

Research report on international strategies of CSR towards
strengthening Japanese companies' competitiveness

(Summary)

-Based on the laws and regulations
governing CSR in emerging countries (in Asia) -

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Introduction

In examining recent international trends surrounding CSR, it is evident that laws and regulations as well as guidelines and other frameworks by public agencies have developed rapidly (in the last five or six years) mainly in Europe and the US, and that global standards are about to be established accordingly. At the same time, efforts for CSR in supply chains are steadily gaining attention.

Meanwhile, emerging nations, mainly in Asia, are beginning active engagement in CSR. However, the reasons for obstacles faced by some Japanese companies when dealing with CSR overseas in their host countries are not always made clear. Some Asian countries have their own CSR issues due to differences with foreign counterparts in terms of historical background, culture, religion, and economic disparities. Japanese companies need to appropriately deal with those CSR issues unique to each country as well as act in line with the global frameworks in order to effectively realize global management of CSR.

This study examines and proposes international strategies concerning CSR taking into account both government policies and corporate strategies, towards strengthening the competitiveness of Japanese companies. Research on focused on regulatory trends related to CSR in Europe and the US as well as emerging economies (in Asia), and challenges faced and efforts made in those developing Asian countries.

Chapter I: Regulatory trends related to CSR in Europe, the US and emerging countries (in Asia)

1.1 Objectives and scope of the study on CSR-related regulations

In Japan, companies began full-scale efforts for CSR in 2003. Since around 2010, global frameworks concerning CSR have steadily continued to be developed and/or reviewed, and Japanese companies are quickly responding to those frameworks accordingly. In the meantime, countries are also actively developing more comprehensive CSR-related laws and regulations as well as guidelines based on global frameworks.

Examples of global frameworks concerning CSR (Reference)

- Sustainable Development Goals (SDGs) – a 2030 agenda for sustainable development

- UN's Guiding Principles on Business and Human Rights
- UN Global Compact
- OECD Guidelines for Multinational Enterprises
- OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas
- ISO 26000:2010 Guidance on social responsibility
- ISO 20400 Sustainable procurement (Under development)
- Global Reporting Initiative (GRI) G4 Guidelines (Scheduled to be revised from guidelines to standards)
- International Integrated Reporting Council (IIRC) Integrated Reporting Framework

This Chapter studied major laws concerning CSR in emerging countries (in Asia), standards and guidelines of public agencies and private sectors, and other de facto restrictions, and analyzed the overall trends.

The scope of the study is mostly limited to the following important CSR issues that have been showing new signs of moving forward in recent years, and have also been featured in research reports published by the CSR Forum Japan in the past few years. Therefore, readers should be advised that this study is not necessarily comprehensive.

- Laws and regulations related to overall corporate management as specified in the Companies Act, etc.
- Laws and regulations highly relevant to information disclosures, supply chains, and human rights

Research was conducted for five emerging countries, that is, India, Indonesia, Thailand, Myanmar, and China, as well as the EU and the US which were treated as benchmark countries.

1.2 Characteristics of regulations, etc., governing CSR

Based on results obtained through 1.1, this Chapter identified the characteristics common to multiple countries.

Characteristic 1: Development of fundamental laws for CSR-related issues in individual emerging countries

The development of environmental laws (environmental assessment, emission standards for

pollutants, etc.) and labor laws (working hours, minimum wages, work safety, etc.), which Europe and the US are almost fully equipped with, is also under way in developing countries. However, the degree of regulatory development is fairly proportional to the level of development of the respective emerging economy, and achieving a satisfactory level of regulation is still far in the future. Therefore, companies doing business in those developing countries must both properly understand and respect local laws and regulations but also be aware of global CSR frameworks and local social norms (including culture, religion, and traditions).

Characteristic 2: Emerging countries impose legal CSR obligations on corporations

Some countries have introduced regulations that require companies to invest a certain percentage of their profits in CSR-related activities (including programs and charitable donations). Other countries impose a value-added tax for the same purpose. Regulations tend to target natural resources businesses that have a huge impact on society and the environment, but in some cases they are only imposed on national enterprises because those businesses are easily controlled.

Apart from regulations, many emerging nations have adopted CSR guidelines and national standards as well in order to drive the promotion of CSR efforts.

