

Investigative Research Report on
Ideal Non-financial Information Disclosure in the New Era
- Building a Better Relationship with Various Stakeholders -

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Business Policy Forum, Japan

CSR FORUM, JAPAN

Executive Summary

1. Purpose of This Investigative Research

This investigative research was conducted for the following purposes based on the contents of the “Investigative Research Report on Non-financial Information Disclosure by Companies” conducted in 2011 by the Business Policy Forum:

- ✓ In recent years, there has been a rapid growth of interest in non-financial information disclosure, as seen in trends such as an increasing interest in ESG and a rise in the number of companies that issue integrated reports. Stakeholders who are considered as important to companies inherently differ depending on the characteristics of companies; however, there may be a tendency in Japan that discussions on non-financial information disclosure is overly biased towards investment communities. This investigative research examines the ideal non-financial information disclosure for various stakeholders.
- ✓ In terms of formality, there has been progress on non-financial information disclosure compared to when the previous study was conducted; however, there are still the same remaining issues in terms of contents, such as linking non-financial information to the company’s value creation process. This investigative research clarifies the current status and issues of non-financial information disclosure by companies.

2. Actual Conditions of Non-financial Information Disclosure by Companies

The following implications were obtained through a questionnaire survey of Japanese and European companies on non-financial information disclosure:

- ✓ **Steadily rising social demand:** The demand for non-financial information disclosure is steadily rising and particularly the degree of recent change in Japan is significant.
- ✓ **Targets for communications and stakeholder engagement:** Investors are a predominant focus of Japanese companies, followed by evaluation organizations and employees. The proportion of B-to-B customers increases when global supply chains are incorporated due to the increased overseas sales ratio. On the other hand, European companies place the most focus on their employees and civil society and are also ahead in terms of demanding disclosure from the secondary suppliers.
- ✓ **Importance of identifying priority issues:** Whether or not priority issues (materiality) have been identified significantly affects the adequacy of the level of disclosure and identification and disclosure of non-financial information that lead to the value creation of companies.
- ✓ **Awareness of top management is a key factor:** The more the top management is aware of the importance of non-financial information and actively involved in its disclosure, the easier the identification of priority issues (materiality) and promotion of integrated disclosure of both financial and non-financial information.
- ✓ **Developing links to value creation is the biggest issue:** The two biggest issues of disclosure are disclosing/explaining non-financial information by linking it to future corporate value and to the main business of companies.
- ✓ **Lack of a medium- to long-term perspective:** Companies that were able to disclose with a time axis of five years or longer remained at 10% and those that disclosed with a time axis of less than three years accounted for the majority.

3. Stakeholders’ Information Needs and Expectations towards Companies

The following implications were obtained through interviews with stakeholders:

- ✓ **“Diversity” of stakeholders:** Not only the main information needs of stakeholders vary depending on their positions but also individual circumstances that differ from one investor to another. Stakeholders’ interests are diverse and change from time to time based on a number of

factors, such as the context in which stakeholders are in, interests, regions, cultures and generations.

- ✓ **Gap between stakeholders' information needs and the disclosed information:** The information that stakeholders really want to know is often the information that companies feel uneasy about disclosing as public information or the information that companies still do not have a clear understanding of.
- ✓ **Importance of acquiring an appropriate understanding through stakeholder engagement:** There are some cases where stakeholders do not have the capacity to appropriately evaluate the disclosed information. It is important that companies make efforts to promote dialogue and engagement with key stakeholders.
- ✓ **Expanding the impact of non-financial information on decision-making:** The increased access to information, aggregation of database information and widespread availability of personal reviews due to digitization has created an environment in which the presence or absence of non-financial information disclosure affects the reputation of companies and the decisions of stakeholders.

4. Implications from the Advanced Cases of Companies

The following implications were obtained from the advanced cases of companies both within and outside Japan:

- ✓ **Innovative efforts and steps for developing links to value creation:** Efforts are being made to promote integrated disclosure which cannot be accomplished overnight by formulating medium- to long-term sustainability strategies, conducting KPI correlation analysis, continually seeking and steadily embedding integrated thinking within companies.
- ✓ **Clarification of targets and differentiation of media for disclosure:** It is important to clarify the targets and purposes of disclosure and deliver the contents that are edited to suit the needs of the readers. Communication strategies focused on communicating information are being deployed.
- ✓ **From information disclosure to proactive stakeholder engagement:** With the recognition that disclosure does not necessarily mean that information has been communicated, dialogues and engagement are proactively being held with the intended readers.
- ✓ **Responding to issues with high levels of public concern with high transparency:** Based on the industry characteristics and business model of one's own company(ies), information is being actively disclosed to increase transparency and fulfill the accountability needs particularly for the issues with high levels of public concern that may cause risks.
- ✓ **Improvement of internal systems and fostering of a culture of disclosure:** Simultaneously efforts are being made to develop internal frameworks for unifying standards, develop data collection systems and establish cross-sectional internal organizations.

5. Issues and Recommendations: Ideal Non-financial Information Disclosure in the New Era

- Building a Better Relationship with Various Stakeholders -

5.1 Issues Surrounding the Current Practices of Non-financial Information Disclosure

Based on the above survey, four major issues were revealed concerning the current practices of non-financial information disclosure.

[Issue 1] Loss of essence of non-financial information disclosure and "ESG evaluation primacy"

<Direction towards resolution>

A thorough discussion on "non-financial information that is directly linked to value creation" (= "pre-financial information")

[Issue 2] Gap between the information needs of stakeholders and disclosed information due to ESG factors having different objectives though allied

<Direction towards resolution>

Restarting the identification of the stakeholders who are important to one's own company(ies) and working on strategic engagement with them

[Issue 3] Insufficiently responsive to the interests of the international community

<Direction towards resolution>

Leading the discussion as a rule maker by actively responding to the interests of the international community

[Issue 4] Lack of methodology to link the information needs of stakeholders to corporate value creation

<Direction towards resolution>

Organizing communication strategies based on the three levels of information

5.2 Recommendations for Non-financial Information Disclosure in the New Era

Based on the implications obtained in this investigative research, we make the following recommendations towards non-financial information disclosure that will lead to the creation of sustainable corporate values. The recommendations are aimed at both companies and stakeholders since collaborative efforts between companies and various stakeholders are indispensable for building a sustainable society.

<Recommendations for companies>

Recommendation 1: Identify the relationship between the sustainability of society and the risks and opportunities facing one's own company(ies) and organize the medium- to long-term activities for value creation.

Identify the risks and opportunities in the value chains of the company business from their relationship with the sustainability of society and organize the priority issues (materiality) and activities that lead to medium- to long-term value creation. Furthermore, incorporating these priority issues into the medium-term management and annual plans and identifying the information to be observed at fixed points will make it clear what non-financial information will be the basis of disclosure.

Recommendation 2: Understand the expectations of important stakeholders and develop communication strategies based on the business characteristics of one's own companies.

With identifying and engaging with key stakeholders as a starting point, develop communication strategies based on the business characteristics of one's company keeping in mind the three levels of information based on the materiality reporting, detailed ESG reporting and reporting of individual needs.

Recommendation 3: Under the leadership of top management, formulate organizational-level integration strategies and foster the culture of disclosure.

Top management need to first gain a detailed understanding of the relationship between the business and non-financial information. Then, he/she should issue a message on the importance of non-financial information with his/her own words, deepen the discussion as an organization through the board of directors and lead the formulation and promotion of the integrated corporate strategies and information disclosure.

Recommendation 4: Pursue information disclosure based on corporate characteristics.

Stakeholders who are important to companies and their information needs and expectations vary depending on different industry and business types, business scales and market types. Examine the ideal information disclosure according to the characteristics of each company while having a common recognition that disclosing non-financial information is important to all companies.

<Recommendations for various stakeholders>

Recommendation 5: Collaboratively develop infrastructure that ensures non-financial information is appropriately and effectively disclosed and evaluated.

Companies and various stakeholders should work together to develop a platform for fostering values and cultures where non-financial information is appropriately disclosed and evaluated, developing indicators and evaluation criteria as specific common languages and achieving effective disclosure.

Recommendation 6: The government should pursue policies based on a smart mix (a combination of mandatory requirements and voluntary measures).

Develop guidelines as a common language based on the viewpoint that guidelines are necessary but regulations should be minimized. As a prerequisite for creating the best-balanced rules, it is necessary to develop policies that cut across various ministries rather than from top to bottom and are identified within a wide range of CSR promotion policies beyond information disclosure.

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Ideal Non-financial information Disclosure in the New Era - Building a Better Relationship with Various Stakeholders -

Preface

Over the past 10 years, the Business Policy Forum has been conducting research and studies on various issues of CSR with the aim to contributing to the vitality of Japanese companies. In FY 2011, we studied the actual conditions of corporate non-financial information disclosure and communication with investors, etc., following the growing global attention towards integrated reporting of financial and non-financial information and compiled the “Investigative Research Report on Non-financial Information Disclosure by Companies¹”.

When we look at the world today, after six years have passed from our previous study, we see abnormal weather patterns, such as heatwaves and floods, frequently occurring in various regions, causing serious damage. Political instability caused by disputes and terrorism and large number of refugees are also causing not only a humanitarian crisis but also social divisions. Changes in global trends, such as economic and financial crises and the rapid progress of emerging nations have also caused new issues to surface, such as the increased number of unemployed, which is still a remaining issue even after the establishment of the “Millennium Development Goals (MDGs)”, soaring food prices, gender inequality, expansion of income disparity, climate change and conservation of biodiversity. This sense of crisis about ensuring a sustainable society and Earth was shared across nations and regions and in 2015, the international community agreed to work together to resolve issues by signing the “Sustainable Development Goals (SDGs)” and “Paris Agreement”. Particularly for the “Sustainable Development Goals (SDGs)”, it was globally expected that not only nations but also companies should make active efforts to achieve the SDGs. In 2017, KEIDANREN (Japan Business Federation) revised its Charter of Corporate Behavior for the first time in seven years which clearly stated that the role of a corporation is to lead in the realization of a sustainable society. Such statement symbolizes the growing momentum among companies to respond to the growing demand for action toward solving social issues.

Looking at the trends of the investment community and the status of non-financial information disclosure by companies, ESG (Environment, Social and Governance) investing has been showing a growing trend also in Japan, although the proportion is still low compared to the global market. In 2017, the total amount of sustainable investment was 136.5959 trillion yen, which was double the previous year. The number of companies that published integrated reports, which assumed investors as being the main users, was approximately 400 in 2017, showing a significant increase from about 30 companies six years ago. However, many companies point out that insufficient explanation of how non-financial information is linked to future corporate value and strategies is an issue that they face, which suggests that there is a gap between the interests of investors and the disclosed information. Led by evaluation organizations, disclosure requirements demanded by international organizations and NGOs are increasing every year and also guidance and frameworks concerning disclosure are still in a chaotic state. This also raises the concern that companies may not have been able to sufficiently respond to these requirements or their viewpoint became short-sighted from being urged to respond to these requirements.

In this fiscal year, we will be conducting investigative research on “Ideal Non-financial Information Disclosure in the New Era – Building a Better Relationship with Various Stakeholders” that leads to the creation of sustainable corporate value by establishing a study group consisting of companies, academics, policymakers and other stakeholders at our Forum.

¹ http://www.bpfj.jp/act/download_file/8428429/95101661.pdf

Chapter 1 Introduction

1-1. Changes in the Circumstances Surrounding Non-Financial Information Disclosure Focused on the Investment Community

ESG (Environment, Social and Governance) investing has generated tremendous excitement in recent years, particularly in Japan and the word “ESG” appears almost daily in newspapers. Such a remarkable growth trend is also shown in numbers. According to the survey by Japan Sustainable Investment Forum, the total amount of sustainable investment in Japan was 136.5959 trillion yen² in 2017, which was 2.42 times higher than the previous year. The percentage of sustainable investment to the total investment balance of each respondent institutional investor also rose from 16.8% to 35.0% (at a global level, however, the scale of Japan’s sustainable investment is still quite small compared to the Western market seen in the 2016 survey with the total amount of global sustainable investment being 2,755 trillion yen, while that of Japan only being 57 trillion yen³).

This growing trend was supported by a series of movements such as the formulation of the Japanese Version of the Stewardship Code in 2014, Japan’s Corporate Governance Code in 2015 and the Government Pension Investment Fund (GPIF) becoming a signatory of the United Nations’ Principles for Responsible Investments (PRI) in September 2015. The impact brought by the GPIF was particularly high and quickly gained the interest of domestic companies and institutional investors for ESG investment.

Concerning integrated reports directed mainly towards investors as well, the number of companies that published the reports increased from approximately 30 in 2011 to 400 (94% of them being major companies listed on the First Section of the Tokyo Stock Exchange⁴) in 2017, showing a significant increase compared to six years ago. However, there were only a small number of companies that had been able to explain each item of disclosure in relation to their strategies and management plans⁵. The fact that there are still many companies whose integrated reports provided insufficient contents to link non-financial information to future corporate value and tell the long-term value creation story that integrated financial and non-financial aspects indicates that the issues raised in the “Investigative Research Report on Non-financial Information Disclosure by Companies” compiled by the Forum in 2011 continue to remain.

With the spread of ESG investment, the presence of evaluation organizations that evaluate ESG information of companies and provide it to institutional investors has also increased. Despite the fact that the results of various evaluations, including the ESG index, released by these organizations visualized the status of various efforts of companies, companies often mentioned the significant burden of having to respond to disclosure and questionnaire requests to meet evaluation standards that vary depending on evaluation organizations and change almost every year. Some companies also exhibited a tendency to give the highest priority to the evaluations of these evaluation organizations, such as incorporating into the index and improving the ratings.

² A survey of 32 institutional investors based in Japan. <http://japansif.com/171030.pdf>

³ GSIA Global Sustainable Investment Review 2016 http://www.gsi-alliance.org/wp-content/uploads/2017/03/GSIR_Review2016.F.pdf

⁴ 2017 Survey on the Status of Issuance of Integrated Reports (Interim Report), Disclosure & IR Research Institute http://rid.takara-printing.jp/esg/media/1141/2017%E7%B5%B1%E5%90%88%E5%A0%B1%E5%91%8A%E6%9B%B8%E7%99%BA%E8%A1%8C%E7%8A%B6%E6%B3%81%E8%AA%BF%E6%9F%BB%E3%83%AC%E3%83%9D%E3%83%BC%E3%83%88_20171113.pdf

⁵ Survey of Integrated Reports in Japan 2016, KPMG <https://home.kpmg.com/jp/ja/home/insights/2017/04/integrated-reporting-20170515.html>

Under these circumstances, the Ministry of Economy, Trade and Industry released “Ito Review 2.0 (‘Final Report of the Study Group on Long-term Investment (Investment Evaluating ESG Factors and Intangible Assets) toward Sustainable Growth)’” in October 2017, which compiled ideal approaches that companies should take for sustainable management, methods that investors should take for evaluating companies from long-term perspectives and ideal approaches that companies should take to disclose information and hold dialogues with investors. There are also ongoing efforts to create opportunities for holding dialogues between institutional investors and companies based on the “Guidance for Collaborative Value Creation”. The Guidance was proposed by the same study group for companies to pursue dialogues with investors and other stakeholders concerning their business models, strategies, governance and other issues towards sustainable value creation.

1-2. Increasing Demand for Companies to Contribute to Building a Sustainable Society

Due to the increasing uncertainty about future conditions and a sense of crisis about the sustainability of society and the Earth, the international community agreed on two frameworks in 2015 which will be a major milestone in building a sustainable society for the future. These frameworks are the “Sustainable Development Goals (SDGs)” adopted at the United Nations General Assembly in September 2015 and the “Paris Agreement” concluded in December 2015.

The SDGs are a set of universal goals that specify 17 goals and 169 targets to work towards achieving the 2030 agenda, “leave no one behind” and aim to resolve social issues facing both developed and developing countries. The Business Policy Forum also compiled the “Investigative Research Report Concerning the Desirable State of Efforts and Partnerships with International Organizations, the Government, and the Industrial World Aimed at Resolving Social Issues (such as the SDGs)”⁶ in FY 2016 to identify issues and make proposals on the ideal state of companies’ efforts and partnerships. Meanwhile, the parties to the Paris Agreement have agreed to bring global emissions down from peak levels as soon as possible and achieve near-zero emissions in the second half of this century in order to “keep global warming to well below two degrees Celsius over pre-Industrial Revolution levels (the two degree goal)” towards 2050.

