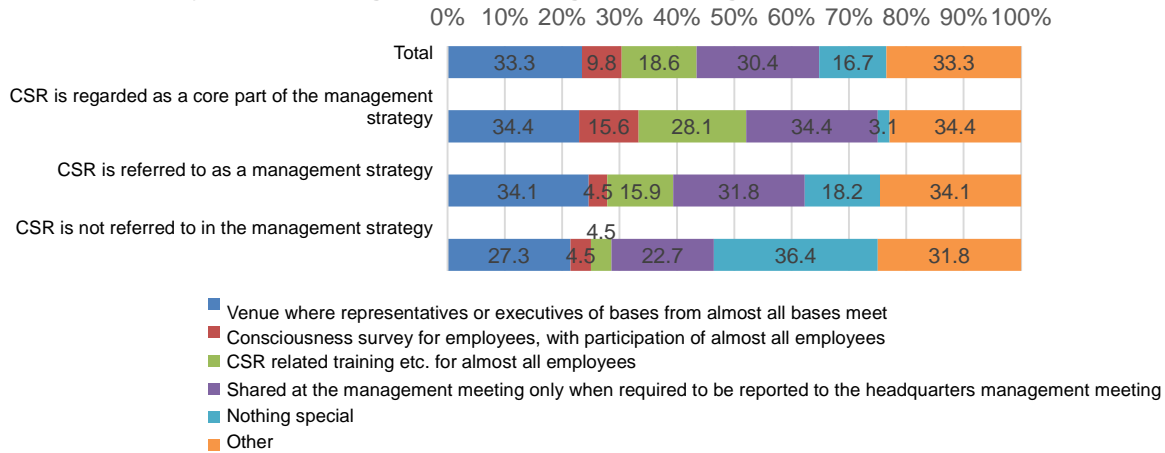


The following example is a case of ensuring safety in the workplace obtained from interviews:

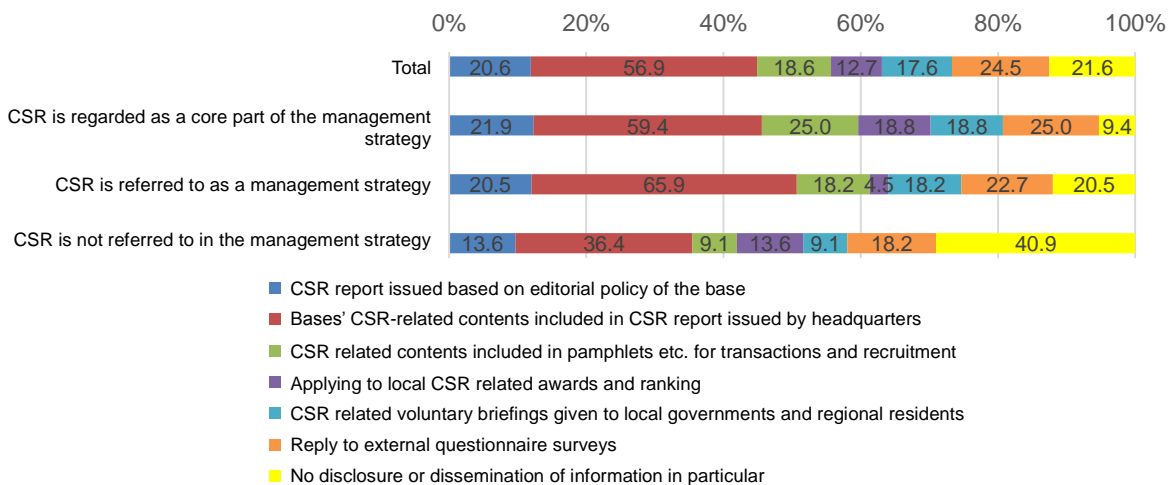
- ✓ As for safety, we have been disclosing information mainly at domestic business places in accordance with domestic laws. However, as long as we are doing business globally, we are required to make common efforts and disclose information on a global basis. Accordingly, we are tackling the following three measures as new safety hygiene measures on a global basis: “Sharing of the basic idea on safety and hygiene,” “Thorough and appropriate grasp of the safety and hygiene situation,” and “maintenance and improvement of the safety and hygiene levels.” [Machinery manufacturer]

2.5 Companies, which have CSR incorporated in the management strategy of headquarters generally engage in CSR activities (understanding and sharing issues, disclosing and disseminating information, etc.) proactively at overseas bases as well.