Characteristic 3: Extraterritorial application of laws to emerging countries to prevent bribery, etc.

Since bribery and unfair competition greatly impede the implementation of fair business, many countries around the world have regulations prohibiting such actions. However, it is a fact that bribery has long been a part of commercial customs, especially in certain emerging countries, which in some cases creates disadvantages for foreign businesses because they are legally forbidden from engaging in these practices even when outside Japan and may face prosecution if they do.

In this regard, the UK and the US have adopted certain legal restrictions that include the idea of extraterritorial application, thereby imposing certain control on bribery in developing countries.

Characteristic 4: Due diligence in supply chains expanding into emerging countries

Laws and regulations that have been introduced in Europe and the US in recent years increasingly demand that global companies do due diligence on supply chains. These legal measures are meant to prevent global companies from being involved in human rights violations

and environmental destruction through their supply chains, and target a range of areas, including wood, conflict minerals, and human rights concerning slavery, human trafficking, etc.

Today, as supply chains have expanded globally, it is extremely difficult for any company to deal with these regulations alone. Therefore, there is an increasing demand in coordination and cooperation on an international level in industries that share supply chains.

Characteristic 5: Making information disclosure concerning CSR compulsory

In many countries, rules that require large companies and listed corporations to report on CSR (non-financial information) are becoming common, in the form of laws or listing requirements for stock exchanges. At the same time, rules such as stewardship codes and corporate governance codes, which have already been introduced in Japan, are also being established in many countries, thereby influencing how corporations disclose information. This is arguably a worldwide trend, present in both developed and emerging countries. Mandatory reports are largely divided into two types: one containing comprehensive information related to CSR as a whole and another specializing in due diligence concerning conflict minerals and human trafficking featured in Characteristic 4.

Chapter II: Company efforts and obstacles faced in emerging countries (in Asia)

This Chapter conducted research in the form of interviews and literature reviews etc., in order to determine the actual conditions of obstacles that companies are facing in emerging Asian countries, and efforts to deal with them. The study covered 11 companies from Japan and six (including local subsidiaries of multinationals) from emerging countries (China, India, Indonesia, Thailand, and Myanmar) and South Korea. These companies were selected based on evaluations from various CSR ranking systems and their level of market capitalization.

Companies covered in this study are as follows:

- Interviews (seven companies)
Bridgestone Corporation, Saraya Co., Ltd., Sumitomo Metal Mining Co., Ltd., OMRON Corporation, Mitsubishi Corporation, Sumitomo Forestry Co., Ltd., ANA Holdings Inc.
- Literature review (six companies)
Tata Consultancy Services, PT. Unilever Indonesia Tbk., Siam Cement Public Company Limited, Serge Pun & Associates Ltd., LG Electronics Incorporated, Alibaba Group Holdings Limited
- CSR Forum Japan participants (four companies)

2.1 Obstacles to promoting CSR in emerging countries

The following summarizes obstacles common to multiple countries and companies.

Obstacle 1: Difficulties in obtaining reliable information on laws and regulations in emerging countries

Some companies have pointed out difficulties in obtaining information on regulatory trends and social issues in emerging countries in a timely and continual manner. Sending staff with a thorough knowledge of CSR issues to every developing country is not an easy option for all the companies, and directly accessing information on the host countries from headquarters is also unreliable. If necessary information cannot be obtained, companies may not be able to appropriately deal with regulations, which could lead to violations.

Obstacle 2: Difficulties in understanding ideas and cultural backgrounds of emerging countries.

Even if it becomes possible to obtain information on regulations, cultural mindset and views on legal systems may be quite unique to each emerging country. Thus, it is hard to achieve a proper understanding by looking at them from the perspectives of Japanese or global standards. As well, if CSR activities are only led by the headquarters without understanding societal political issues in the host countries, companies may not be able to achieve the intended effects or objectives of the efforts.

Obstacle 3: Risk of not complying with regulations applied extraterritorially

Even if companies respect laws and regulations of emerging countries, actions considered acceptable in view of the local commercial customs may violate European or US regulations applied extraterritorially. Since such violation could lead to huge financial sanctions in some cases, companies may put their entire business at a management-level risk if the local staff is not well informed.

