

Trends in CSR Reports of Leading Japanese Firms (Fiscal 2012)

Use of ISO 26000 has spread, but strengthening the overall value chain, including supply chains, and more proactive communication with outside stakeholders remain issues.

Research/Writing:

Kayo Ito

Senior Staff

Sustainability Communication Group

Cre-en Inc.

Next year will mark a decade since what has been called the initial year of CSR in Japan in 2003. In 2007, the number of companies beginning to report on the environment and CSR exceeded 1,000; even after the so-called Lehman Shock of 2008 and the March 2011 Great East Japan Earthquake, the number of companies issuing reports has continued to edge up.

Given the strong yen and the expansion of markets in emerging nations, we saw many corporate leaders proudly proclaim that their companies were global in their 2011 fiscal reports. Viewing ISO 26000 (the guidance for organization's social responsibility issued in 2010) as a kind of global license for CSR, more companies could be seen utilizing ISO 26000 as a tool for inventorying their own CSR activities.

Overall, reports from Japanese companies have been in a maturation phase since about 2008. Nevertheless, corporate involvement in resolving issues arising at the upper end of the supply chain (in mines and on farms, at manufacturing sites in developing countries, etc.), including human rights and labor problems, and community issues such as infringement of the rights of local people, remains a work in progress. While among Japanese companies some have demonstrated progressive initiatives, it will likely take several years before these efforts overall can be raised to the next level.

The current survey targeted 77 companies, mostly previous award winners, out of reports from domestic and foreign firms published as of September 2012. Based on the survey results, we looked at trends found in six areas—(1) Communication Tools, (2) Global Awareness, (3) Governance/Management, (4) Society, (5) Environment, and (6) Stakeholder Engagement—and using examples from the companies in question, provided detailed commentary.

Communication Tools

One characteristic of CSR reports in the era since the collapse of Lehman Brothers has been that printed versions have grown thinner due to cost cutting, and in fiscal 2012, many companies were seen issuing printed pamphlets as summaries, while using the Web to provide more detailed disclosure of information. In some cases, companies have begun issuing reports capable of being viewed on smartphones. Nevertheless, among the companies covered by the current survey, approximately half (54%) positioned paper versions as their primary media, focusing on their printed reports in terms of both quality and volume, while 31% of the companies focused primarily on the Web.

The number of companies issuing combined/integrated reports edged up only slightly, and of the companies in the survey, numbering seven of 60 domestic and one of 17 foreign firms. Going forward, based on the release of The International Integrated Reporting Council (IIRC) and other guidelines, discussion within companies of the need to integrate sustainability reports with annual reports, etc., is expected to grow more active in light of companies' own needs and various social issues. As more companies use cost cutting as a reason for moving toward combined/integrated reports, some believe that it is vital to carefully determine the weight of sustainability reports aimed at multiple stakeholders. Which format a company chooses will be based on an overall determination that takes into account corporate risk management and other issues, but it should be noted that upon internal discussion, a large number of companies have chosen not to adopt the combined report format.

Under these circumstances, one major pharmaceutical company, rather than omitting the sustainability report from its integrated report, actually leads off with a commentary on the position of sustainability in the company. It should also be commended for its proactive involvement in development of international frameworks and rule-making. And while it isn't a combined/integrated report, another major IT equipment manufacturer includes in its CSR report an explanation of the kinds of value it delivers to each of its stakeholders through its business, successfully conveying its integration of business and CSR.

Global Awareness

Of the various CSR activities behind these reports, we would like to focus now on global issues, such as listing of global staffing, and on levels of management based on ISO 26000, which recently became a Japanese Industrial Standards (JIS).

As noted previously, many companies now proclaim themselves "global companies," but despite their stated efforts to actually expand their business at the global level, the proportion of companies listing the number of their offices and staff by global region remained at about 40%. This highlights the fact that even companies in which overseas revenue exceeds domestic sales do not have a firm grasp of the number of workers they employ at their global sites. Going forward, these companies should

probably treat understanding and disclosing this kind of minimal information as an urgent task.