Understanding/sharing of issues and the status of activities concerning CSR at overseas bases: By the positioning of CSR in management strategies (%) MA

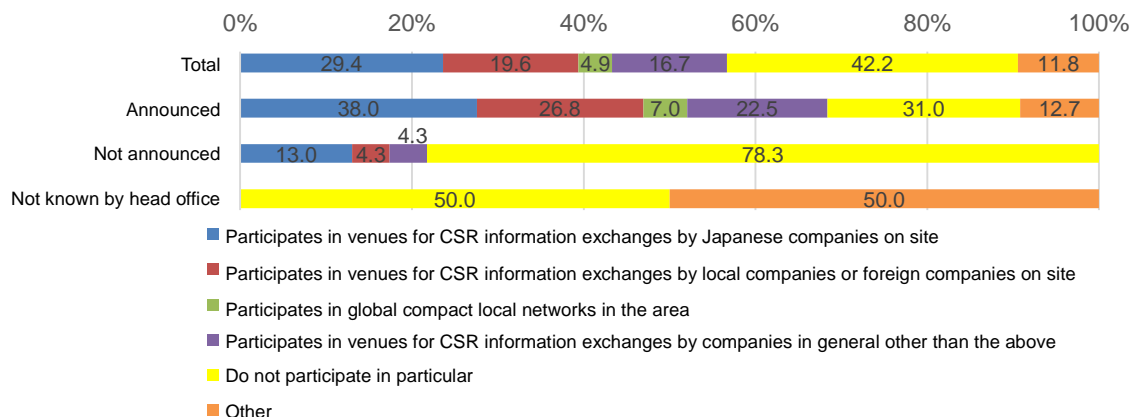


Information disclosure/dissemination of CSR at overseas bases: By positioning CSR in the management strategy (%) MA

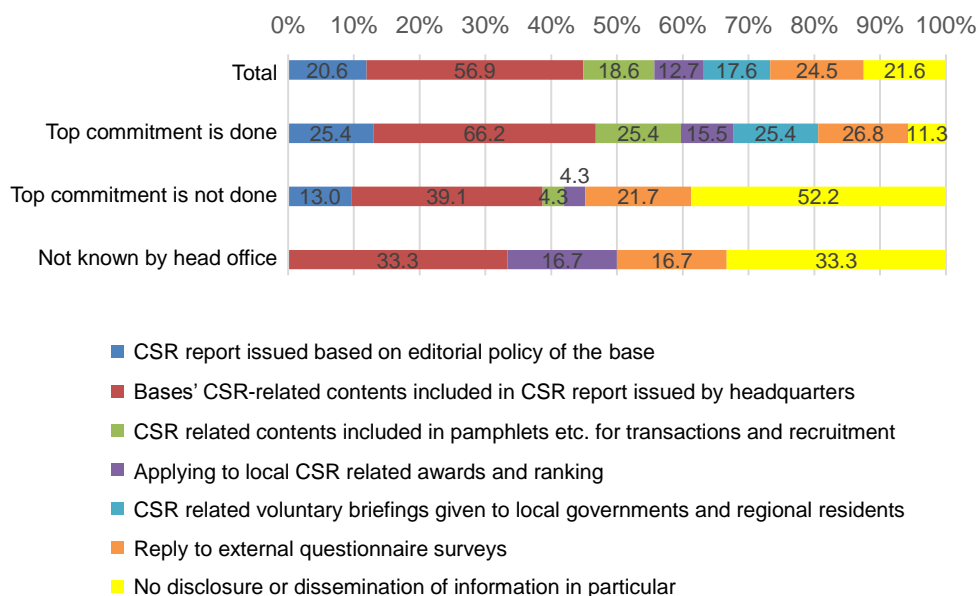


2.6 Companies whose representatives of overseas bases have announced their commitment are generally proactively engaged in CSR activities/engagement of overseas bases (information exchange with external players, information disclosure/dissemination, etc.).

Information exchange and other activities at overseas bases : By the commitment of representatives at overseas bases (%) MA



**Disclosure/dissemination of CSR information at overseas bases:
By the top commitment at overseas bases (%) MA**



3 Current Situation of CSR Management in Supply/Value Chains

It has become common, especially among large companies, to include labor, human rights, environmental and fair business practice policies etc. in procurement policy (CSR procurement). Moreover, with the increase in scope as well as more sophisticated required levels of CSR efforts, industry groups are trying to introduce the unified policies and conditions by regions. Regarding their objectives to introduce these policy changes, in a sense, they have the effects of the broader notification of the benefits to procuring companies and supply companies by avoiding overlapping investigations and audits by two or more customers. For supply companies, the benefit sometimes goes beyond cost-savings; e.g., compliance with the unified rules may open new doors.

In formulating the unified rules, in many cases, international guidelines (OECD MNE Guidelines, U.N. Global Compact, ISO26000 etc.) are reviewed. After that, they are formulated based on the characteristics of the industries and areas. Major standards and guidelines are classified by industries as follows. Major promoting bodies of these guidelines are industry groups, international organizations, NGOs, and governments.