Both frameworks indicate the long-term direction of the international community and share a common characteristic that the active participation of companies is demanded for achieving their goals. While it is expected that companies fulfill their responsibilities as a corporate citizen and make efforts to resolve social issues as new business opportunities, those that do not address social issues are facing risks that are becoming more apparent, such as the spread of a movement for the withdrawal of investments from companies that emit large quantities of CO₂. From the viewpoint of preventing the withdrawal of investments and loss of reputation, particularly for large companies, and meeting the requests of large B-to-B customers who are required to take actions towards sustainable supply chains and acquiring talented personnel, particularly for small and medium-sized enterprises, responding to environmental and social issues is becoming indispensable for companies to continue to create sustainable value.

Concerning non-financial information disclosure, there is a wide variety of guidelines that have been issued both within and outside Japan and the movement which seeks to legislate and enforce non-financial information disclosure as a stock exchange rule has been gaining momentum in recent years. It can be said that disclosure standards that are currently available are still in a chaotic state, and this hinders corporate understanding and sufficient responses to progress in some cases. Furthermore, there is an increasing focus on non-financial information disclosure in Japan, as mentioned earlier; however, the primary target of such disclosure is the investment community, so in some cases, other stakeholders who are also important to companies appear to be left behind in the disclosure discussions.

1-3. Awareness of the Issues

⁶ http://www.bpfj.jp/act/download_file/98193838/71988285.pdf

With the circumstances surrounding the non-financial information disclosure described above, this investigative research studied, analyzed and compiled recommendations on the theme, “Ideal Non-financial Information Disclosure in the New Era – Building a Better Relationship with Various Stakeholders–” which leads to the creation of sustainable corporate value based on various studies, such as factual surveys using questionnaires, literature surveys, presentations of corporate/expert study groups and case studies based on interviews. The following awareness was focused on in this investigative research:

[Awareness 1]

Discussions on information disclosure may be too biased towards the investment community. Stakeholders that should be considered important in creating sustainable value should vary depending on the characteristics of each company. Perhaps it is necessary for companies to expand the perspective of disclosure.

[Awareness 2]

Although there has been progress on non-financial information disclosure in terms of formality, such as the increased interest towards ESG and the increased number of companies that publish integrated reports, there are still remaining issues in terms of contents, such as clarification of important non-financial information that is directly linked to sustainable value creation and linking value creation processes to non-financial information. How should we address such situation?

[Awareness 3]

There is an increased burden on companies to respond to a wide variety of guidelines and complete questionnaires and responding to these demands by allocating resources does not necessarily mean that companies are meeting the information needs truly sought by stakeholders. Perhaps strategies for information disclosure have not been appropriately developed.

1-4. Range of Non-financial Information

Currently, the information disclosed by public companies in Japan includes the information for which disclosure is statutory based on the Financial Instruments and Exchange Act and the Companies Act (securities report, etc.), information for which timely disclosure is required based on disclosure regulations, such as stock exchange rules, applied to listed companies (financial results, etc.) and information that is voluntarily disclosed by companies (annual reports, CSR reports, etc.). This information can be categorized into “financial information”, which is quantitative accounting information such as financial statements, settlement information and performance forecasts and other “non-financial information”.

There are various types of “non-financial information”, for example, that includes:

- Information other than the financial statements in financial reporting (such as securities reports and annual reports);
- Sustainability information (information related to environment and social aspects disclosed in CSR reports, etc.);
- Governance information (such as information on internal control reports and corporate governance reports, etc.);
- Information related to management policies such as management philosophy, management vision and medium-term management plans;
- Information related to business models and management strategies;
- Information related to intangible assets (such as corporate brands, patents and human capital).

It is difficult to accurately grasp the actual status of non-financial information based on conventional financial statements, etc.; however, the investigative research shows the growing importance of non-financial information as a factor that determines corporate value.

Figure 1 Percentage of Intangible Assets in the US S&P 500 Market Value⁷



On the other hand, evaluation methods to assess how such a wide variety of non-financial information would affect the future and current corporate value are still under development.

Chapter 2 Recent Trends Concerning Non-financial Information Disclosure

2-1 Overall Picture

Various guidelines on non-financial information disclosure by companies have been developed both within and outside Japan and the formulation of new rules and revision of the contents to reflect the changing social situations are progressing. Although these guidelines documented the information needs of stakeholders to the greatest common denominator, it is recommended that companies disclose information with reference to them.

The guidelines can be roughly divided into the following differences:

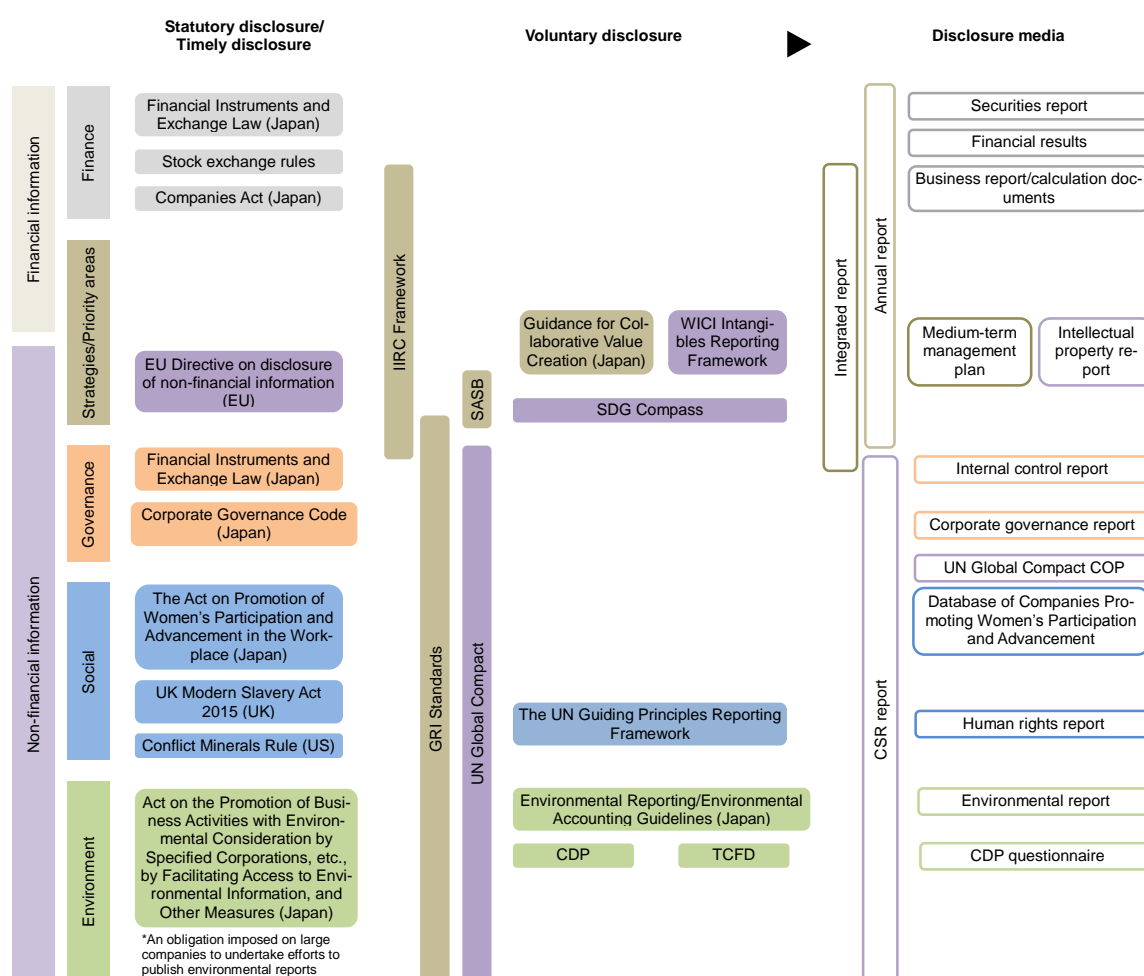
- **Presence or absence of legally binding force:** Laws and regulations developed in the form of laws and ordinances, private regulations applied to listed companies such as stock exchange rules, voluntary standards with a certain degree of practical binding force by industry groups, optional standards set by stakeholder groups
- **Scope of application:** International declarations and resolutions led by international organizations as soft laws, globally recognized standards that are formulated by global stakeholder groups, laws and regulations developed in specific areas that affect business activities outside the region, standards only applicable to specific countries

⁷ Ocean Tomo, LLC
<http://www.oceantomo.com/intangible-asset-market-value-study/>

- **Request format:** Standards that show major guidelines based on a principle-based approach and specify concrete methods based on a rule-based approach in a detailed manner
- **Comprehensiveness:** Comprehensive standards for the disclosure of non-financial information in general and standards established for specific sustainability or governance issues
- **Request for actions:** Standards restricted to the disclosure of non-financial information and standards that require disclosure as part of a request for actions

Figure 2 shows major guidelines concerning non-financial information disclosure. Although not many guidelines are legally binding, some of them have been adopted by a large number of companies worldwide, becoming de facto standards. With the globalization of business activities, it is necessary to pay attention to not only the guidelines available in Japan but also global trends. Applying international guidelines is indispensable for companies operating in international markets; however, it is also possible that companies that mainly operate in the domestic market will be required to respond to relevant regulations if they are incorporated into global supply chains.

Figure 2 List of Major Disclosure Guidelines



Internationally, the development of frameworks that mandate information disclosure has been progressing. In addition to regulatory frameworks, such as the EU Directive on disclosure of non-financial information, UK Modern Slavery Act 2015 and Conflict Minerals Rule in the US, there are a growing number of stock exchanges that require listed companies to disclose non-financial information. For example, stock exchanges in countries such as South Africa, India, Hong Kong and Singapore require companies to publish integrated reports and CSR reports and the stock exchange in Taiwan requires companies to also comply with the latest GRI Standards. This trend has grown considerably, particularly since 2010.

Chapter 3 Actual Conditions of Non-financial Information Disclosure by Companies

3-1 Purpose and Overview of Survey

Taking into account the overall trends that we have observed so far, we conducted an analysis by using questionnaire surveys of companies both within and outside Japan, literature surveys, presentations of study groups and interviews to better understand the issues involving non-financial information disclosure by companies and suggestions towards solving such issues.

3-2 Current Status and Issues of Non-financial Information Disclosure (Questionnaire Survey Results)

3-2-1 Results of the Questionnaire Survey of Japanese Companies

In order to understand the actual conditions and issues of non-financial information disclosure among Japanese companies, we conducted a questionnaire survey and collected responses from 140 companies. Approximately 80% of the respondent companies were listed on the First Section of the Tokyo Stock Exchange and the majority of them had sales of at least 100 billion yen. Companies with more than 1 trillion yen in sales also accounted for one fourth of the total respondent companies. Furthermore, considering that the overseas sales ratio was over 15% in more than the majority of the respondent companies, it should be noted that the main respondents of the survey were large companies that operate globally.

Questionnaire period: November 6, 2017 – January 10, 2018

Questionnaire target: 3,000 companies

(A total of 2,795 companies listed on the First Section, Second Section and Mothers and 205 unlisted companies with the highest sales)

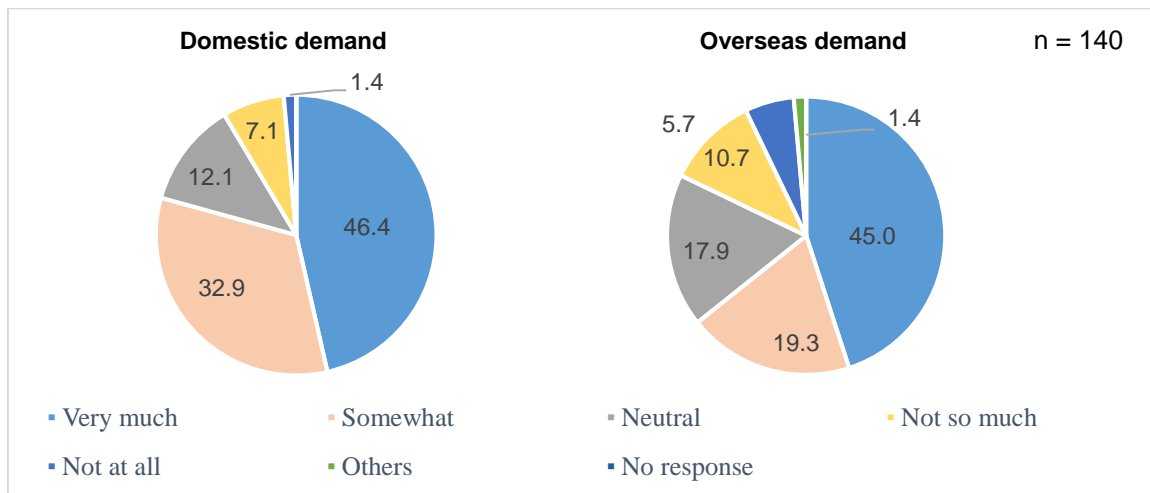
Respondent companies: 140 companies (4.7% response rate)

➤ Demand for non-financial information disclosure

- Stakeholders' demand for information disclosure seems to be at a high level both in Japan (about 80% answered "Very much" and "Somewhat") and overseas (a little over 60% gave the same two answers). The higher level of the stakeholders' demand in Japan may have been particularly due to the growing interest in ESG investment in Japan in recent years. Although the population parameter is different, such increasing demand can also be seen in the comparison with the FY 2011 Survey (in the FY 2011 Survey, a little less than 60% answered that they "felt investors' demand for ESG information disclosure 'Very much' and 'Somewhat'").

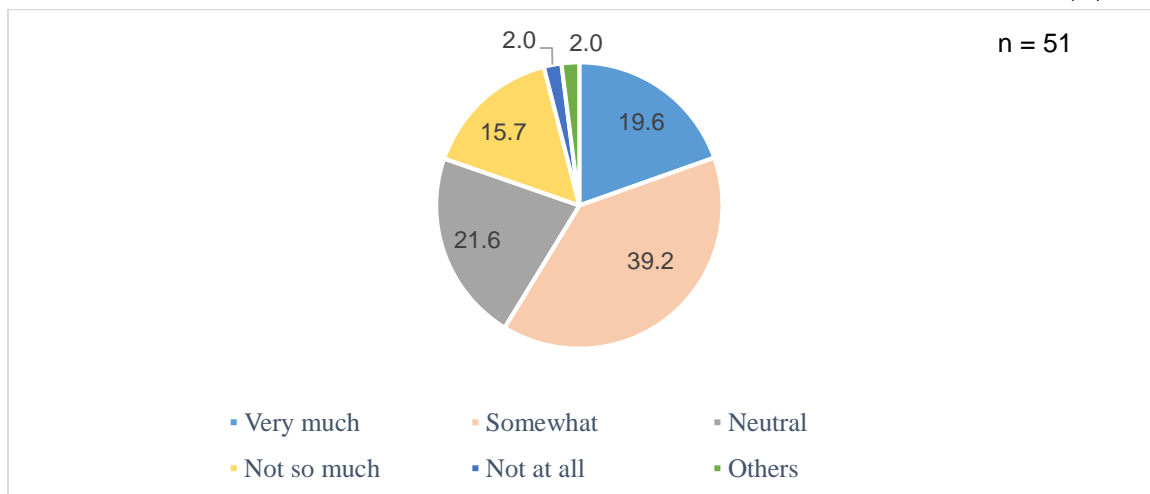
[FY 2017 Survey] How much do you feel the growing demand for non-financial information disclosure?