Obstacle 4: Limitations of local response

If problems concerning CSR or human rights arise in supply chains in emerging countries, companies need to deal with them based on global frameworks. Global companies need to be aware that responding to such problems based only on local—often lax--regulations could put their reputation at risk.

Obstacle 5: Difficulties in communication between headquarters and local subsidiaries

It is difficult to properly deal with the above Challenges 1 to 4 if communication between the headquarters and local subsidiaries is not clear. In cases where headquarters fail to get involved in CSR management on a continual basis, companies may not be able to discover sources of risk or respond to them in a timely manner.

Obstacle 6: Difficulties in turning societal issues into business opportunities

From the perspective of improving corporate value, it is fairly important to turn societal issues into business opportunities. However, this is difficult to achieve if companies are not successful in identifying those issues, selecting local partners such as NGOs, or developing or introducing new business models.

2.2 The state of company efforts

Leading companies have tried to overcome the obstacles covered in 2.1 through a variety of efforts. The following summarizes characteristics of superb efforts commonly found in multiple companies through the interviews and literature reviews, presented together with specific cases of companies.

Effort 1: Implementation of global management based on philosophy

Most of the leading companies that this study targeted place a high value on management philosophy. This is because operating a large corporation requires a corporate philosophy that is designed to create common values and serve as a guideline for the entire workforce. In some cases, however, overseas employees who have different values have a hard time understanding a corporate philosophy despite its treasured status in the home country.

For this reason, some companies adjust their corporate philosophy to cope with overseas expansion, and at the same time aim to integrate CSR with their corporate philosophy in a more overt manner.

- ***Bridgestone Corporation*** makes sure that companies that have become consolidated subsidiaries of the Bridgestone Group through M&A respect their own corporate culture while sharing the Group's corporate philosophy and policies, so that they can both incorporate and establish views on CSR.
- ***OMRON Corporation*** adjusted its corporate philosophy in May 2015. Following the

original philosophy of the company's founder that "Business should create value for society through its key practices," the new corporate philosophy was developed by making the previous corporate philosophy (established in 2006) easier to understand and more practical in light of globalization and future sustainable development. The chairman led the corporate philosophy revision project, consisting of eight months of in-house discussions to create the new corporate philosophy. Heads of the overseas bases (the Americas, Europe, Singapore, and China) also participated in the discussions. The Chairman himself travelled to the world headquarters in Chicago (the Americas), Amsterdam (Europe), Shanghai (China), Bangkok (Asia), and other places, where he gave speeches to the local management and exchanged opinions with them to personally communicate the revised corporate philosophy in his own words to the Group companies in various parts of the world. The company views the CSR department's role in the company to globally communicate the revised corporate philosophy and collect and incorporate ideas from subsidiaries worldwide as important.

- ***Mitsubishi Corporation*** and its Group respect "The Three Corporate Principles: Corporate Responsibility to Society, Integrity and Fairness, and Global Understanding through Business" as their management philosophy, which was originally established as action guidelines by the former Mitsubishi Corporation before the war in 1934. The company views "Corporate Responsibility to Society," in particular, as an idea closely related to what is today known as CSR, and, accordingly, highly values contributions to society. The company has developed management strategies that aim to increase corporate value on a continual basis from the triple bottom lines of economic value, social value, and environmental value.

Effort 2: Active involvement of top management

One of the factors commonly found in companies that are making advanced CSR efforts is the active involvement of top management.

In general, when companies undertake activities overseas, they tend to place a priority on establishing business. As a result, CSR measures including response to local regulations take a back seat in some cases. On the other hand, in the case of some leading companies, the top managers themselves visit subsidiaries across the world and directly communicate management principles and CSR practices to the local branches and companies they have taken over, as seen in Effort 1.