With regards to ISO 26000, more than half of the Japanese companies covered by the current survey have begun to take some kind of action, and the survey revealed that companies which had already begun incorporating ISO 26000 in their actual CSR activities from fiscal 2011 are working to deepen those initiatives. Specifically, while there are still many companies at the initial stage of choosing an editing-driven report format that follows ISO 26000, or using an index-based format that displays key topics along with the page numbers that address them, we also saw a number of companies that have begun the work of inventorying their own CSR activities using ISO 26000 as a benchmark and identifying issues.

Two reports that most effectively reflect this kind of global awareness come from a major beverage manufacturer and a major household electronics company. The former has a strong awareness of globalization, has positioned ISO 26000 at the core of its efforts to promote CSR, and is working to strengthen its CSR management through a series of dialogues with experts on each of ISO 26000's core subjects. The latter reports on its initiatives not from a "foreign vs. domestic" viewpoint, but based on a stance that looks at regions around the world. For example, in its section on performance, the company follows its description of performance in Japan with a parallel listing of initiatives in Europe, the U.S., China and Asia-Pacific, comparing favorably with reporting methods used by companies overseas.

Governance/Management

Key themes in this area are wide-ranging, from management commitment, status of disclosure of the materiality selection process, and the links between business strategy and CSR, to supply chain management and business continuity planning (BCP).

Management commitment focuses on how well a company integrates business strategy with CSR strategy, and how top management tells that story in its own words. While a willingness to engage in this process comes across, in actuality only a handful of companies clearly position CSR within the context of their mid-term management plans. Among these were a major manufacturer of food products and a major home electronics manufacturer.

One of the other areas showing marked activity in recent years is the strengthening of supply chain management (SCM). The survey showed that not only are companies establishing and disclosing procurement policies, but the speed at which efforts are evolving to conduct CSR procurement audits and disclose the results is steadily increasing. Behind this acceleration are the check functions provided by NPOs and the expansion of networking capabilities with the front lines of the upstream portion of the supply chain. Among Japanese companies, food companies, clothing manufacturers, residential builders and—in this Olympic year—sporting goods

manufacturers have borne the brunt of this. In addition, the OECD has established national contact points (NCPs), or hotlines in each region, and some Japanese companies have been forced to respond to accusations of human rights violations received by these hotlines. Going forward, these kinds of check functions will be further strengthened, and companies will likely be forced to strengthen SCM as a part of risk management.

Companies overseas offer many examples in which a dialogue with NPOs was initiated early on, and these can serve as a reference for Japanese firms.

Society

We also conducted research in the area of human rights, diversity, security and regional/social contributions. While it was predicted that this year in particular, the number of statements addressing the aging society—a key issue in Japan—would rise, no marked increase was seen aside from a clear commitment by a major hygiene products manufacturer to “contribute to a super-aging society through toileting care,” and a description by a major home builder of its residential designs for seniors. This year also saw particular attention paid to disclosure of anti-radiation measures and radiation-related information, but in fact contrary to expectations, only a handful of companies made such disclosures in their reports.

With regards to human rights, most companies went no further than reporting on internal training held to cover the various issues related to human rights. Issues of human rights and labor were expressed in conservative terms reflecting individual steps forward based on each company’s understanding of its current conditions, which tells us something about the tendency of Japanese companies to disclose only what has actually been accomplished.

With regards to diversity, we got the sense that many Japanese companies are beginning, through internal training and other means, to touch on the essentials of and need for diversity management. Along with the human rights initiatives noted above, we hope that Japanese companies will engage in efforts to promote more substantive activities going forward.

In terms of regional contributions that take advantage of firms’ core businesses, as expected, many companies reported on their support for efforts to recover from the March 2011 earthquake. Immediately following the disaster, employees at one major transport company, visited the homes of the elderly to make deliveries and pick-ups of their own accord. The company then decided to donate 10 yen for every home delivery parcel, eventually donating 14.2 million yen, an amount equivalent to 40% of net profit; these activities also received outside recognition. Another piece of news still fresh in our memory—though not directly related to the CSR reports—concerned a restaurant chain that actually moved its head office to Ishinomaki, Iwate Prefecture, in an effort to use job creation as the foundation for supporting disaster recovery in the Tohoku region.

What many stakeholders want is not just simple philanthropy, but something only that company can accomplish—actions benefitting society that take advantage of a particular company’s distinctive characteristics.

Environment

With regards to the environment, we would like to focus on environmental management, GHG management, Scope 3 and water management.