(%)



[FY 2011 Survey] How much do you feel the growing demand for non-financial information disclosure

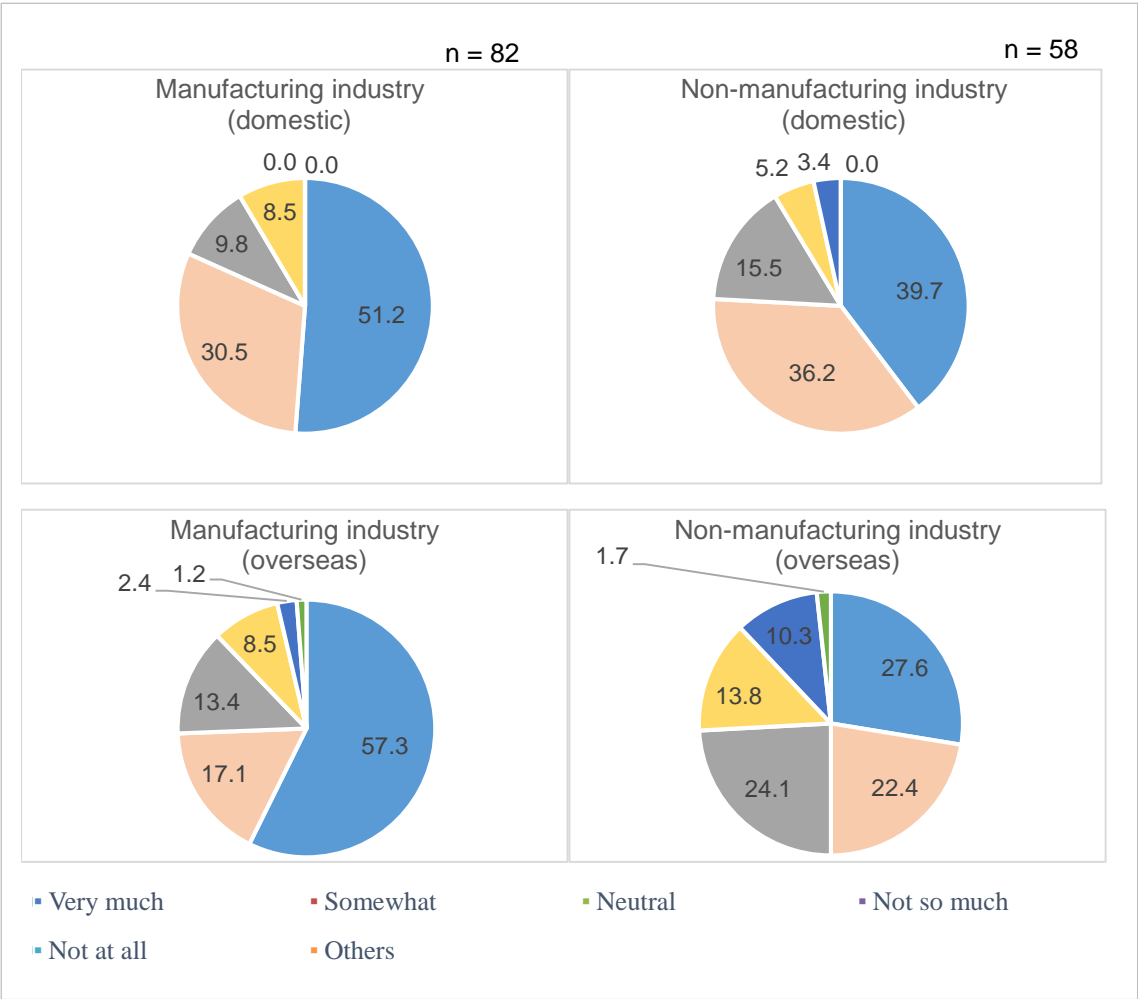
(%)



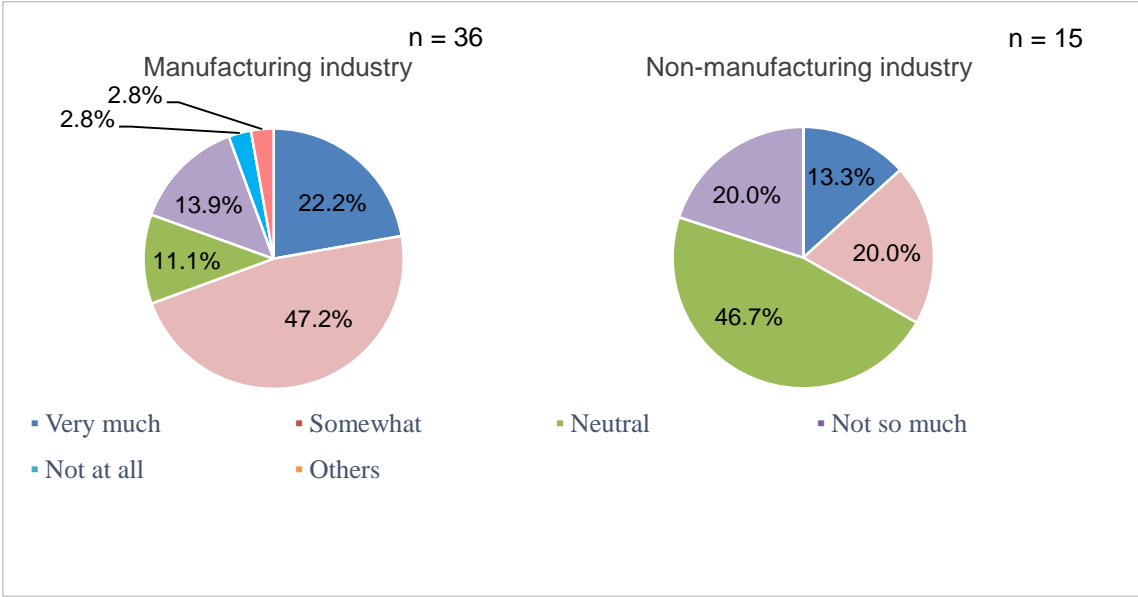
- When compared by industry, companies that answered “Very” and “Somewhat” in the FY 2011 survey were about 70% in the manufacturing industry and a little over 30% in the non-manufacturing industry, showing a significant difference. In this survey, there was no significant difference in terms of domestic demand, where about 80% of companies answered “Very” and “Somewhat”; however, there was some difference in terms of overseas demand where companies that answered “Very” and “Somewhat” were a little over 70% in the manufacturing industry compared to 50% in the non-manufacturing industry.

[FY 2017 Survey] Growing domestic/overseas demand for non-financial information disclosure (by manufacturing/non-manufacturing industry)

(%)

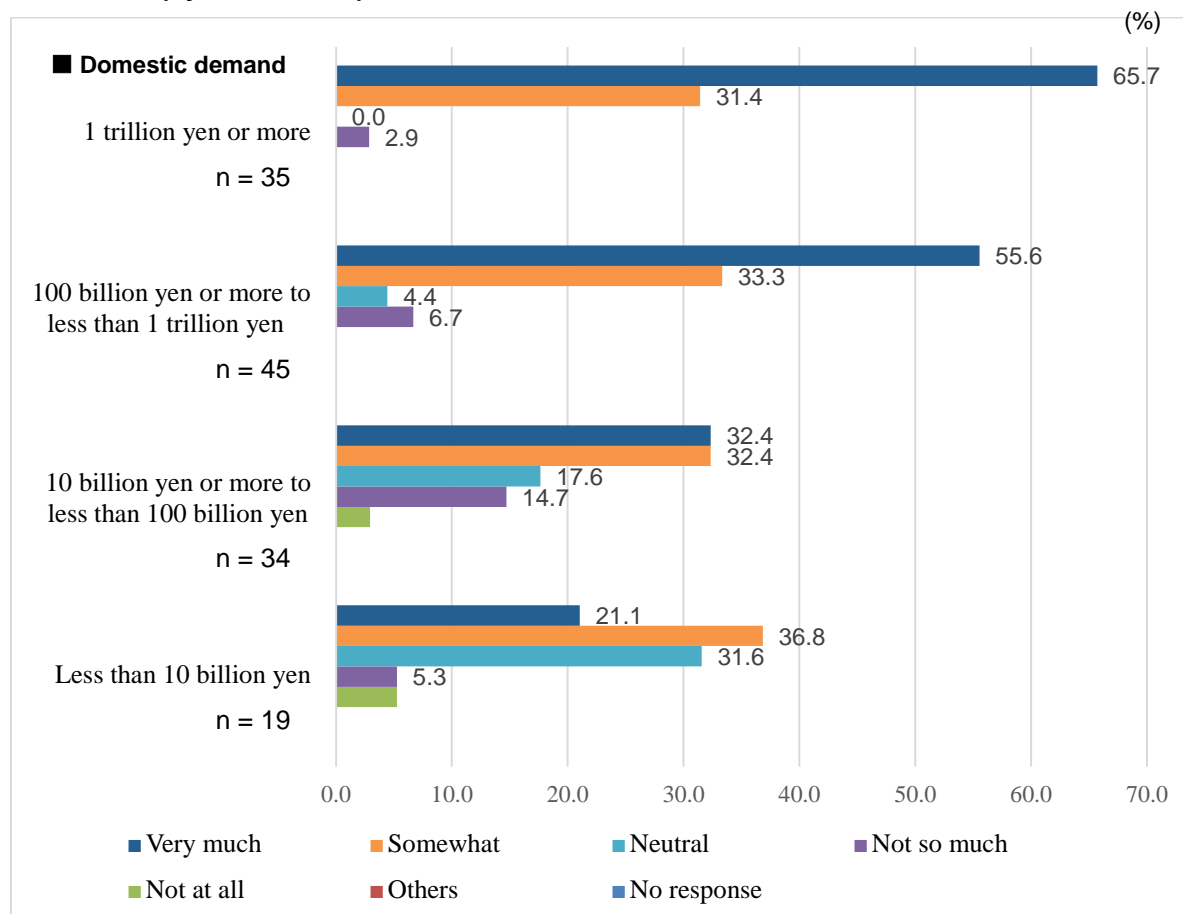


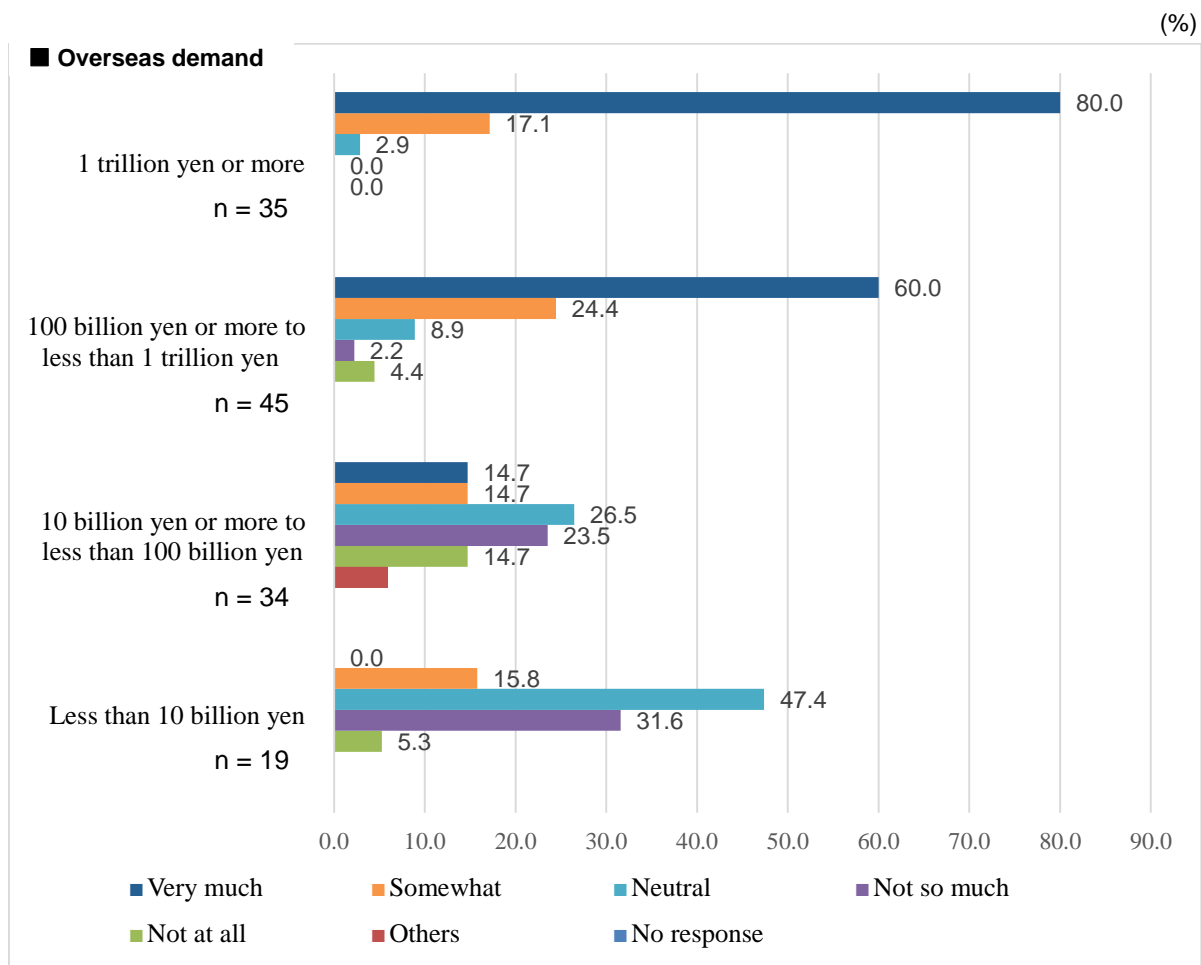
(%)



- When compared by the sales scale, it can be seen that there is a significant difference in the perception of the growing demand for disclosure between two company groups: those with 100 billion yen or more in sales and those with lesser sales. This trend is particularly pronounced for overseas demand, which may be because companies with a smaller sales scale are less likely to expand their business to overseas.
- When only looking at company groups with 100 billion yen or more in sales, the percentage of companies that “Very much” feel the growing demand for disclosure is higher for overseas demand than domestic demand. This suggests that larger companies feel more pressure from overseas to disclose information for their global expansion.

[FY 2017 Survey] Growing domestic/overseas demand for non-financial information disclosure (by sales scale)

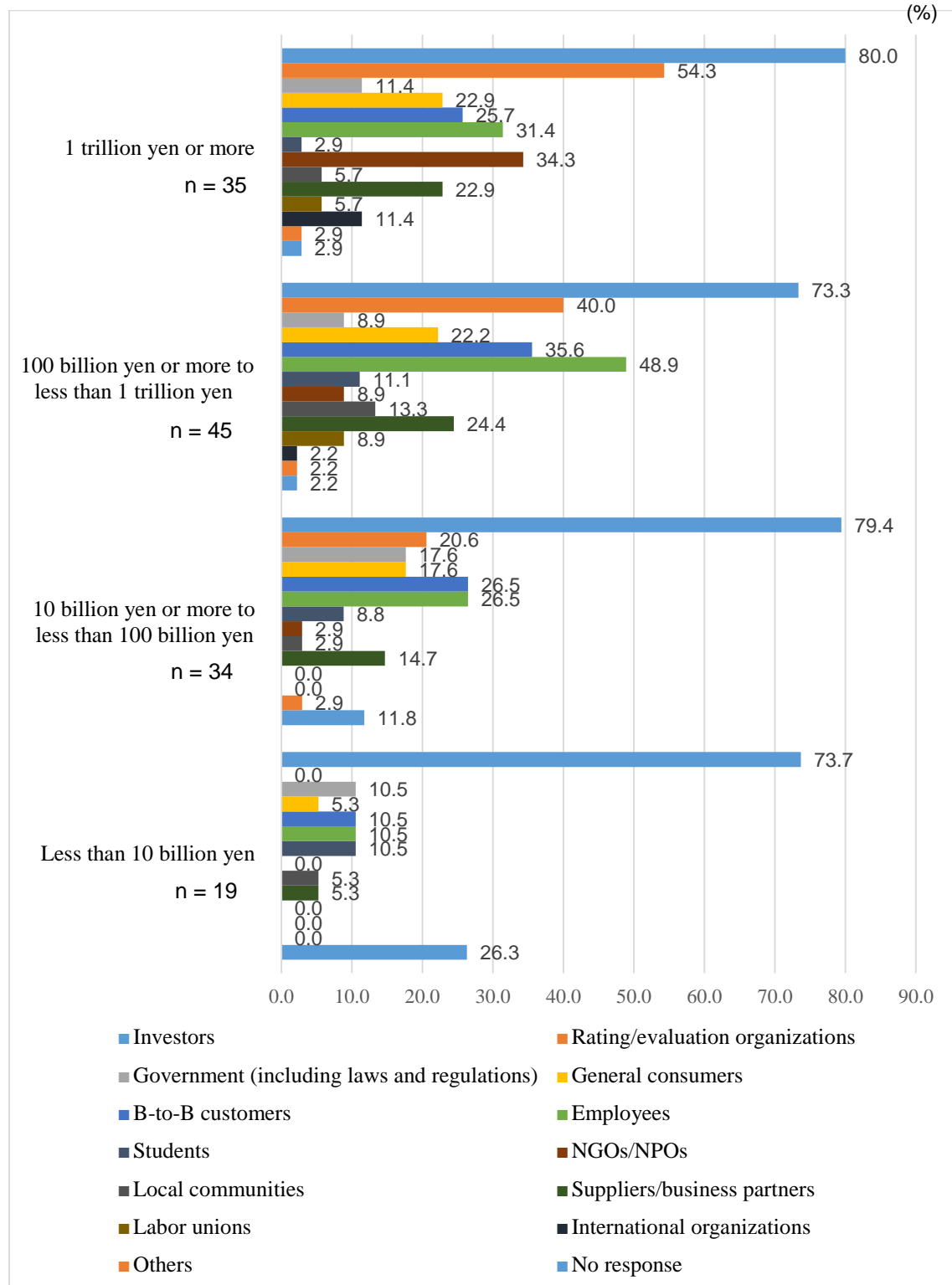




➤ **Stakeholders particularly focused on engagement**

- When companies were asked the type of stakeholders that they particularly focused on in engagement, “investors” were the highest answer by far across all company groups for each sales scale.
- In company groups with 1 trillion yen or more in sales, the next highest answer was evaluation organizations followed by NGOs/NPOs. The more the companies gain in their market presence, the easier they become the target of criticism by NGOs/NPOs, which explains the tendency of these companies to place greater focus on engagement.
- In company groups with 100 billion yen or more to less than 1 trillion yen in sales, the next highest answer was employees followed by evaluation organizations and then B-to-B customers. It is conceivable that the demand from large global companies that are B-to-B customers is reflected in the result.