- **Bridgestone Corporation** has appointed the headquarters CEO as Chairman of the Integrated CSR Enhancement Committee (launched in 2007) and established “22 CSR Focus Points” to serve as a Group-wide “common language”. The Global Management Platform (GMP), which is responsible for pursuing activities in each focus area, then indicates a basic direction for the Group's initiatives based on that approach. Strategic Business Units (SBUs) translate that direction into action after taking into account specific circumstances and conditions in individual countries.
- **Saraya. Co. Ltd.** works with various organizations including NGOs when choosing social issues for the company to work on. With the perspective of how its products could be applied to problems and contribute to society, the company continues to discuss possible approaches to connecting its CSR activities with business opportunities to make them sustainable. (...) Top managers themselves visit sites, hear from locals, choose issues, and ensure that the necessary actions are taken smoothly, which is a key characteristic of the company.
- At **OMRON Corporation**, the President himself visits and has dialogues with stakeholders for the company’s IR activities, which is well received by overseas investors. (...) With its integrated report highly regarded by various quarters, the company is making further efforts in disclosure and accountability by being more aware that non-financial information is greatly tied to the financial situation of the company.
- **Panasonic Corporation** places a high value on “developing the local workforce” and the active involvement of leaders in the process. The company focused its efforts on that process after the recent acquisition of Anchor Electricals. However, forcing the Panasonic style on everything is not effective or positive. In that regard, it is important to incorporate the values of the local community into development and fully respect local employees for their accomplishments and future potential.

Effort 3: Coping with global standards

As pointed out in Characteristic 1: Development of fundamental laws for CSR-related issues of individual emerging countries, regulations and guidelines are not well developed in emerging countries. For this reason, companies in such countries tend to attempt to observe stricter global frameworks--especially in the field of information disclosure.

In today’s business world where supply chains are globalized, merely complying with domestic standards imposes practical limitations on activities. Therefore, effective supply chain management can only be realized by actively utilizing global frameworks.

As well, it is important to not only follow the global frameworks but also proactively get involved in their development process and make sure that they reflect your opinions.

- Long before discussion started in Thailand on information disclosure, corporate governance, corporate social responsibility, and environmental protection, *Siam Cement Public Company Limited* voluntarily started disclosing information on its advanced efforts regarding those issues. The company has also utilized an accounting method in accordance with International Accounting Standards since 1967. It became the first Thai company to develop and publicize a “code of conduct” in 1987 and has published a detailed fact book in addition to its annual report since 1990.
- *LG Electronics Incorporated* started a comprehensive risk management program for supply chains (production facilities) based on the EICC process in 2011, thereby enhancing the CSR capabilities of its business partners in South Korea and other countries with potential risks. (...) The company classifies business partners based on risk assessments, encourages them to make improvements, checks if they maintain improvement at a certain level, and continues to provide support and monitoring for them in order to fulfill its social responsibilities.
- *Sumitomo Metal Mining Co., Ltd.* (...) has announced assistance for The Extractive Industries Transparency Initiative (EITI), and its CSR policies reflect 10 principles established in the International Council on Mining and Metals (ICMM). ICMM member companies officially promise to implement the “ICMM Sustainable Development Framework,” made up of three elements: 10 principles, public reporting, and independent assurance, based on which the company issues a report in accordance with GRI guidelines, and provides third-party verification.
- *ANA Holdings Inc.* intends to further enhance PDCA functions in all the Group companies based on the voices of stakeholders obtained through various forms of communication while implementing “Medium-term CSR policies” developed in accordance with global social norms including the UN global compact and ISO26000.

Effort 4: Active employment and development of overseas human resources

As part of efforts including those for dealing with regulations overseas, active employment of overseas human resources is also regarded as highly important. As understanding of local laws and regulations as well as social issues is required in many cases, training local staff in this expert knowledge and assigning them to the problem is considered effective. Some companies have even launched efforts such as providing opportunities for overseas staff to be engaged in the work of headquarters divisions for certain periods. Such efforts are also considered effective

in disseminating corporate philosophy.

In some advanced cases related to global management, companies established a global team from both the headquarters staff and overseas branches when developing their corporate philosophy and CSR policies.

- At **Bridgestone Corporation**, SBUs (Strategic Business Units) and overseas bases take into account laws and regulations as well as the societal issues of host countries and then make CSR efforts based on instructions from Japan on each of the “22 CSR Focus Points.” Especially when implementing societal actions, the company respects local needs because there are different societal issues in different areas. For example, in Indonesia, the company provides assistance to small-scale rubber farmers to increase production while in Costa Rica they collect tires to prevent the spread of dengue fever (which prevents mosquitoes from laying eggs).
- At **Mitsubishi Corporation**, Tokyo, London, and New York are its three biggest CSR bases, which, by working with other smaller bases in Singapore, Melbourne, and China, provide CSR management and maintain dialogue with local communities and NGOs.
- While UI (**PT. Unilever Indonesia Tbk.**), a Unilever company, follows the instructions of the headquarters in terms of the overall policies and frameworks, it decides on specific measures for implementation and individual projects and programs. For example, UI has run the development program for black soybean farmers, and contributed to the RSPO (Roundtable on Sustainable Palm Oil) and assistance to Waste Bank activities in Balikpapan City.