1) Electronic equipment	EICC (Electronic Industry Citizenship Coalition) JEITA (Japan Electronics and Information Technology Industries Association Japan)
2) Automobile	AIAG (Automotive Industry Action Group, an automotive industry standardization promotion organization) JAPIA (Japan Auto Parts Industries Association)
3) Apparel and retail etc.	GSCP (Global Social Compliance Programme, a group mainly composed of retailers which promotes CSR) SAC (Sustainable Apparel Coalition) ILO Better Works Program (implementing joint implementation programs with IFC) DISHA (Driving Industry towards Sustainable Human capital Advancement, voluntary efforts of the apparel industry assisted by the Indian government)
4) Food and consumer goods	ICTI (International Council of Toy Industries) RSPO (Roundtable on Sustainable Palm Oil) MSC (Marine Stewardship Council, an international NPO promoting marine eco-labels) FSC (Forest Stewardship Council) Fruit South Africa (authentication of fruit supported by the government of Republic of South Africa)

5 Materials	TfS (Together for Sustainability, a group which promotes sustainability in the supply chains of the chemical industry)
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Here, cases of three industries are presented.

(1) Electronic equipment

In the electronic equipment industry which is expanding globally, the Electric Industry Citizenship Coalition (EICC) established the EICC Code of Conduct in 2004, in order to help the industry as a whole deal with supply chain issues. It stipulates the labor safety and hygiene, human rights of workers, and environmental footprints standards which must be reached in the supply chain in order for the electronic equipment industry to fulfill its CSR obligations.

Consisting of electronic equipment manufacturers and major suppliers, EICC had nearly 100 participating companies as of January 2015. While U.S. companies account for the majority, Japanese companies are also participating, including Sony, Toshiba, and Konica Minolta. Total annual sales of the participating companies and the number of the direct employees add up to \$2.6 trillion and 5.5 million people, respectively⁵.

EICC provides an online service called “EICC-on” in English and Chinese, aimed at managing procurement considered CSR of participating members and supply companies, as well as sharing sustainability data. The sustainability data include the results of audits and the Self-Assessment Questionnaire (SAQ)⁶. Moreover, the electronic equipment industry is cooperating in its response to the issues related to conflict minerals. Specifically, it has implemented the use of industry-standard conflict mineral investigation templates and audit and authentication of conflict-free joint smelters etc. Furthermore, in cooperation with GeSI (Global e- Sustainability Initiative), EICC started the Conflict Free Sourcing Initiative (CFSI), providing opportunities for dialogue with stakeholders.

Regarding the benefits for participating companies, it is pointed out that the industry as a whole can work together to tackle the diversification of risk, creation of trust, response to media, and attention of NGOs on new social issues.

In Japan, the Board of the Committee on Materials under Policy and Strategy of the Japan Electronics and Information Technology Industries Association (JEITA)⁷ is conducting research on the issues in procurement activities of companies. The Committee created the “Supply Chain CSR Promotion Guidebook” in 2006, explaining as the electronics industry the common CSR requirements for suppliers⁸ and at the same time developing the framework to promote it as well as preparing and distributing checklists to be utilized for understanding the actual situation.

Moreover, JEITA established the “Responsible Minerals Trade Working Group” in 2011. With the participation of about 40 major Japanese companies, it engages in: 1) formulating policy for responsible procurement of minerals (including conflict minerals) and promotional activities; 2) submitting opinions of JEITA member companies to EICC/GeSI; and 3) sharing, cooperating, and examining the solutions for the issues outside the industry⁹. It cooperates with other groups including 3 Japanese automobile manufacturers¹⁰ and the Japan Auto Parts Industries Association (JAPIA), in addition to EICC, GeSI, CFSI etc.

⁵ <http://www.eiccoalition.org/>

⁶ Self-Assessment Questionnaire is available in Japanese as well.

<http://www.eiccoalition.org/standards/tools/eicc-on/>

⁷ JEITA is an industry group for the IT/electronics industry controlling about ¥40 trillion. It has approximately 400 member companies, with 600 committees. The Committee on Materials in JEITA is composed of 27 Japanese companies.

⁸ The Guidebook covers the items on “human rights/labor,” “security/hygiene,” “the environment,” “fair trade/ethics,” “quality/safety,” “information security,” and “social contribution.” Each item has been prepared using the procurement policy of individual companies, EICC etc. as the benchmark.

⁹ <http://home.jeita.or.jp/mineral/>

¹⁰ The “Conflict-Free Sourcing Working Group” was established by three companies—Toyota, Nissan and Honda—promoting activities for standardization outside of individual industries. It engages in supporting common questionnaires (EICC/GeSI template) and survey methods (common guide for entry/optimization), and conflict-free audit on refineries.

(2) Automobile

In the automobile industry, an industry-wide monitoring system has started, mainly in the U.S. and Europe, aimed at promoting CSR procurement. In the U.S., the Automotive Industry Action Group (AIAG)¹¹ created a common questionnaire of 50 questions covering human rights, the environment, compliance etc.¹². In Europe, the common questionnaire was created not by automobile industry groups but by volunteer companies, with the monitoring started in 2013.

Among parts manufacturers in Japan, the Japan Auto Parts Industries Association (JAPIA)¹³ has created the JAPIA “CSR Guidebook” and “CSR Checklist” aimed at improving member company CSR efforts. The CSR Guidebook was revised in 2010¹⁴— as the complete general-purpose version by using the items in common with the automobile industry— in order to reduce the burden on suppliers at the time of CSR procurement by automobile manufacturers.