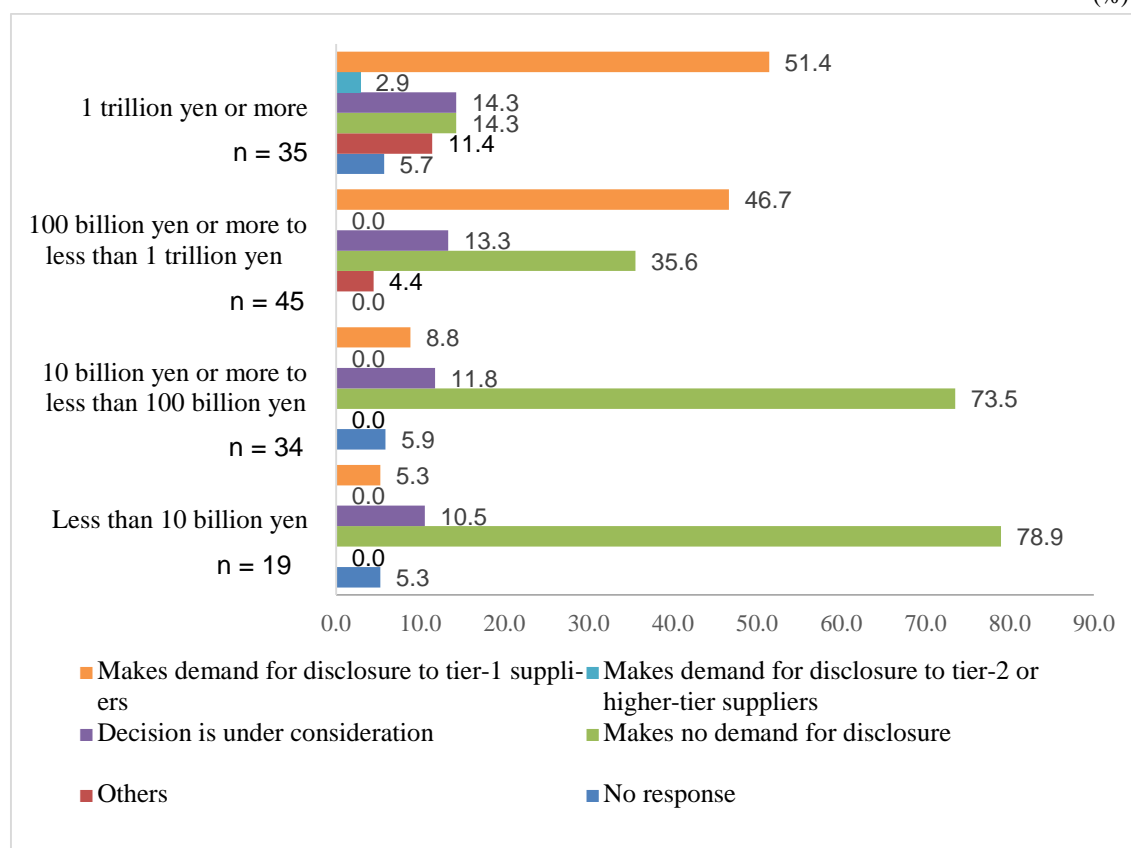
[FY 2017 Survey] Stakeholders particularly focused on engagement (by sales scale)



- Whether or not companies make a disclosure demand to their upstream suppliers is drastically different between two company groups: those with 100 billion yen or more in sales and those with lesser sales. At the same time, there are also a little over 30% of companies in the “100 billion yen or more to less than 1 trillion yen in sales” group that “makes no demand for disclosure”. It is expected that as the rate of engagement increases with these upstream suppliers, it will also spread to downstream suppliers.

[FY 2017 Survey] Non-financial information disclosure demand for upstream suppliers (by sales scale)

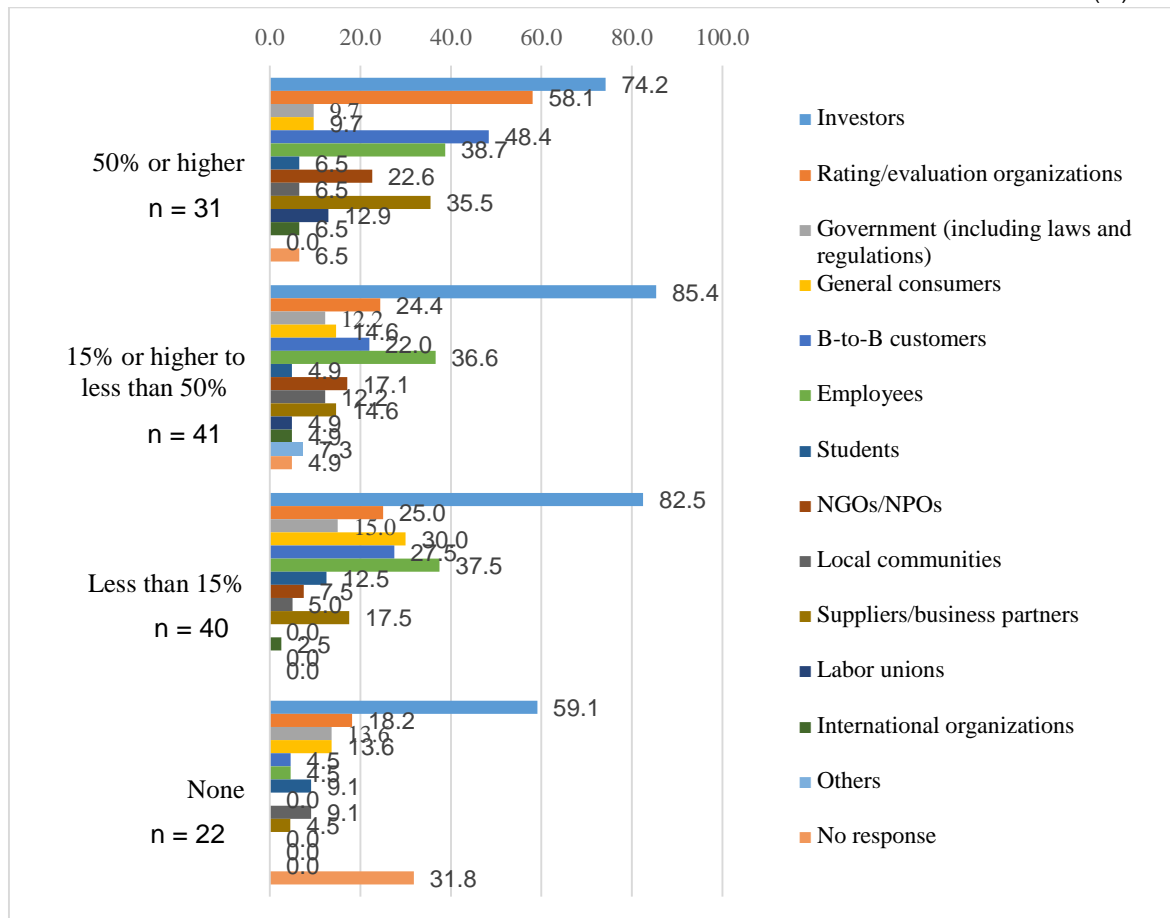
(%)



- When looking at the types of stakeholders particularly focused on engagement by overseas sales ratio, the percentage of B-to-B customers is significantly high in the company group with 50% or higher overseas sales ratio and the disclosure demand made to upstream suppliers is also high in the same group. As the overseas sales ratio increases, companies become part of the global supply chain, which means that the demand for non-financial information disclosure will also increase.

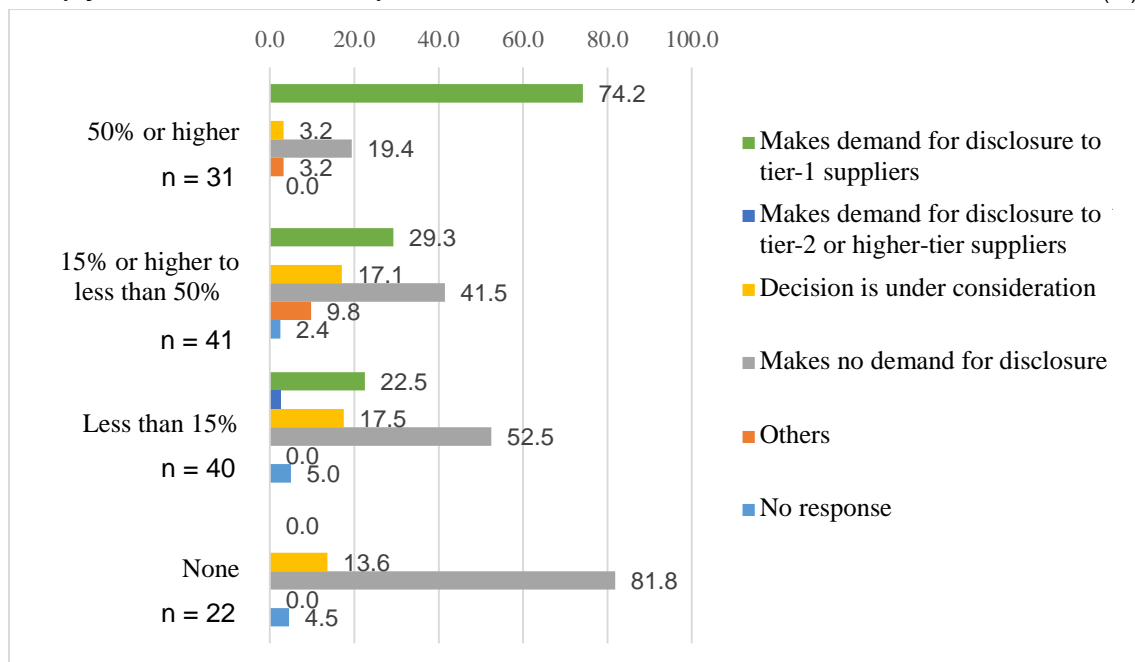
[FY 2017 Survey] Stakeholders particularly focused on engagement (by overseas sales ratio)

(%)



[FY 2017 Survey] Non-financial information disclosure demand for upstream suppliers (by overseas sales ratio)

(%)



[Strategies to enhance engagement with stakeholders concerning non-financial information (partially taken from the comment field)]

- With the aim to build a strong supply chain, we issued “Group CSR Procurement Guidelines” in compliance with the RBA (Responsible Business Alliance) Code of Conduct, distributed them to all of our business partners and held “CSR Procurement Promotion Seminar/Report Meeting”.
- Based on the details of expectations that we learned through customers’ voices and dialogues with various groups such as consumer and industry groups, we announced “Voluntary Declaration on Customer-oriented Management”, which compiled our perspectives and approaches. We also made a declaration to conform to the “ISO 10002 (Quality management -Customer satisfaction-Guidelines for complaints handling in organizations)”, which is an international standard for handling customer complaints.
- We offer factory tours to international environmental NGOs so that they have a better understanding about our efforts. We also conduct activities to increase understanding within the company, such as holding internal seminars by inviting experts on the indigenous tribes of the Philippines where we have business bases.
- In 2017, we published our integrated report through which we clearly presented the value creation processes of our corporate group and disclosed the past 10 years of data of 15 categories of non-financial information, such as the number of employees and environmental data. We also held a meeting with a theme of non-financial information concerning ESG.
- We provide various supports designed to meet the needs of customers that vary in each region, such as a live chat service which allows real-time communications between our customers and operators, SNS (Social Network Service) platform-based customer support and a forum that provides an environment where customers can interact and help each other.

➤ **Disclosure media for non-financial information and expected users**

- The number of companies that published integrated reports, annual reports and CSR/sustainability reports was 56, 44 and 56, respectively. When looking at the companies by sales scale, the company group with 1 trillion or more in sales shows a higher percentage of publishing integrated reports than annual reports in both booklets and website formats.
- The average publication schedule was between 4.7 to 5.4 months for all three types of reports (integrated reports, annual reports and CSR/sustainability reports) and the publication schedule was prolonged in proportion to the number of pages.
- The average volume of the integrated reports was 68.3 pages, which is becoming more compact than an annual report.

[FY 2017 Survey] Disclosure media for non-financial information and publication schedule

(n = 140)

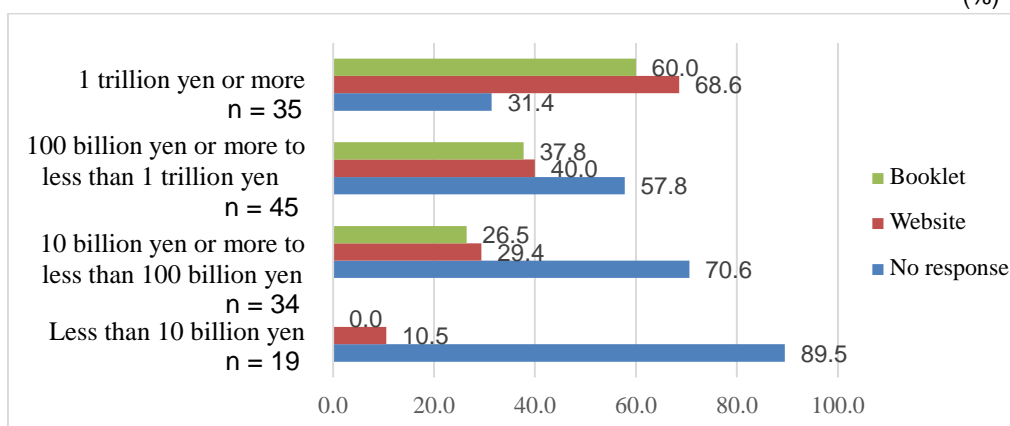
	“Integrated reports”, etc.	“Annual reports”, etc.	CSR/sustainability reports	Governance reports
Number of companies that publish	56	44	56	57
Average publication schedule*	4.7 months	5.0 months	5.4 months	3.6 months
Average number of pages	68.3	72.3	106.9	22.7

*The period from the end of the applicable fiscal year to publication

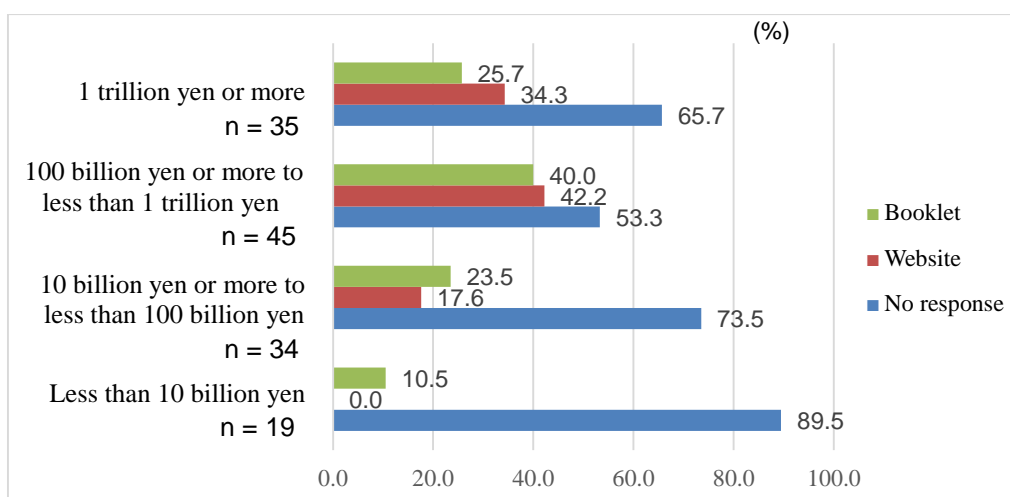
[FY 2017 Survey] Disclosure media for non-financial information (by sales scale)

Media for “integrated reports”, etc.