Effort 5: Active involvement in supply chains

As described in Characteristic 4: Due diligence in supply chains expanding into emerging countries, dealing with CSR in supply chains is an immediate challenge for companies that have supply chains, especially in Asia.

Although the importance of CSR in supply chains is well understood, it is a challenge that is not easy to address due to costs. Companies that are making advanced efforts usually have adopted methods such as written surveys and monitoring of suppliers to deal with regulations and risks.

- **Saraya Co., Ltd.** endorses the objectives of the Green Purchasing Network (GPN) and aims to develop a sustainable society through participation in Osaka GPN and research on ethical purchasing and CSR procurement.

- **Sumitomo Forestry Co., Ltd.** established its “Timber Procurement Philosophy” and “Timber Procurement Policy” in 2007 (which evolved into “Sumitomo Forestry Group Procurement Policy” in July 2015), only obtaining timber from forests or plantations that are confirmed to be legal and managed appropriately under the cooperation of its business partners. As forested areas in the world continue to decline because of illegal logging and excessive slash and burn agriculture, laws and regulations are being tightened in many countries to eliminate illegally procured timber from the market. Doing business in wood, the company has established a philosophy and a policy concerning timber procurement, based on which it has drawn up a “timber procurement plan” as specific behavioral objectives every three years, thereby promoting sustainable timber procurement, which also takes into account its supply chains. The company is managing targets and the progress of efforts based on its CSR medium-term plan whose target year is FY2020.
- **Siam Cement Public Company Limited** is developing subcontractors through the “Greening the Supply Chain” project. To promote procurement with a reduced impact on the environment, this project only allows the use of products and services that are certified with the “Green Label” or meet the standards of the SCG Green Procurement Committee. The standards include compliance with laws, efficient usage of energy and natural resources, quality management, and waste control. SCG develops subcontractors, provides them with consultation services, and motivates them to develop their own environmental management systems. The company also promotes safety and hygiene at its partner business locations through the SCG Contractor Safety Certification System. Through this certification system SCG aims to improve safety and hygiene at partner business locations by providing them with advice, knowledge, and performance evaluation.
- **LG Electronics Incorporated** launched a comprehensive risk management program for supply chains (production facilities) based on the EICC process in 2011, thereby enhancing the CSR capabilities of its business partners in South Korea and other countries with potential risk. The CSR risk management program for 4,000 manufacturers (suppliers) consists of four steps. Through the program, the company classifies business partners based on risk assessments, encourages them to make improvements, verifies if they maintain improvement at a certain level, and continues to provide support and monitoring for them in order to fulfill its social responsibilities. In 2013, the company also introduced the CSR perspectives into the evaluation process for new suppliers. Before contracts are completed with new suppliers, the enhanced screening process not only evaluates payment terms, but secures the necessary materials (mechanism), and confirms compliance on important issues concerning HR (human rights) and ESH (environment, safety, and health) during factory inspections. Since 2014, the company has introduced a CSR performance index with

quarterly evaluations of existing suppliers and provides incentives to suppliers with excellent performance in the field of CSR.

- To enhance CSR procurement, *Panasonic Corporation* asks its parts suppliers to implement self-inspections and conduct risk assessments, based on which it interviews and inspects the suppliers as needed. If any problems remain after some improvement efforts are made, the company conducts additional checks and provides further instructions, thereby carrying out PDCA.

Effort 6: Focus on societal issues

As part of CSR activities, quite a few leading companies in Asia are focusing on corporate citizenship that contributes to society, and charitable activities are also implemented through corporate foundations. As discussed in Characteristic 2 (Emerging countries impose legal CSR obligations on corporations), some countries are making CSR activities mandatory and therefore, corporate citizenship activities that may not necessarily contribute to the main business are still considered important.

In the meantime, it is hoped that accurately identifying and focusing on the significant societal issues of each country and region is gaining importance. In developed countries, aggressive efforts to view societal issues as new business opportunities are becoming popular.