(3) Apparel and retail etc.

Retailers are tackling CSR procurement from the viewpoint of managing brands for consumers as well, because they are also often strongly targeted by NGOs and others for issues related to labor and human rights in the supply chains. Specifically, the Global Social Compliance Program (GSCP) was established in 2006, in order to encourage cross-industry cooperation in promoting compliance in environment, social and labor aspects of the supply chains. As of January 2015, 38 companies were participating, including such globally active major retailers as Walmart, Carrefour, and Ikea, as well as YAMADA-DENKI from Japan. Total sales of participating companies exceed ¥100 trillion. GSCP shares common items with a large variety of CSR procurement standards and guidelines, and prepares unified check items. Based on these, individual companies conducted audits, resulting in the establishment of the framework which can be utilized for decision-making in procurement.

In the apparel and footwear industries, the “Sustainable Apparel Coalition (SAC)” was established in 2011, aimed at reducing the impact of the industry on the environment and society¹⁵. SAC developed the standards/self-assessment tool called the Higg Index to measure the impact of companies and products on the environment and society. They evaluate criteria by factories (the facility module), by brands (the brand module), and by products (the product module), using inspection methods which do not rely on external audits. They aim to upgrade them gradually, with the first version released in 2012 followed by the second version in 2013.

¹¹ Established in 1982, AIAG is an organization which promotes the standardization of the automotive industry. It consists of about 1,600 companies, including automobile and parts manufacturers, transportation, and information-related companies in the U.S. and Japan.
<http://www.aiag.org/staticcontent/about/>

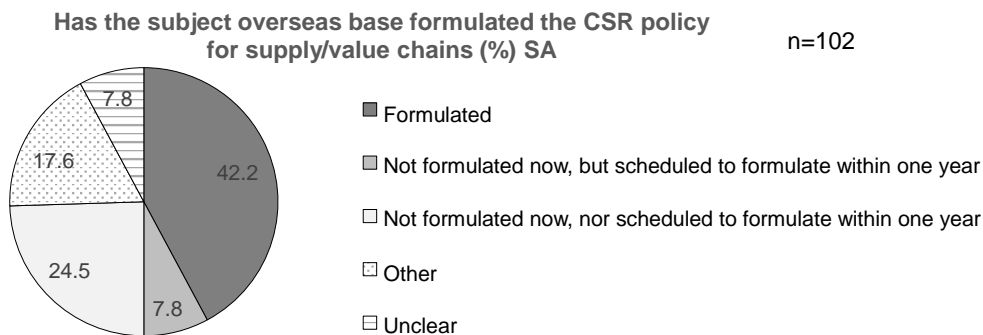
¹² Publication of cases by the 4th CSR Study Group on December 24, 2014 (Toyota Motor Corporation).

¹³ JAPIA is the industry group for automobile parts manufacturers. The total value of automobile parts shipped by member companies exceeded ¥18 trillion in FY2013.

¹⁴ At the time of the revision, the “Japan Automobile Manufacturers Association: Supplier CSR Guideline,” “CSR Policy of Automobile Manufacturers,” “Developments in International Standardization of CSR (ISO26000)” etc. were examined. The contents cover 8 major items including “safety/quality,” “human rights/labor,” “the environment,” and “compliance” as well as 30 detailed items. Moreover, it is intended to be utilized not only by member companies but also by the parts industry as a whole, including non-member companies, as the common tool to spread CSR to the supply chains. The 3rd CSR Study Group published cases on November 27, 2014. (JAPIA)

¹⁵ Its establishment was triggered by Patagonia and Walmart which cooperated in calling for promotion of supply chain sustainability in 2009. About 150 companies and groups— including apparel companies, retailers, suppliers, research institutions, government organizations—whose total sales exceed 40% of the world market participate. Participants from Japan include Asics, Teijin Frontier, Toray Industries, and Fast Retailing.
<http://www.apparelcoalition.org/> Presented at the 7th CSR Study Group on March 12, 2015. (Toray Industries, Inc.)