(%)



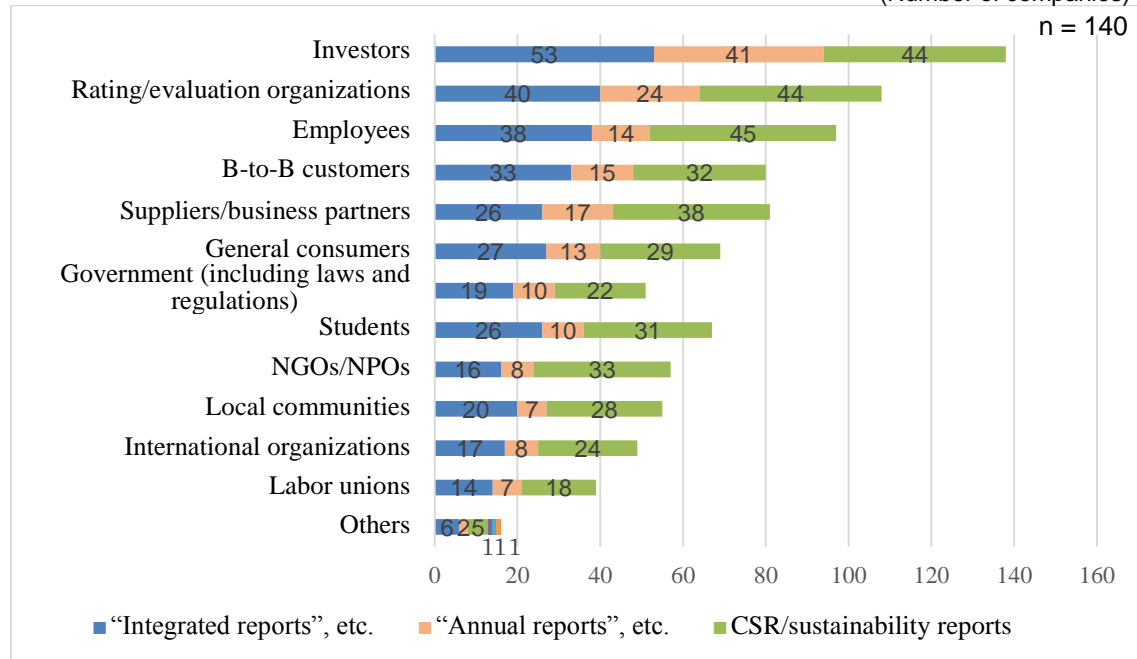
Media for “annual reports”, etc.



For both integrated reports and CSR reports, the most expected users were investors, rating/evaluation organizations and employees, followed by B-to-B customers, suppliers/business partners and other stakeholders. While NGOs/NPOs, local communities and international organizations were generally the expected users of CSR reports, the degree of such expectation was low in integrated reports and annual reports.

[FY 2017 Survey] Expected users by disclosure media for non-financial information

(Number of companies)

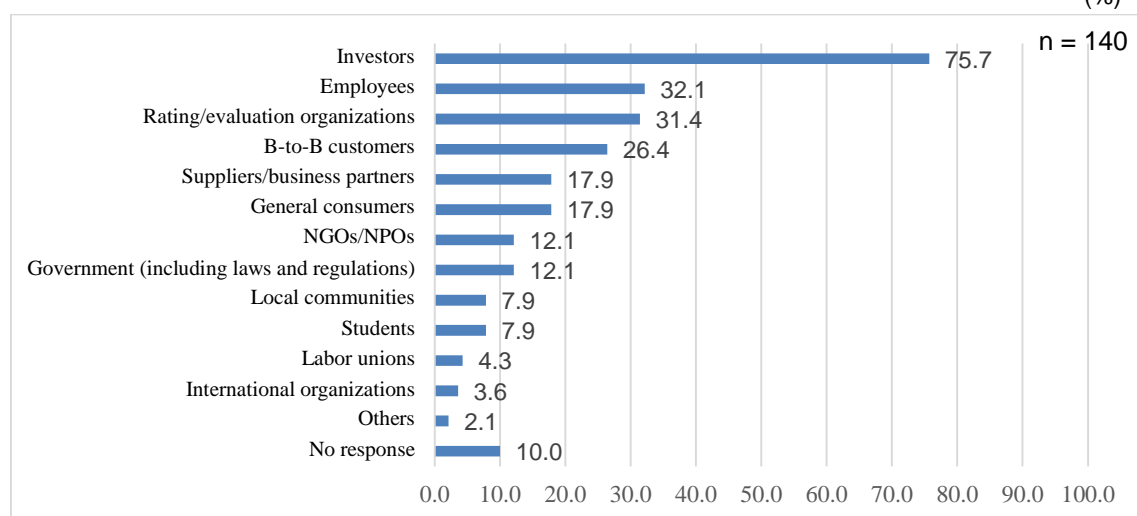


➤ Gap between engagement awareness and actions towards investors

- For stakeholders who were considered key targets of engagement, investors were ranked predominantly high (75.7%), followed by employees (32.1%), rating/evaluation organizations (31.4%) and B-to-B customers (26.4%).

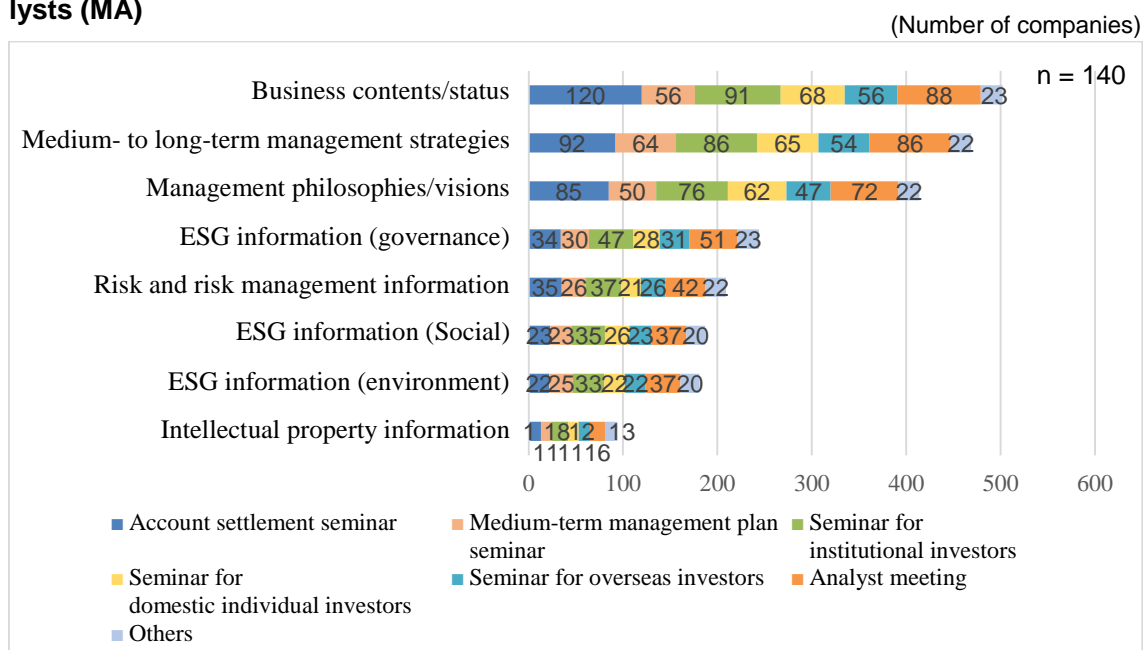
[FY 2017 Survey] Stakeholders particularly focused on engagement

(%)



- When looking at the current status of engagement, business contents, medium- to long-term management strategies and management visions accounted for a high proportion of non-financial information explained to investors and analysts as opposed to a low proportion of governance and sustainability information.

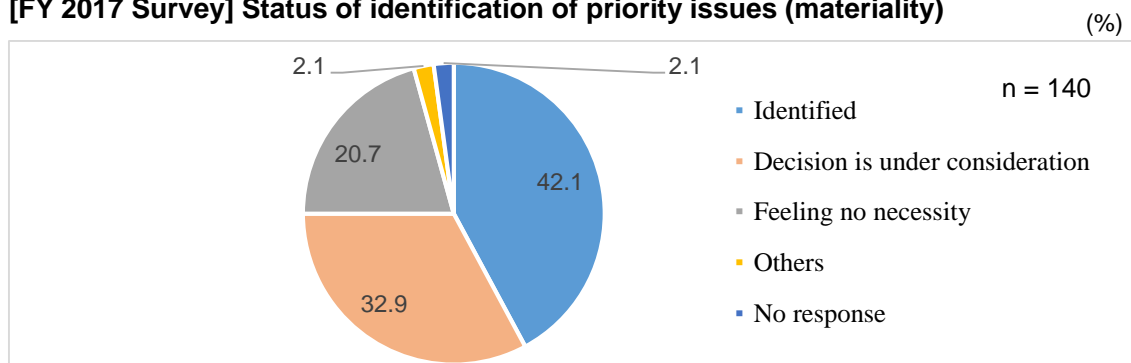
[FY 2017 Survey] Explanation opportunities and disclosure for investors and analysts (MA)



➤ Status of awareness towards priority issues (materiality)

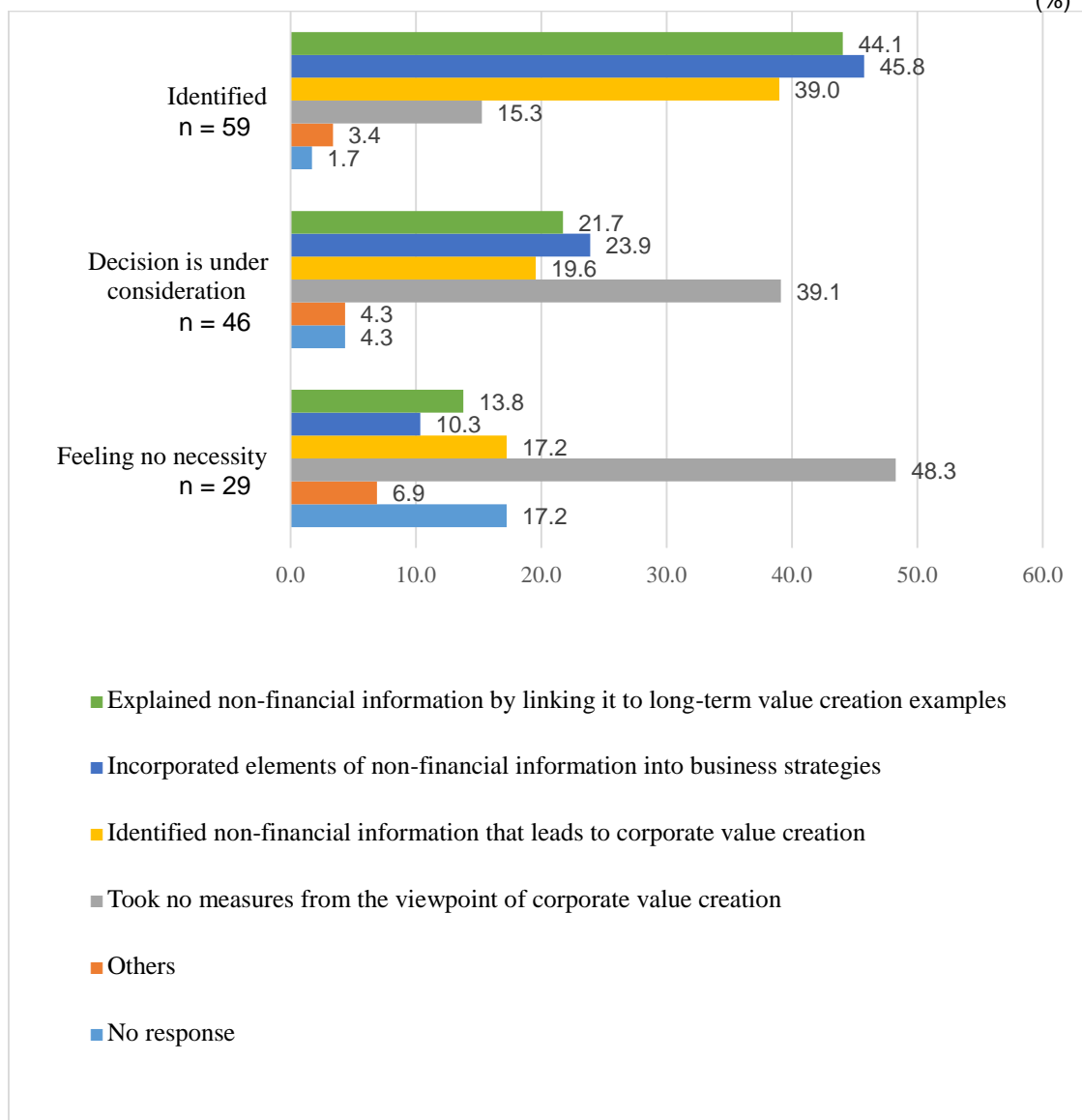
- Approximately 40% of companies have identified their priority issues (materiality). When combined with companies that are currently considering the decision, the percentage rose to a little over 70%, which shows the increased awareness on the necessity of identifying priority issues (materiality)

[FY 2017 Survey] Status of identification of priority issues (materiality)



- When looking at the status of identification and disclosure of non-financial information that lead to the value creation of companies, the results are significantly different depending on whether companies have identified their priority issues (materiality). This shows that identifying priority issues is effective for linking non-financial information to value creation.

[FY 2017 Survey] Identification and disclosure levels of priority issues (materiality) (%)

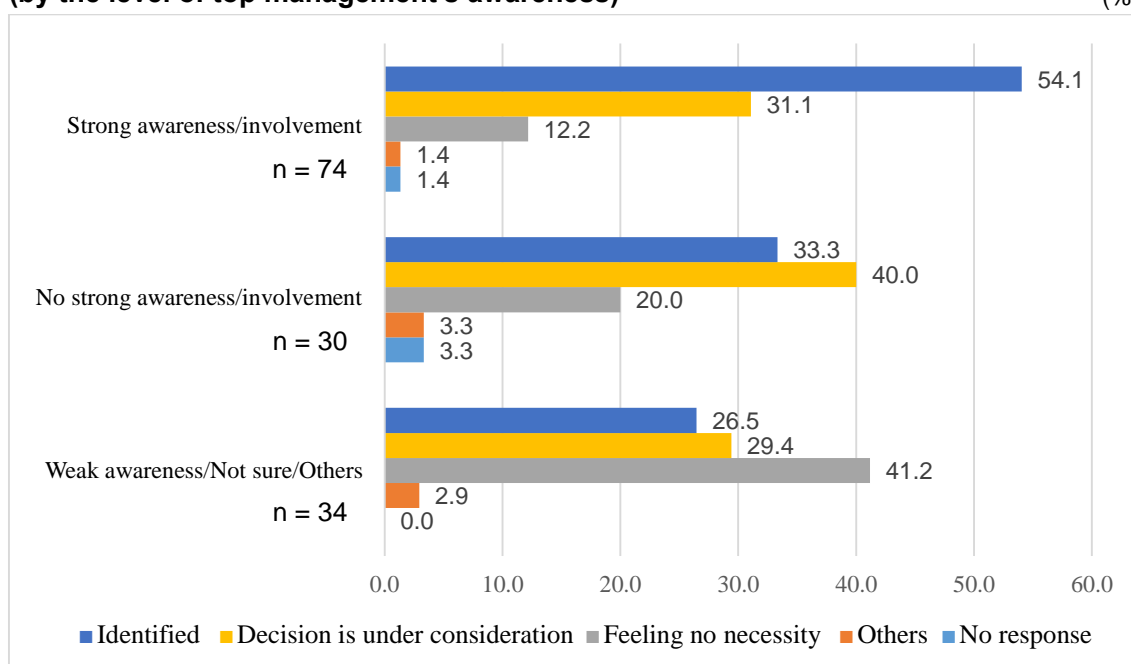


➤ **Comparison by the level of the top management's awareness on the importance of non-financial information disclosure**

- When looking at the percentage by the level of the top management's awareness, the more the top management is aware of the importance of non-financial information disclosure, the more progress is made on the identification of priority issues and integrated disclosure of financial and non-financial information.
- However, it is revealed that without the direct involvement of the top management in promoting such disclosure, non-financial information that leads to value creation is not promoted even if the level of top management's awareness is high.