To be able to identify the right societal issues to work on, companies need to know the reality from the perspective of local human resources. In addition, many successful cases suggest the benefits of actively involving local NGOs when developing business models.

- Cotton farmers in India are currently facing four problems: 1) health hazards (spreading agricultural chemicals and pesticides with bare hands); 2) poverty (borrowing money to purchase agricultural chemicals); 3) environmental pollution (agricultural chemicals flowing into water systems); and 4) obstacles to making shifts to organic cultivation (a three year process, etc.). To solve these problems, *ITOCHU Corporation* has launched the Pre-organic Cotton Program. If conventional farmers, who currently suffer from poverty or health effects, can turn themselves into organic cotton farmers, it is likely that these problems can be solved. However, to make that happen, there are various conditions which must be met, including a three-year period in which no agricultural chemicals or genetically modified seeds are used. The key objective of the project is to assist farmers during the three-year period before they are certified as organic cotton farmers by providing them with every possible aid.

Through the Program, the company provides a guarantee to purchase at higher future prices to offset decreases in crop yields during the three transitional years. The company named and branded raw cotton on which no pesticides and very low levels of chemical fertilizers were used as “Pre-organic cotton”, and developed a story for the product. Thanks to the endorsement of a partner clothing company, ITOCHU has brought success to the Project.

- As part of efforts to support development in its supply chains, **Ajinomoto Co., Inc.** implemented a project to improve yields by providing the necessary ingredients for fermentation and production of amino acids, including the umami seasoning “AJI-NO-MOTO” to cassava farmers. Conducted in Indonesia's Sumatra Island, the project aimed to improve the living standards of farmers and enhance and increase cultivation techniques for cassava, an important raw material for fermentation used in AJI-NO-MOTO. Key activities included establishment and operation of a farmers’ cooperative led by local farmers through which sustainable work systems developed and cooperation with the Bureau of Agriculture, where plant breeding was conducted and agricultural guidance was provided. As a result, the yield and income of cassava farmers grew by 70% and 80%, respectively, creating a real foundation for achieving self-reliance.

As for nutritional training, a field closer to the company’s main business, Ajinomoto started a school meal project in Vietnam. In addition, in cooperation with Vietnam’s National Institute of Nutrition (NIN) and Japan’s Jumonji University, the Ajinomoto Group has launched a project in Vietnam to assist with the establishment of the country’s first national certification system for dieticians. The group started this project by opening the country’s first four-year bachelor program in dietetic science and nutrition at Hanoi Medical University in 2013 to develop teachers to train dieticians. Now, in cooperation with JICA, the Group is approaching the Vietnamese Government to get them to establish a national qualification system by 2017, when the first batch of students will graduate.

- At **Sumitomo Metal Mining Co., Ltd.**, water quality, air, and the environment are continuously monitored by a team made up of the Department of Environment and Natural Resources, local governments, NGOs, etc. In particular, with “Friends of the Earth Japan (FoE Japan),” an international environmental NGO, the company exchanges views on water quality of rivers around plants on a continual basis, and is taking necessary improvement measures in response to the organization’s opinions and proposals.
- While **Sumitomo Forestry Co., Ltd.** reduces procurement of raw materials from wild trees in favor of planted trees, the company is also promoting a sustainable tree planting program mainly in Indonesia, Papua New Guinea, and New Zealand. In addition, PT. Kutai Timber

Indonesia, a subsidiary of Sumitomo Forestry, formed a reforestation cooperative together with local residents in 2007, and acquired FSC-FM certification (“FSC Forest Management certification” which recognizes proper forest management) for 152 hectares of afforested land in December 2008. Sumitomo Forestry is taking advantage of knowhow developed through forest management experience both inside and outside Japan, provides a service to companies and local governments in the form of a consulting business with expertise in restoration of degraded forests in tropical regions, preservation and rehabilitation of biodiversity, provision of saplings resistant to local conditions, and protection and cultivation of forests that takes into account local communities.