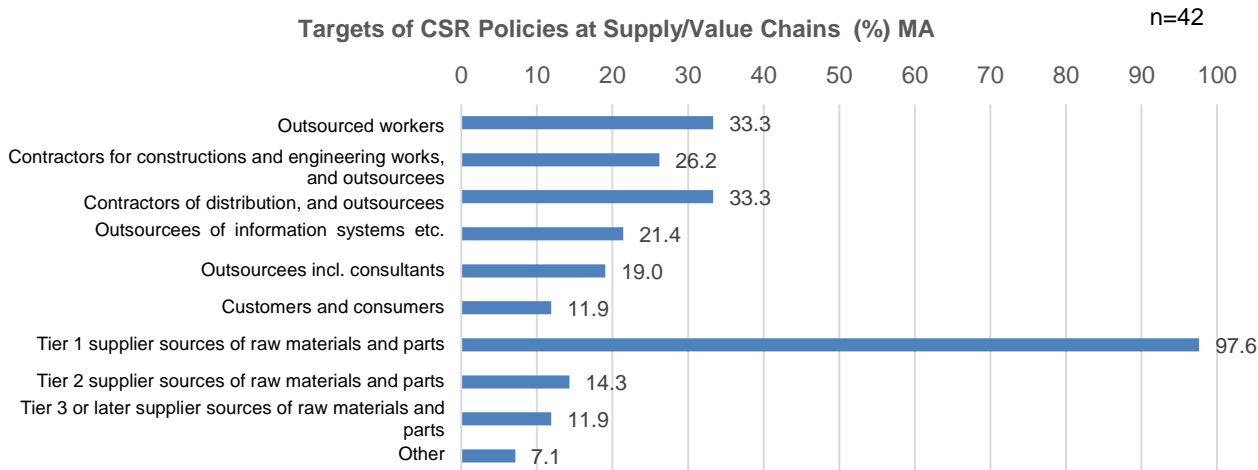
3.1 A little less than 50% (42.2%) have formulated supply chain policy specialized in CSR.



The following reply is an example of efforts made:

- ✓ Under the “Basic Policy on Group Purchase,” the “Supplier CSR Guideline” was formulated in FY2013, clarifying the necessary measures demanded of the suppliers in terms of CSR. It is intended to become the guideline for voluntary efforts by suppliers, in an effort of the company and suppliers to “learn together and become strong together” by sharing the sense of value and objectives, as well as to gain public trust through the collaboration. In FY2013, a tool for self-analysis by suppliers (Self-Assessment Questionnaire: SAQ) was established, and direct suppliers were asked to use it. It has been promoted as an activity for domestic group companies and overseas branches and partners, which encourage their suppliers to participate. Translation into local languages is in progress, with overseas companies adopting the process when translation is completed. [Food manufacturer]

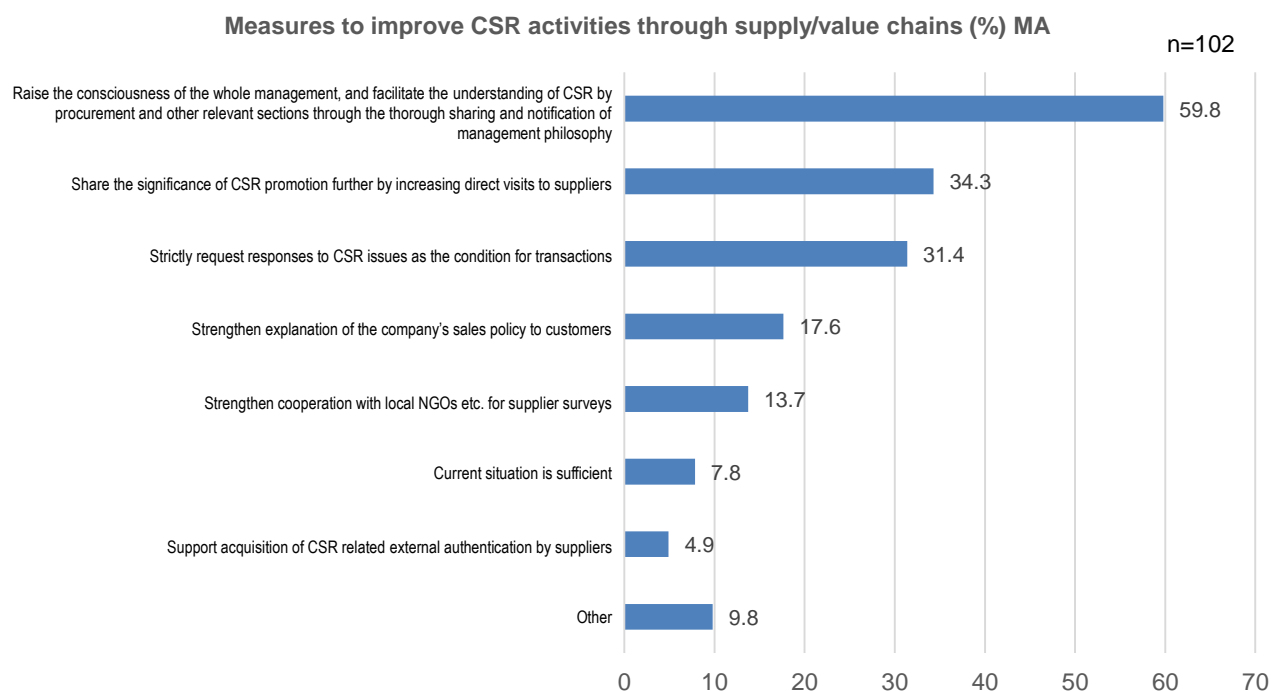
3.2 CSR policy is mainly targeted at tier 1 suppliers (97.6%). About 30% of outsourced workers are targeted (33.3%). Outside contractors are at a level of about 20-30% (19.0%~33.3%).