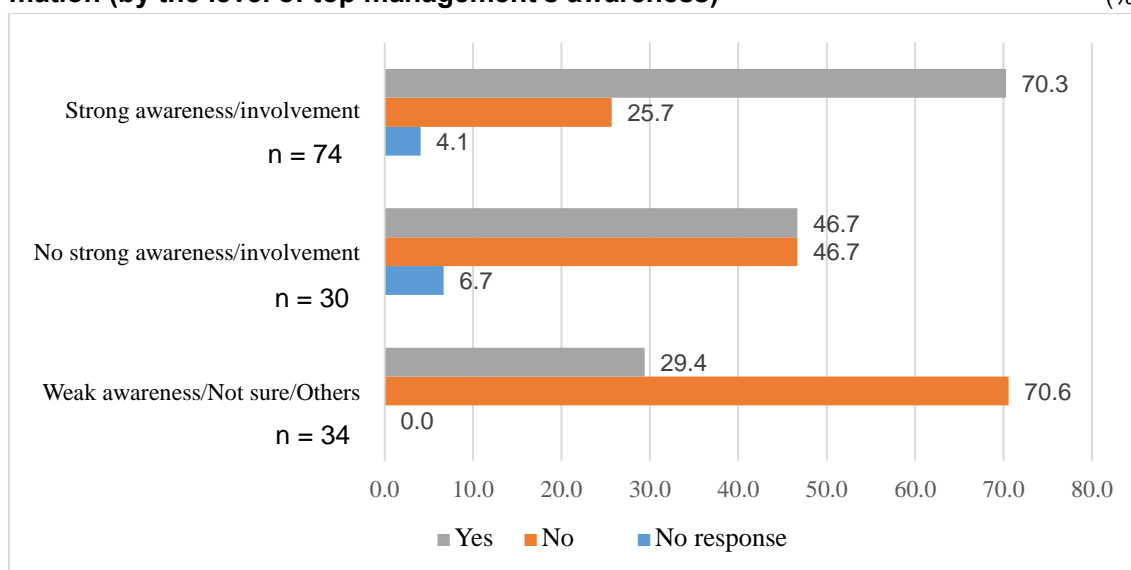
[FY 2017 Survey] Status of identification of priority issues (materiality)
(by the level of top management's awareness)

(%)



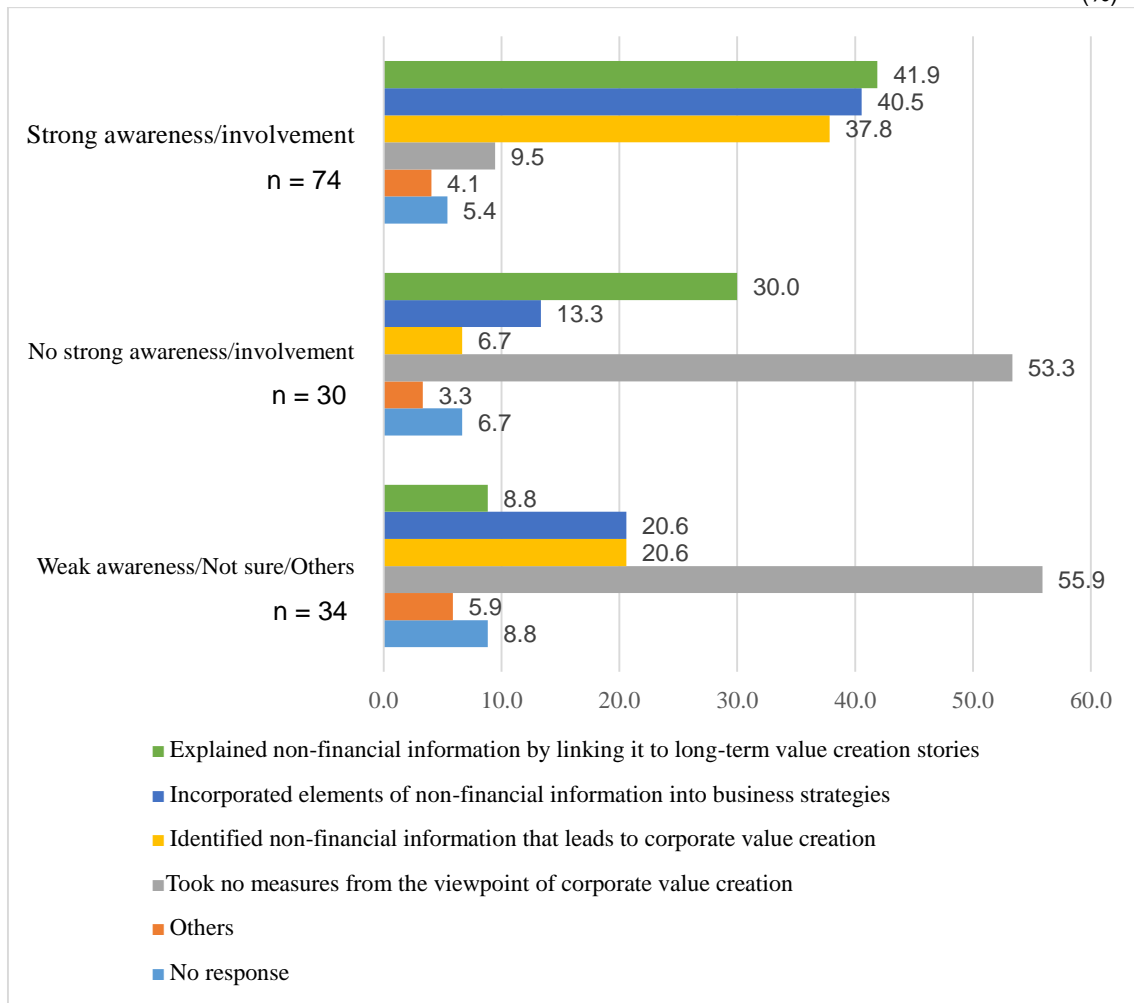
[FY 2017 Survey] Status of integrated disclosure of financial and non-financial information (by the level of top management's awareness)

(%)



[FY 2017 Survey] Top management's awareness and disclosure levels

(%)

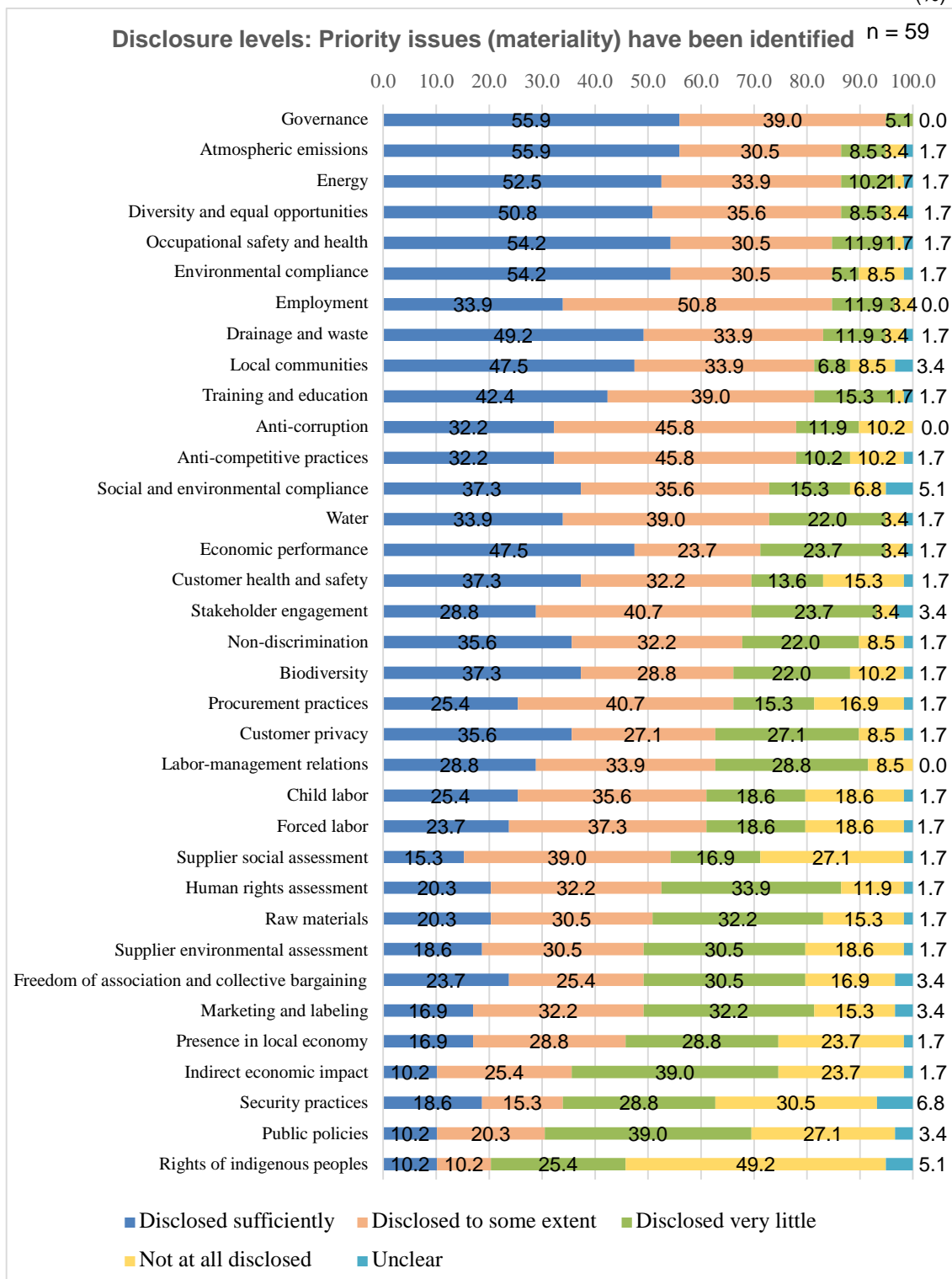


➤ **Status of identification and disclosure of priority issues (materiality)**

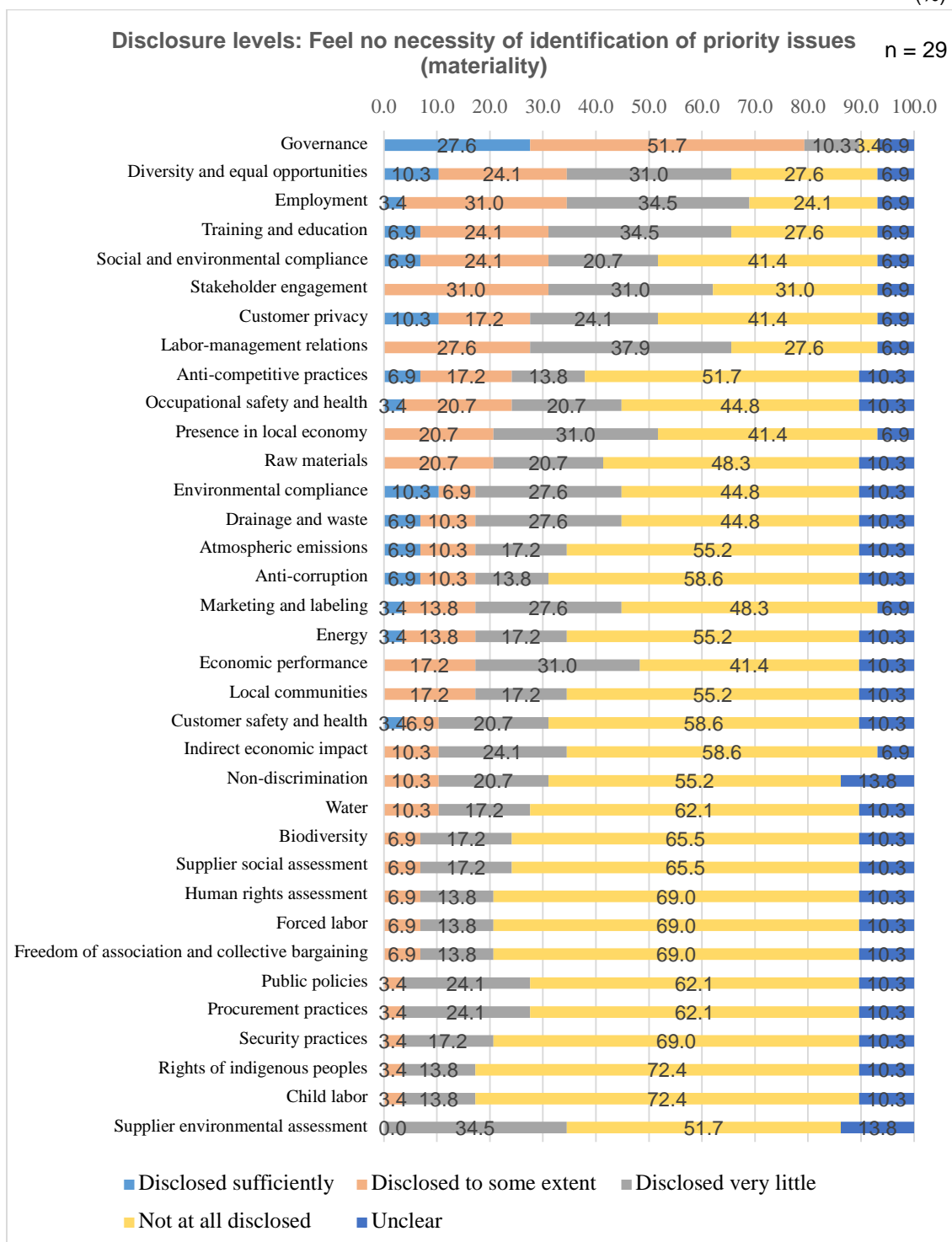
- The levels of information disclosed greatly differ between companies that have “identified” priority issues (materiality) and “feel no necessity of identification”. It can be said that identifying priority issues is indispensable in improving the levels of information disclosed by companies.

[FY 2017 Survey] Disclosure levels (levels of information disclosed)

(%)



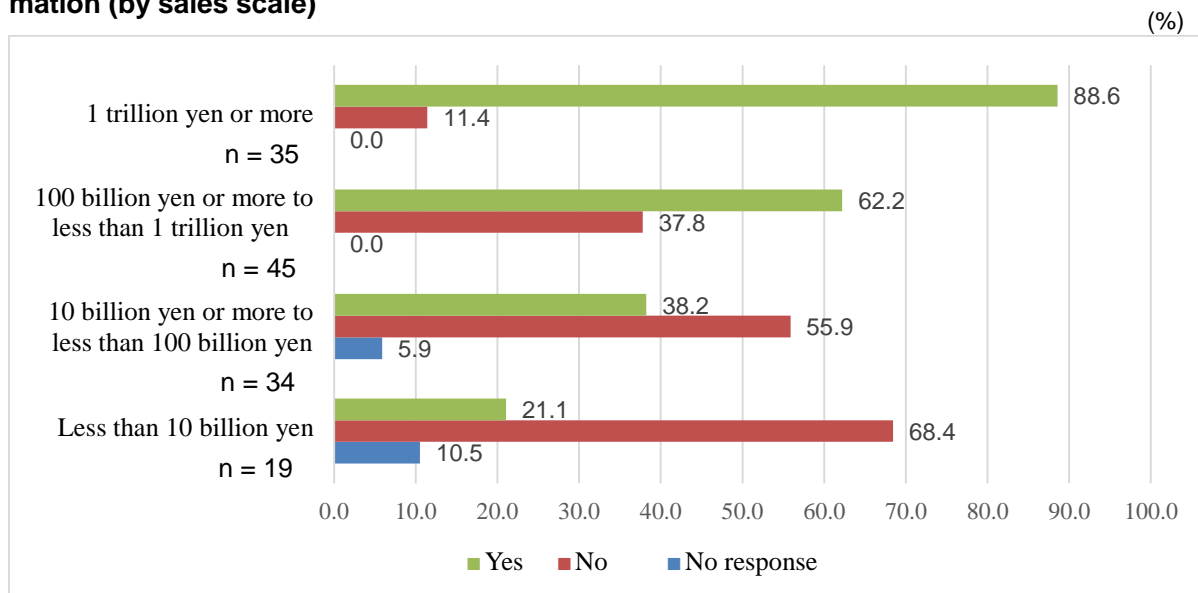
(%)



➤ **Status of integrated disclosure of financial and non-financial information**

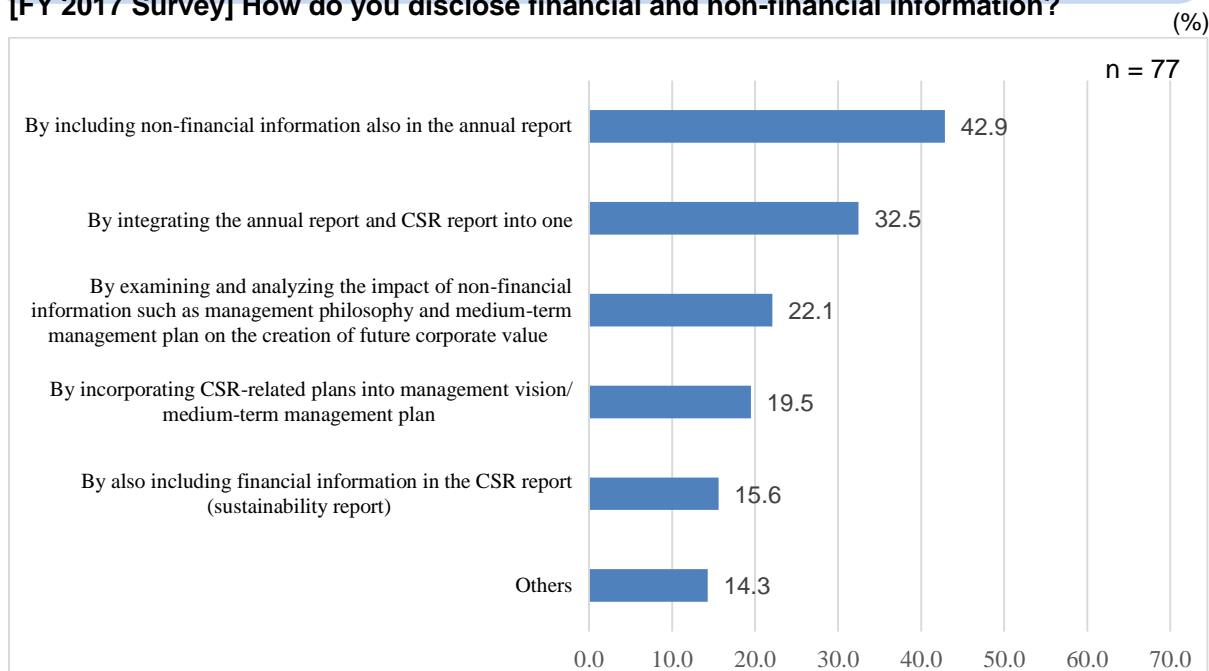
- Concerning the status of integration of financial and non-financial information, the larger the sales scale of the companies, the integration tended to progress more, showing that the transition to integrated disclosure is a movement that is mainly practiced among large companies.