The company conducts both “environmental reforestation,” aimed at planting trees for environmental conservation (with a high degree of social contribution), but also “industrial plantations” which are more related to the company’s main business of producing wood and increasing the supply of plantation timber (raw material). By maintaining industrial plantations and zoning its managed land appropriately, the company aims to achieve both the conservation of valuable ecosystems and the development of local communities through plantation forest operations. The company has also been engaged in “social forestry” that shares the economic benefits of forest plantations with local communities and encourages the cooperation and participation of local residents by maintaining good communication, providing saplings for free, encouraging them to plant the young trees in fallow land, and purchasing back the trees at an appropriate age. The company plans to promote sustainable projects contributing to the local economy through afforestation and agricultural production, improve the value of existing projects in cooperation with host countries’ governments and related organizations, and propose new systems such as REDD+.

- While many cities in Indonesia are seeing the population and economy grow, and consequently generate more waste, many of them still do not have hygienic disposal sites. However, it is getting difficult to secure sites for final disposal plants as cities are increasingly becoming urbanized and local residents protest against them. Faced with such difficulties, the Indonesian Government is promoting the 3R program (Reduce (curbing waste generation), Reuse, and Recycle) to reduce the amount of waste and by developing and implementing relevant policies. To solve the problem, Unilever Indonesia Foundation under *PT. Unilever Indonesia Tbk.* developed the “Community Waste Bank” program, which provides financial assistance to communities reducing the amount of waste generated. Unilever Indonesia Foundation began the program in 2004 from 20 “Community Waste Banks” located in Surabaya, Indonesia.

Chapter III: Proposals on international strategies of CSR towards strengthening the competitiveness of Japanese companies

The following summarizes proposals on international strategies of CSR towards strengthening the competitiveness of Japanese companies based on results of the analysis in Chapter I: *Regulatory trends related to CSR in Europe, the US and emerging countries (in Asia)* and Chapter II: *Company efforts and obstacles faced in emerging countries (in Asia)*.

From the perspective of contributing to improvements to corporate management efficiency and corporate value, the proposals were divided into “Proposals concerning corporate strategies” that address global companies’ CSR activities in emerging countries, and “Proposals for policies, etc.” concerning promotional measures on a national level. The former group was based on and reorganized based on the advanced efforts of companies, which was discussed in Chapter II.

3.1 Proposals concerning corporate strategies

Proposal 1: Establish philosophy-based management

“For effective functioning of management in overseas businesses and bases including emerging countries, it is necessary to clarify corporate philosophy and basic principles which serve as a guideline for the whole company, and implement management based on the philosophy on a global level.”

According to the study, it is clear that companies that demonstrate excellent performance on a global level have an effective corporate philosophy supported by committed top managers. Especially when opening a new base in emerging countries, having a corporate philosophy as the basis of the company’s local activities provides a path to success.

With regard to promotion of corporate philosophy, it should not be left entirely to departments or directors but be communicated under the consistent strong leadership of top managers. In that regard, multidimensional and continuous approaches are needed, for example, top managers themselves leading efforts to revise corporate philosophy, directly communicating philosophy to the management and staff of overseas branches, and touching on corporate philosophy when speaking publicly.

Proposal 2: Employment and development of overseas human resources

“When dealing with CSR-related regulations or developing new businesses which address societal issues in emerging countries, companies should make it a point to employ and develop local human resources because they can play an extremely important role.”

The study found that companies that are more successful, especially in emerging countries, tended to actively employ local human resources.

It is important to have a thorough understanding of the societal norms that are rooted in local cultural tradition in order to understand and deal with laws and regulations of emerging countries covered by this study. However, in general it is difficult for headquarters in the home country or expatriates to properly understand such issues. It goes without saying that employing local talent is a more effective measure. Such capabilities are in demand in just about any country and understanding the company’s corporate philosophy, efforts, and global CSR frameworks, as well as staying alert from a big picture standpoint, and responding to issues accordingly is critical.

Companies need to find local talent with such expert knowledge and capabilities, and employ and train them in order to succeed in emerging countries. In that regard, it is important and effective for companies to provide local human resources with intensive training, global workshops, and discussion opportunities by inviting them to the headquarters as a developmental measure. In some cases, companies are producing good results by running a medium-to-long-term personnel exchange program that allows local staff to undertake work experience terms in departments at the headquarters.

Employment and development of human resources is a strategic issue for each individual company. However, breaking that barrier and actively promoting cooperation between public and private sectors or different industries, thereby systematically developing excellent human resources with expertise and experience will be an effective measure towards increasing the competitiveness of Japanese companies.