From interviews, the following is an example of the targets of CSR policies at supply/value chains:

- ✓ In FY2013, we notified approximately 4,000 suppliers (with which we had continuous transactions) about the “Supply Chain CSR Action Guideline”; and have notified all new suppliers since January 2015. The survey of the actual situation of supplier CSR (Self-assessment checklist) is conducted by each subsidiary for the selected target companies based on certain categories such as high risk countries, goods handled, and amount of money dealt with. In FY2013, 380 companies in total, including 25 suppliers to overseas bases were surveyed. The checklist is scheduled to be revised after 2015, taking into consideration ISO26000 and other factors. [Trading company]

3.3 Mainly focused on the promotion of company-wide understanding as a measure of CSR activities through supply/value chains (59.8%). A little more than 30% increased the number of visits (34.3%), and strictly demanded responses (31.4%).



The following examples were presented as ideas and policies for improvement in supply/value chains:

- ✓ Relationships with suppliers are based on “mutual trust/prosperity.” Suppliers are not simply purchasing counterparts, but also partners with which we create new technologies/values. We can promote more useful activities by supporting suppliers’ voluntary efforts in equal relationships. [Transport machinery manufacturer]
- ✓ By calling suppliers “partner companies”, we have established the cooperative relationship for achieving development with suppliers. Since the Great East Japan Earthquake, we have dispatched our staff to suppliers to support relocation of supplies from the coast to plateaus etc. in addition to having supported inspection of equipment. [Machinery manufacturer]
- ✓ Taking a long time to establish a trusting relationship with overseas bases and suppliers is typical of Japanese companies. While it takes time to diffuse the philosophy of Japanese companies, as time passes, it will become an activity based on the sites, resulting in steady improvement. [Materials manufacturer]

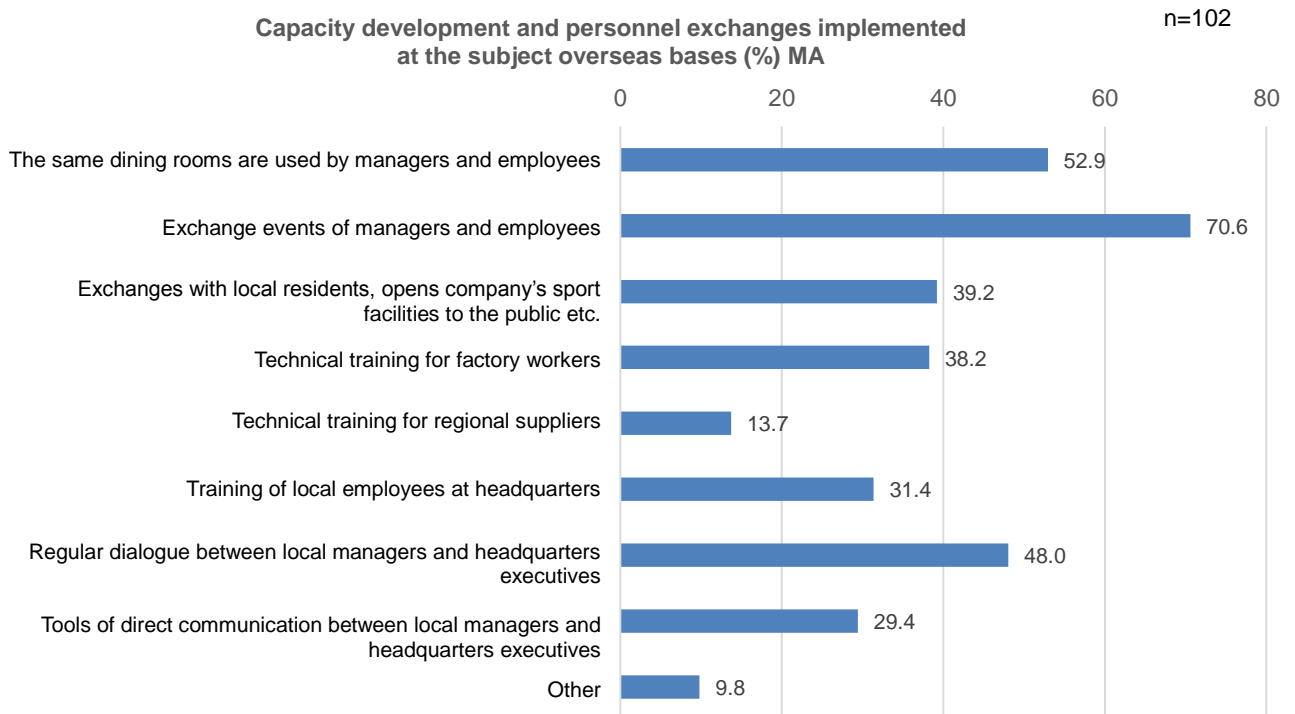
4 Envisaged characteristics of CSR management by Japanese companies