In particular, we focused on whether any companies had implemented revisions to their mid- to long-term CO₂ emissions scenarios given the impact of the Great East Japan Earthquake, but in their reports for fiscal 2012, all of the companies left in place the assumptions they had established prior to the disaster. Japanese companies may need a reprieve until debate about Japan’s dependence on nuclear power has matured further, and the government establishes its energy scenario for 2050, before they will reevaluate their own emissions scenarios.

At the same time, more proactive movement was seen among several companies with regards to Scope 3. One major marine transport company, asked by a consigner to disclose information subject to Scope 3, made public its base unit for CO₂ emission volumes and set up a section on its website to provide simple CO₂ calculations for its own cargo ships and air cargo, enabling the consigner to estimate CO₂ emission volumes for shipping overall.

In biodiversity, approximately half of the companies reported some kind of initiative. Going forward, we foresee a polarization in this area, between industries with deep ties to biodiversity (such as the construction and pharmaceutical industries), and those less dependent on it. The former will promote management in areas close to their core businesses, while the latter will focus more on initiatives as part of their social action programs.

The issue of water management is one in which corporate initiatives face high expectations internationally, at the United Nations and elsewhere, but we got the sense that most Japanese companies have yet to begin addressing the issue. That said, one beverage manufacturer has for some time clearly outlined its management of upstream water sources, for which it has been highly commended. At the same time, a major overseas food and beverage manufacturer titled its report “Meeting the global water challenge,” implementing water management measures not only with regard to sources, but across all so-called watersheds, a broader, more advanced level of activity.

One notable trend in 2012 following the Great East Japan Earthquake is that the ICT and energy industries, among others, have begun working toward putting in place smart infrastructure and making more aggressive use of natural energy. We gained the impression that the concept of the smart grid, the subject of some attention prior to the disaster, has achieved greater practicality and resulted in more complex, cross-industry collaboration since the earthquake. For example, the Japanese subsidiary

of one global computer-related firm reported on individual dialogues it held with the mayors of Kitakyushu, Sendai and Ishinomaki, under the “Smarter Planet” corporate vision inherited from the head office. Other notable examples include the Smart City/Smart Community efforts of Japan’s leading electronics manufacturers; the Smart Energy Network being developed by a gas company; and the plan announced by one oil company to switch its business to solar energy. Further, in connection with these efforts, the chairman of one housing manufacturer leads off with a vision for reconstruction in the disaster-stricken regions that calls for building a low-carbon model city. This measure can be commended for both taking advantage of the company’s core business, and working to resolve a social issue.

Stakeholder Engagement

One example of a company that proactively implements dialogue with its stakeholders—the backbone of CSR—and reflects those discussions in its own CSR activities, is a major copier manufacturer. Each year, the company selects materiality based on a survey of its stakeholders, and includes messages from stakeholders in reporting on its actual efforts, a proactive approach to outside communication that should be commended. Another major manufacturer of home electronics held a dialogue with nine NPO members concerning ISO 26000, and includes statements of opinion from those NPOs in its report in the form of a stakeholder review. A major tire manufacturer not only conducts dialogues at the community level, but provides reports on how it responded to issues pointed out by stakeholders, clearly conveying the sincerity of its efforts.

In Closing

This survey focused on a group of companies considered to be at the forefront of CSR in Japan, and as a result, we were very pleased to discover so many instances of extremely positive efforts in areas such as ISO 26000 and the recovery from the Great East Japan Earthquake. At the same time, while many companies have made progress in and improved disclosure regarding their efforts to strengthen supply chain management—an area in which demands from stakeholders are expected to grow going forward, particularly in the upstream segment of the supply chain—NPOs and others are also enhancing their check functions, and as before, companies must remain vigilant. In the same way, the reports also revealed that many Japanese companies have yet to fully embrace human rights and labor as real issues.

From the viewpoint of risk management, as well, we look forward to Japanese companies taking a proactive approach to implementing communication and dialogue with NPOs and other outside parties. Rather than downplaying or viewing NPOs with hostility, by engaging them as partners in dialogue, companies can avoid unnecessary boycotts, suits, and other actions. Many examples of such successes can be found

among companies overseas. We continue to hope that by boldly addressing and overcoming these issues, Japanese firms will be able to take their place in the world as truly global companies.

(END)