[FY 2017 Survey] Status of integrated disclosure of financial and non-financial information (by sales scale)

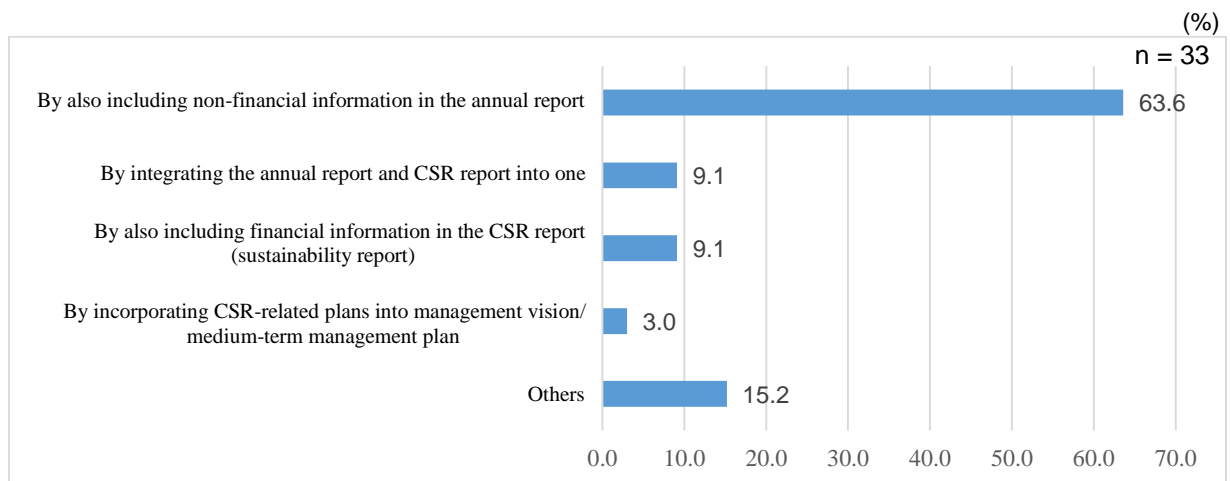


- When asked the question, “How do you disclose financial and non-financial information?” in the FY 2011 survey, companies that answered, “By integrating the annual report and CSR report into one” accounted for about 9%; however, the percentage increased to about 33% in this survey.

[FY 2017 Survey] How do you disclose financial and non-financial information?



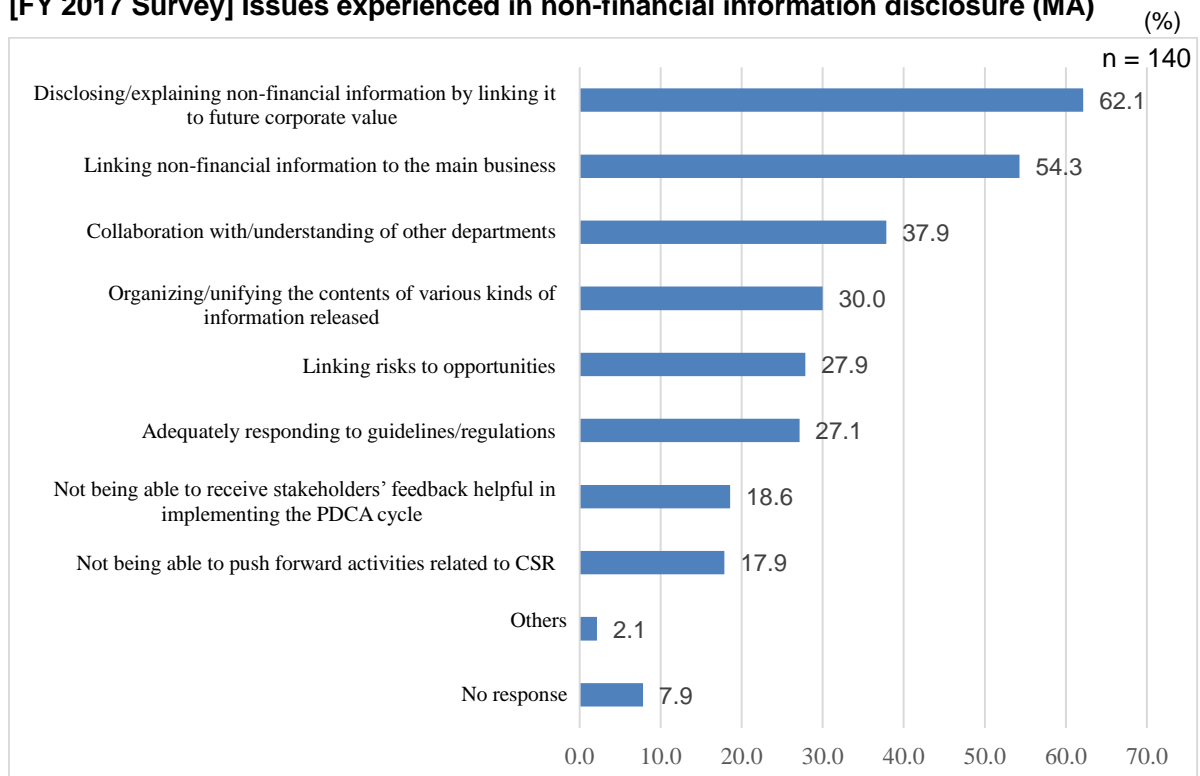
[FY 2011 Survey] How do you disclose financial and non-financial information?



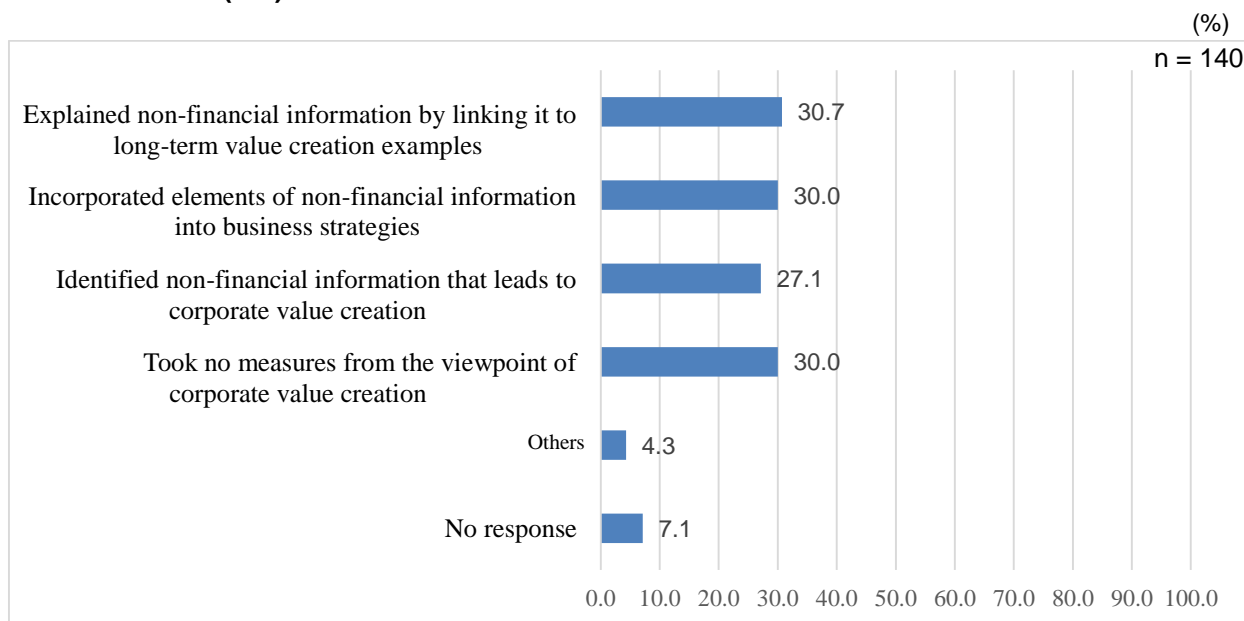
➤ **Issues of non-financial information disclosure and disclosure of non-financial information leading to value creation**

- The two biggest issues of disclosure are disclosing/explaining non-financial information by linking it to future corporate value (about 62%) and to the main business of companies (about 54%). There were about 30% of companies that were able to disclose non-financial information by linking it to their value creation stories, which was recommended in the FY 2011 Survey.

[FY 2017 Survey] Issues experienced in non-financial information disclosure (MA)



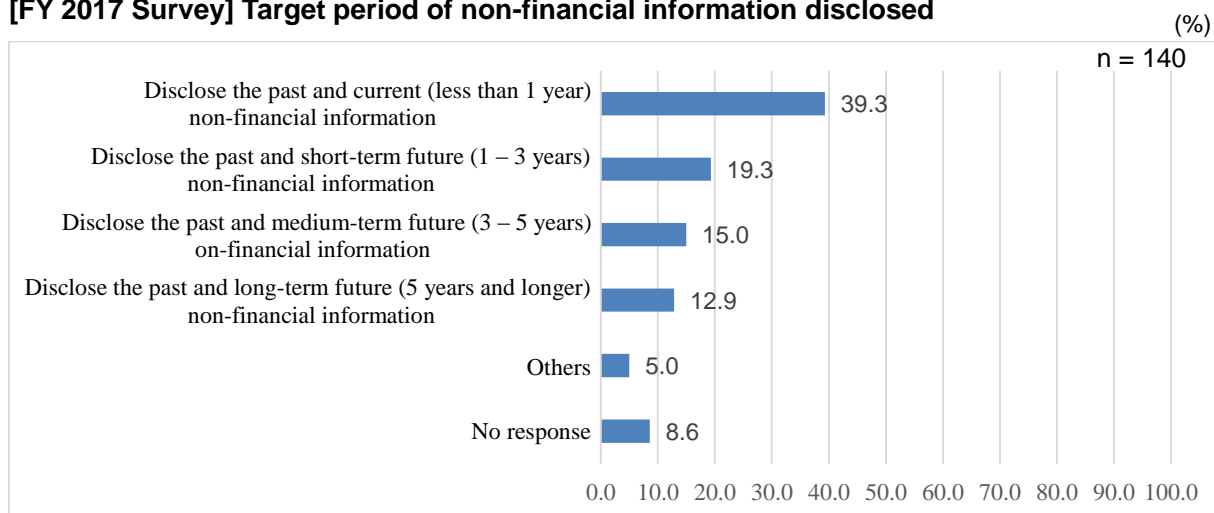
[FY 2017 Survey] Have you clearly disclosed non-financial information that leads to value creation? (MA)



➤ **Lack of a medium- to long-term perspective**

- Companies that were able to disclose with a time axis of five years or longer remained at 10% and those that disclosed with a time axis of less than three years accounted for the majority. It is conceivable that this is affected by the three-year average target period for the medium-term management plan.

[FY 2017 Survey] Target period of non-financial information disclosed



3-2-2. Comparison of the Results of the Questionnaire Survey of European Companies

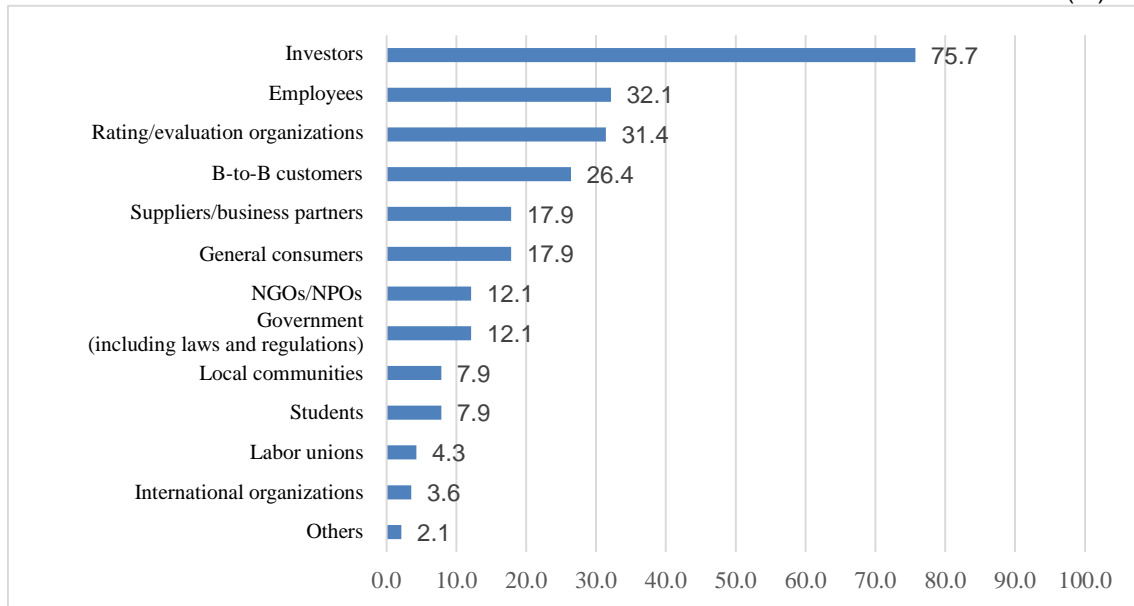
For the purpose of performing a comparative study between Japanese and European companies, we conducted a questionnaire survey of European companies on non-financial information disclosure and collected responses from 69 companies in 21 countries. The survey was conducted with the support of the member companies of CSR Europe, which is an initiative of the EU for promoting CSR.

➤ **Comparison of the stakeholders particularly focused on engagement**

- Among Japanese companies, investors were focused in engagement far more than any other stakeholders and the reason why employees and labor unions were not ranked high may be because focusing on them is regarded as matter of fact.
- On the other hand, it can be seen that European companies identified stakeholders for their focus in engagement according to the characteristics of their companies. Particularly, employees were the most focused stakeholder group, followed by NGOs/NPOs/civil society. This may be related to the characteristics of European society where there is a high level of employment and career mobility and a significant influence of civil society.
- The level of importance placed on investors was different between European and Japanese companies. It is conceivable that investors were ranked the highest by Japanese companies because the word “engagement” is often used in relation to investors among Japanese companies and also the awareness of Japanese companies on the issue of engaging with investors has increased following the recent growth of interest in ESG mainly in the investment community. On the other hand, it is conceivable that European companies answered the question by ranking stakeholders with whom they engage more actively from the viewpoint that engaging with investors is a common practice and meeting the expectations of other stakeholders will consequently lead to positive evaluations of investors who value ESG.