In the survey, the following were mentioned as characteristics Japanese companies recognized as CSR management (especially compared to those of overseas companies):

- ✓ Japanese companies have a long-term perspective in management, leading to a high affinity with CSR. Many companies in Japan have existed for more than 100 years, and can “see management and CSR from a long-term perspective.” On the other hand, for better or worse, Japanese companies are willing to “commit only to something they are certain to achieve.” Accordingly, they may commit to something in 10 years’ time but not in 2050 (ultralong-term). In contrast to U.S. and European companies which have the tendency to think that it is acceptable not to achieve their commitments if they are heading in the right direction, Japanese companies may have difficulties in adopting CSR which requires target-setting and concrete commitments. [Materials manufacturers]

- ✓ As examples of U.S. companies, some are showing Pro bono volunteer activities, taking advantage of their own characteristics. For example, there seem to be more cases where companies disclose in the CSR report the total amount of time spent on social contribution activities, by requesting their current and former employees to report the amount of time spent on volunteer activities. [Machinery manufacturer]
- ✓ Japanese consumers are more demanding when it comes to health and safety concerning food. As a result, the frameworks of traceability at Japanese food companies are thought to be more advanced than those of European companies. However, they may not be as sensitive as European companies to the relationship with NGOs. [Food manufacturer]
- ✓ We disagree that Japanese companies' CSR efforts are behind those of the U.S. and European companies, however insufficient disclosure of information on issues etc. may be the reason for their overseas impression of Japanese companies "not advancing CSR". [Trading company]

4.1 As the characteristics of Japanese companies' CSR management, capacity development and personnel exchanges with overseas bases are mentioned. In this research, about 70% (70.6%) of managers and employees replied that they had exchange events. A little less than 40% (38.2%) have technological training for factory workers, and more than 30% (31.4%) have training of local employees at headquarters



From interviews, the following examples were obtained as cases of capacity development at overseas bases:

- ✓ The company is listed and plays a central role among 3 companies in Thailand and is therefore sensitive to CSR. The local staff (Human Resources department) is also very capable, with several directors and division chiefs responsible for promoting CSR activities. The reason for the successful efforts seems to be the clear division of responsibility (for example, safety, labor administration, and training) between them. The system is implemented in all three companies, with such efforts as all companies using jointly developed training programs. The programs are left to the discretion of the local office with some activities promoted based on targets set in Thailand, and therefore they may not exactly correlate to the head office CSR Roadmap. [Materials manufacturer]

5 Challenges for CSR Management by Japanese Companies

In this section, analyses of the current situation are summarized by comparing good practices and challenges for Japanese companies which have emerged from the research results.

[CSR management system at overseas bases (Objective 1)]

- Regarding the CSR management system at overseas bases, in reality, there is no one right answer, as the case studies which vary greatly from company to company have shown.
- On the other hand, case studies show that virtuous cycles (Efforts have positive effects on stakeholders and management, which in turn invigorates the efforts) are generated in the following cases:

- ✓ When CSR is included in the management strategy of the whole company, and inseparable from the business.
- ✓ When human resource development at overseas bases is also conducted from the viewpoint of CSR.
- ✓ When conditions conducive to a company's own activities, including dialogue and exchanges with local stakeholders, are developed at overseas bases (the same treatment to acquired companies as well).

- On the other hand, the following cases show situations where vulnerabilities are recognized in the CSR management system, or effects on CSR or expansion to business activities utilizing such opportunities are not seen:
 - 20% of companies do not refer to CSR in their management strategy. In these companies, no CSR commitments are made by representatives at overseas bases. In such bases, they are not active in developing original CSR activities or disclosing information, or in exchanges with stakeholders.
 - 50% of companies stated that they have staff at overseas bases in charge of general CSR (including cases where CSR is not their main job focus). Many of the companies have noticed issues for human resources, including the lack of understanding and knowledge of employees on CSR at overseas bases.
 - 40% of companies do not engage in information exchanges on CSR outside the company at overseas bases, while 20% of companies do not disclose or disseminate information on CSR on any level at overseas bases. Among those which exchange information on CSR outside the company, 30% of companies only exchange information with other Japanese companies, whereas 20% of companies exchange with foreign companies and local companies. 47% of companies let overseas bases make decisions on the generation of new business through efforts on social issues.

[Efforts throughout supply/value chains (Objective 2)]

- As for the efforts throughout supply/value chains, case studies indicate that the following cases generate virtuous cycles, while there is no one right answer due to differing business models and conditions, situations of counterparts, etc:

- ✓ When effects of CSR efforts throughout supply/value chains are recognized in the procurement and marketing strategies of the whole company.
- ✓ When systems to enable close communications with local counterparts are established at overseas bases, providing opportunities to train and educate counterparts.