Proposal 3: Recognition and appropriate handling of the importance of societal issues from the perspective of business

“When developing business or managing supply chains in emerging countries, companies should clarify the relationship between local societal issues and their own business, be aware of their importance, and act accordingly.”

This study found that companies which are producing results, especially in emerging countries, tended to have an accurate understanding of local issues and use them effectively to deal with risks and create business opportunities.

First and foremost, societal issues which can be addressed vary greatly depending on the business of the company, the host country, and the state of supply chains. Companies need to identify relevant societal issues from the local perspective, and evaluate them in terms of risks and opportunities while listening to the needs of stakeholders. Also, companies need to pay attention to both local issues that have already surfaced and future potential problems from global perspectives.

In cases where companies view societal issues as new business opportunities and develop business accordingly, they also need to accurately identify societal issues that truly need to be addressed through stakeholder engagement, and think about how they can leverage their strengths including technology and expertise that are not available in emerging countries. At the time of implementation, collaboration with NGOs, international agencies, and Governments of host countries will be effective measures.

3.2 Proposals for policies, etc.

Proposal 4: Consideration of national frameworks, etc.

“Japan should promptly start deliberating CSR-related frameworks that work in line with global frameworks.”

There is a clear trend among developed Western countries of active involvement in global frameworks, such as introducing measures to deal with the UN’s Guiding Principles on Business and Human Rights.

Many of such measures directly affect international business conducted by not only companies from Europe and the US but also Japanese enterprises and the supply chains which have expanded into emerging countries. However, monitoring such overseas regulatory and policy trends makes significant demands on resources, making it difficult for relatively smaller companies to appropriately respond to these developments. In particular, issues related to business and human rights as well as due diligence in supply chains are relatively new fields in which Japanese companies do not have a wealth of experience.

Based on this perspective, if Japan were to introduce a National Action Plan on Business and Human Rights in accordance with global frameworks, it would be possible for Japan to promote awareness of human rights and other issues by top managers and companies as a whole and encouraging companies to proceed accordingly. At the same time, these efforts will lead to better understanding of overseas regulations by SMEs. As a result, overall risk management for supply chains of not only large corporations but also SMEs is expected to become easier, leading to better efficiency in corporate management.

As well, the development of Japan's own goals in line with Sustainable Development Goals (SDGs) should be discussed for possible inclusion in the national frameworks proposed by this report.

In addition, as discussed in Characteristic 5 concerning CSR-related regulations, global demand for disclosure of non-financial information by companies, including Japanese companies, is growing. In this regard, a medium-to-long-term road map should be drawn up as to what form disclosure should take, including for non-financial information, based on which systematic discussions should be held, in order to improve the competitiveness of Japanese companies.

Proposal 5: Promote consolidation of information on laws and regulations in emerging countries

“Centralization of information collection on laws and regulations of emerging countries should be actively pursued.”

In terms of challenges which companies are facing, Chapter II discussed the difficulties in collecting information on laws and regulations in emerging countries as well as understanding local cultural backgrounds for those regulations. In general, industrial organizations are thought to be responsible for playing the key role in handling issues related to overseas regulations. However, most of the regulations this study covered crossed boundaries between industries, and they included an extremely wide range of subjects, requiring extensive knowledge, which exposed the problem that it is not clear which organization should be taking a leadership role for which set of regulations.

For this reason, an unbiased system charged with centralized information collection would be quite useful for Japanese companies operating in emerging countries. For instance, by strengthening the information collection functions of, say, overseas networks held by JETRO, concerning CSR and social norms in individual countries, CSR management can be made

possible from an earlier stage, when Japanese companies expand into other countries or work with local businesses, which is expected to contribute to more efficient management, risk prevention, and even creation of new business opportunities.

Additionally, it is thought that making the centralized collection of cases of stakeholder engagement in emerging countries by Japanese companies, local companies, and other foreign companies, and providing occasions to share such information would be a highly significant measure from a CSR management perspective.

In addition, it is important for the Government, companies, and society to make collaborative efforts on CSR issues by enhancing both information collection mechanisms and complaint processing mechanisms. For instance, the NCP (National Contact Point) of the OECD Guidelines for Multinational Enterprises should be increasingly utilized.

These efforts will make effective management possible for issues that a single company would not be able to deal with alone.

End.