- Contrary to these, in the following cases, becoming vulnerable to issues in the supply/value chains, or being placed in a disadvantageous position compared to competitors with advanced efforts is likely:
 - About 60% of companies have not formulated policies to encourage their counterparts to engage in CSR. Even when such policies are in place, only about 20-30% of companies include them as targets for outside

- contractors/consignees or outsourced workers.
- 50% of companies leave the substantial decision making in terms of understanding the situation and making improvements to CSR in supply locations to overseas bases. Not many companies encourage overseas bases to engage in establishing relationships with suppliers to improve CSR, with only 10 or fewer companies (out of 102 companies) conducting respective activities of audits, briefings, or training on CSR for suppliers at overseas bases.
 - It is understood by the case study that even if they are in place, CSR procurement policies of Japanese companies tend to have the characteristics of measures to support and promote the voluntary efforts of counterparts. This case study suggests that taking the time to establish CSR philosophy and encourage efforts at partner locations will be effective in having an actual impact. At the moment, however, this impact does not seem to be widely recognized by outside stakeholders (NGOs, corporate evaluation organizations, shareholders, etc.).

III Approach to CSR Management by Japanese Companies (Recommendations)

1 CSR Management Systems Overseas

1.1 Management Exercises strong leadership (Integrated in the management strategy)

It is recommended that top management understand the international discussions on CSR, and incorporate the question “What are the social responsibilities of the company?” not as a matter of common sense but as the reason for the company’s global management strategy, and announce it internally and externally.

If companies ignore their social responsibilities, they may not be able to survive in the near future. It is the manager who plays the most important role here, and whose leadership is critical.

1.2 Develop human resources for both representatives and staff at overseas bases

Developing human resources who can overcome various differences (in legal systems, infrastructure, communications, etc.) inside and outside of the country, propose CSR policies and improvements of company-wide targets and execute them, while considering the actual conditions of overseas business activities is recommended. At overseas bases, the head office is expected to conduct awareness-raising and education for local representatives, so that they can understand CSR and develop relationships with local stakeholders through dialogue.

1.3 Head office should actively support efforts of local staff at overseas bases and discoveries of opportunities which can contribute to solving social issues

It is recommended that the head office clearly demonstrate a stance of encouraging internal, voluntary efforts at overseas bases as part of the CSR management system. Going forward, under the strong leadership of top management, the head office should support the development of an environment in which representatives of overseas bases can act voluntarily and take initiative.

In Asia, the role which should be played by companies in solving social issues is bigger than ever. Accordingly, proactive CSR will lead to the creation of new business opportunities if local initiatives are respected and locally-based discovery and solutions to issues are promoted. As a matter of course, in order to achieve this, dialogue with local stakeholders must increase.

2 Promotion of CST in Supply/Value Chains

2.1 Promote voluntary efforts throughout supply/value chains, and aim to respond with the whole company including sections for procurement etc.

We strongly encourage companies to formulate and operate policies which facilitate development of CSR initiatives through decision-making on procurement, purchasing, contracts, etc. To achieve this, CSR initiatives need to be incorporated as important factors in procurement operations. Moreover, from the viewpoint of anticorruption, etc., it is important to increase awareness of CSR initiatives among staff in charge of the value-chain related departments such as customer representatives.

2.2 Further strengthen dialogue and cooperation with the outside

It has become widely seen that both procuring and supplying companies are trying to benefit by conducting audits in cooperation not simply with individual companies but the whole industry and international organizations and NGOs. It is recommended that companies continuously encourage such a trend. Regardless of whether on the procurement or supply side, companies are expected to cooperate within the industry and across industries to avoid being overtaken by other companies. In the processes of cooperation, dialogue with international organizations and NGOs are also of importance.

Governments and industry groups especially will play much larger roles. For example, industry groups are expected to increase their commitment by having professional expertise not only related to issues in supply/value chains but in relation to all CSR issues.

2.3 Take specific actions overseas as well to develop a “long-term relationship of trust”

Throughout this research, quite a few respondents said: Japanese companies “take the stance of respecting voluntary actions by counterparties and are good at developing long-term relationships of trust”. It is recommended to further promote this image, as this could be thought of as a particular strength of Japanese companies. Going forward, we also expect that value creation (better quality, cost reduction, etc.) through the development of long-term relationships of trust will occur overseas.

3 Dialogue and Communication of CSR by Japanese Companies

3.1 Active communication of best practices by Japanese companies

We are in the opinion that individual companies should communicate information on the themes (environment and safety) and methods (development of long-term relationships of trust with counterparties) that Japanese companies themselves recognize as their strengths. When doing so, however, specific examples and data need to be utilized in order to convince the audience of the value of these factors.

3.2 Clarification of impacts of long-term efforts on management

We would like to recommend that companies disclose and communicate the results of their CSR efforts with stakeholders and corporate management, including quantitative and qualitative analysis.(or future results they would like to generate). If many Japanese companies regard development of long-term relationships of trust as their strength, they should explain more precisely the benefits of such relationships; for example, the average length of relationships with suppliers, and joint development and cost reduction achieved during such periods, etc.