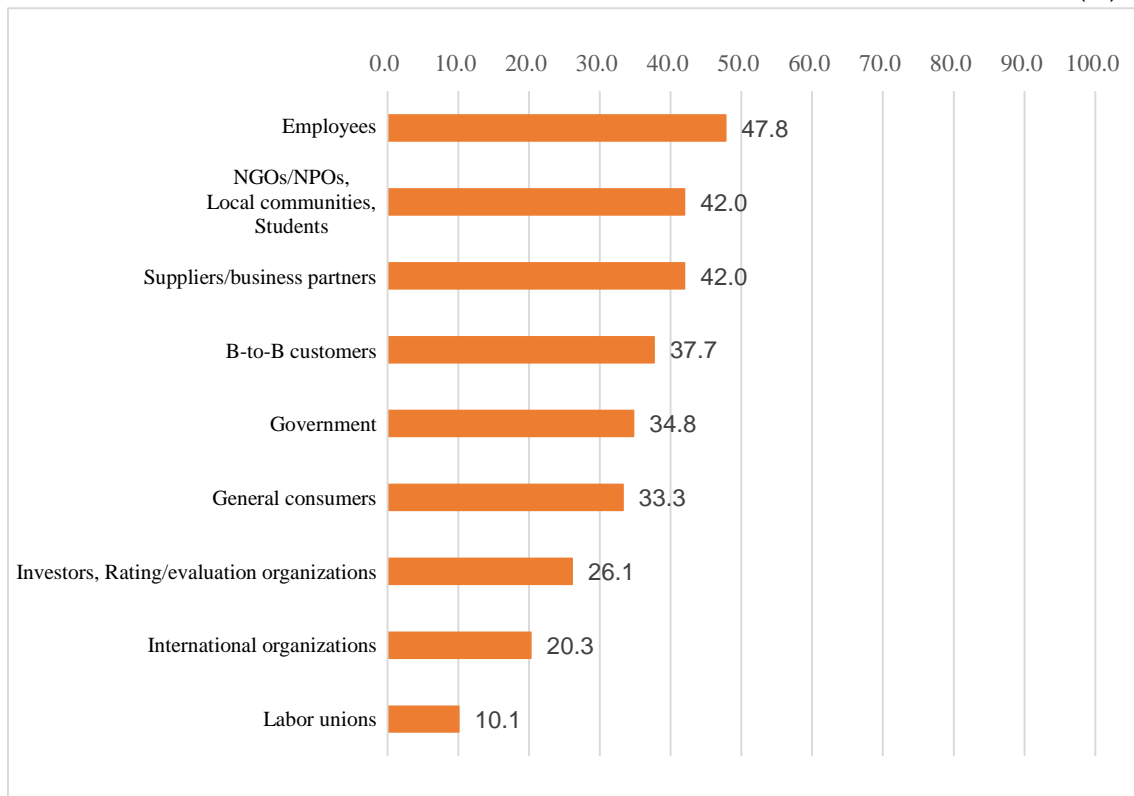
[Japan] Stakeholders particularly focused on engagement (circle the top three stakeholders)

n = 140 (%)



[Europe] Stakeholders particularly focused on engagement (circle the top three stakeholders)

n = 69 (%)



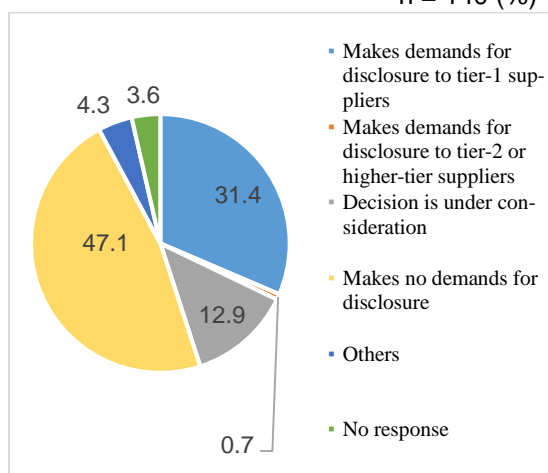
➤ **Comparison of disclosure demands made to upstream suppliers through a questionnaire, etc.**

- The percentage of companies that made disclosure demands to tier-1 suppliers was around 32% for both Japanese and European companies, showing no difference. However, a difference was found in terms of disclosure demands to tier-2 suppliers with Japanese companies rarely making such demands (0.7%) and European companies making the demands in some degree (13.2%).

[Disclosure demands made to upstream suppliers for non-financial information obtained through a questionnaire, etc.]

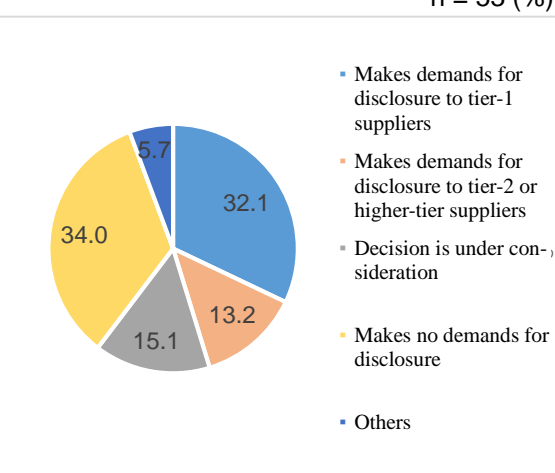
[Japan]

n = 140 (%)



[Europe]

n = 53 (%)



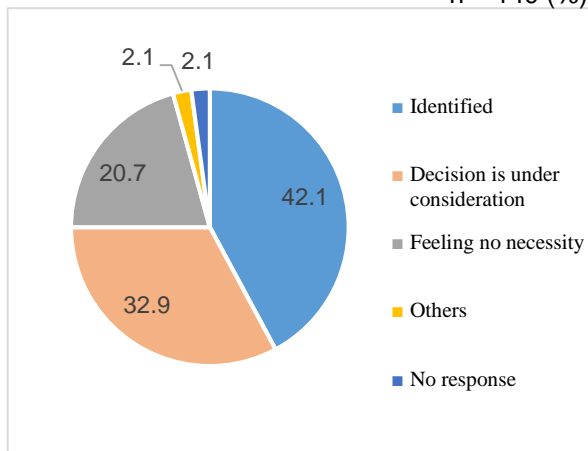
➤ **Comparison of identification of priority issues (materiality)**

- Approximately 42% of Japanese companies have “identified” their priority issues (materiality) compared to 68% of European companies.

[Identification of issues (materiality)]

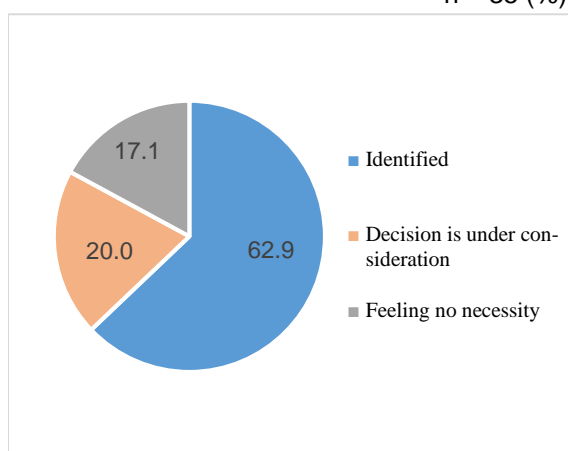
[Japan]

n = 140 (%)



[Europe]

n = 35 (%)



Chapter 4 Stakeholders' Information Needs and Expectations towards Companies

4-1. Information Needs and Expectations for Non-financial Information Disclosure by Stakeholders

The target stakeholders of the individual survey were investors/asset owners, evaluation organizations, employees/workers, NGOs/NPOs/civil society and a total of ten government organizations/institutions. Implications obtained from each stakeholder group are summarized below.

➤ Investors/asset owners

- Financial information is a company's performance results over a certain point in time/period and what is necessary for investing is the information needed for decision-making, such as the company's systems, approaches, resources and techniques that produce future results. Due to the limitations of financial information, reporting related to value creation that integrates financial and non-financial information with a consistent logic is being demanded.
- It is natural that materiality varies depending on the business area, business type and each company. It is important for companies to be able to clearly identify and explain the issues that are important to them, which is a point that investors place particular emphasis on.
- Among ESG, governance is particularly paid attention to. Investors want to know "whether the governance system is functioning throughout the business".
- Not disclosing the information of a certain action means that such action was not taken. The absence of disclosure data is posing the risk of companies being excluded from the potential investment targets of investors.
- The timeliness of information is also important. Publishing reports only once a year is not sufficient for successful engagement and the latest information should also be provided. Companies should utilize the corporate website and other means of communication.
- The information that investors focus on are different for each investor. How they approach and perceive information is also different between active investors who focus on individual discussions and passive investors who are more interested in common issues.
- Japanese investors tend to be indifferent to the roles played by investment funds. Responsible investing encompasses characteristics such as "healthy-minded (trustworthy) views and nature", "accountability and abilities" and "being answerable for one's own actions". It demands investors to "actively fulfill their responsibilities on their own initiative".

➤ Evaluation organizations

Evaluation methods vary according to evaluation agencies. In terms of information sources used, there are roughly two types of evaluation methods: one that uses public information and the other that uses non-public information such as questionnaires. With the improvement in objectivity and information technology, evaluations using public information are expected to become more mainstream.

- When using published corporate information in evaluations, it is sometimes difficult to determine what information is positioned as the official information of the company, for example, interviews with the president and other interview articles that are included in CSR reports and other corporate reports. Rather than such information which appears unclear whether it is a personal opinion or official commitment of the company, more reliable information, such as a certain corporate policy,

are used as the evaluation materials.

- Looking at corporate efforts by consolidated fiscal year as a boundary is basically becoming a standard. For example, in terms of the amount of CO₂ emissions reduced, it is difficult to differentiate the levels of efforts among companies only by looking at whether or not companies disclosed numeric information.
- It is important that institutional investors themselves be able to build scenarios that capture which ESG factors will lead to the improved or diminished corporate value of the companies that they are invested in and carry out discussions with them. In Europe, there are many institutional investors who have experienced ESG analysts in-house and the accumulation of knowhow on effective ESG data use is progressing. It is also not uncommon to see cases where ESG and rating data are incorporated with corporate value evaluation models of each evaluation organization and used companywide, instead of being used as independent data which are only referred to individually by a relevant staff member.
- There are variations among companies on how to classify business activities for securities reports, etc. For accurate evaluation, it is expected that disclosure is made by each segment according to the companies' business situations.
- Coordination and consistency of the information disclosed for each medium is expected. There are some cases where the actions committed as the priority issue of the company in CSR or ESG-related reports are completely untouched in management plans, securities reports, etc. This is an important issue for ESG investors who refer to both financial and non-financial reports in making investment decisions.
- If there is no feedback on the evaluation results, companies would not know what measures are needed for improvement. This means that companies will prioritize evaluation organizations that give them feedback.
- Among institutional investors, there is a need for ESG information on mid-cap stocks that have a large fluctuation range. However, it will need further discussions as to whether the disclosure of non-financial information by SMEs will contribute to increasing their competitiveness.

Figure 3 Major ESG Evaluation Organizations and Reference Sources

Evaluation agencies	Sources	Indexes
MSCI (US)	• Information disclosed to the general public	• MSCI ESG Indexes
Sustainalytics (Canada)	• Information disclosed to the general public	(Provision of ESG evaluation data only)
FTSE Russell (UK)	• Information disclosed to the general public	• FTSE4Good Index Series
RobecoSAM (The Netherlands and Switzerland)	• Questionnaires	• Dow Jones Sustainability Indices
Vigeo Eiris (France and UK)	• Questionnaires and information disclosed to the general public	• Vigeo Eiris Euronext Index
CDP (UK)	• Questionnaires	(Scoring in the areas of climate change, water and forests)

➤ **Workers/employees**

- Compared to before, there has been more progress on the disclosure of information surrounding labor conditions, such as the disclosure of labor issues in CSR reports, etc., and development of a database on women's active participation in the workplace. Along with regulatory improvement, having a mechanism to evaluate the contents of disclosure will increase the effectiveness. In local governments, there has been growing efforts for not only women's active participation in the workplace but also in the labor and human rights areas (for example, Kumamoto Prefecture recognizes companies that meet a certain work environment and conditions as a "Bright Company" for the purpose of improving the work environment and conditions of companies throughout the prefecture).
- On the other hand, it has also been pointed out that employment and personnel transfers are being made only to produce desirable statistics. It is also concerning that information on employment and labor, such as the gender pay gap and long working hours, is not being actively disclosed.
- According to Article 120, paragraph (1), item (ii) of the Ordinance for Enforcement of the Companies Act, companies are required to disclose the "status of employees" in their business reports; however, the general practice among companies is to list the number of employees, which certainly does not sufficiently disclose the details and conditions of their human resources management. It is important for companies to consider their obligations for information disclosure related to human resources management, labor relations and occupational safety and health.
- When disclosing information, it is necessary to ensure that the contents are easy to understand for workers/employees by adding supplementary explanations to business reports, etc. It is also important for each employee to recognize corporate social responsibilities by accurately understanding and sharing the disclosed information through opportunities, such as employee seminars, labor union newspapers and labor-management meetings.
- Companies must recognize their employees as stakeholders and actively communicate and provide information to users. In order to accurately evaluate companies, users need to improve their ability to evaluate disclosed information, such as crosschecking the information being disclosed, and there are also NPOs that provide students such information.

➤ **NGOs/NPOs, local communities and consumers**

Especially overseas, there is an active movement for using evidence-based evaluations for corporate efforts towards individual issues among these stakeholders, such as ratings and rankings based on public information. There have also been an increasing number of cases where these stakeholders jointly conduct evaluations with institutional investors or evaluation organizations, which is also increasing the influence of these stakeholders.

- Compared to the relatively advanced disclosure of environmental and governance aspects, it is important that efforts are made to develop evaluation indicators for the disclosure of social aspects where the development of standards is still lagging behind. For example, information disclosed on regional contributions is often barely related to the business, so it is difficult to understand where it stands in corporate strategies and overall business activities.
- Meanwhile, not all civil society has a need for individual expert information. There are also many cases where engagement is more valued than disclosure. It is important how companies continue to engage with local communities in their daily business activities and work together with NGOs towards solving common issues. It is also possible that focusing on engagement as a starting point

may change how stakeholders perceive the disclosed information.

- It is necessary for both companies and civil society to adjust their mindsets and consider each other a partner towards solving social issues. In Europe and the US, there have also been more companies and NGOs that set aside their differences and use each other in a good way as partners in value creation. In Japan, although there are different power relations between these two groups, their conflict of interest does not always have to be the starting point. There should be better ways for Japanese companies and NGOs to work and create value together.

Figure 4 Examples of NGOs' Corporate Ratings

Names	Themes	Contents
Behind the Brands (Oxfam)	Food industry	<ul style="list-style-type: none"> • Evaluates the top 10 global food and beverage companies concerning their efforts across supply chains for seven issues based on public information • Also provides support to target companies for improving their efforts
KnowTheChain (Humanity United, the Business & Human Rights Resource Centre, etc.)	Supply chains	<ul style="list-style-type: none"> • Develops benchmarks for evaluation of corporate efforts to address forced labor and human trafficking in partnership with NGOs and evaluation organizations • Performs benchmarks of ICT, Food & Beverage and Apparel & Footwear sectors and provides the information to investors
Corporate Human Rights Benchmark (AVIVA, IHRB, etc.)	Human rights	<ul style="list-style-type: none"> • A project led by a coalition of institutional investors and NGOs for evaluating companies specific to human rights performance • Evaluates 97 companies in three high-risk industries (agricultural products, apparel and extractives) and releases the results
Corporate Climate Action Ranking (WWF Japan)	Climate change	<ul style="list-style-type: none"> • Evaluates and ranks the efforts of companies to combat global warming for each industry based on common benchmarks • Has been continually conducting evaluations since 2014 and so far released the results of five industries, such as electrical equipment, retail/wholesale and finance/insurance
Ethical Corporate Report Card (Citizen Network to Create a Sustainable Society through Consumption)	Ethical practices	<ul style="list-style-type: none"> • Released an ethical report card of a total of 10 companies including processed food and apparel companies in 2016 • Released an app ("Green & Ethical Choices") for comparing ethical products in Japan, which is advancing overseas
Fair Finance Guide Japan (Japan Center for a Sustainable Environment and Society, etc.)	Finance	<ul style="list-style-type: none"> • Fair Finance Guides are active in nine countries worldwide and evaluate banks in terms of environment and social aspects • In Japan, the results of evaluations of the investment and loan policies of major banks are available for the public.

➤ Government

- Within the government as well, demands for disclosure are also being made from top-to-bottom. Horizontal collaborations and unification of databases are being promoted when possible.
- The basic stance is to encourage voluntary disclosure by companies by maintaining databases and making the information visible at a glance by comparing it horizontally allows people to learn about companies with great potential.
- When developing guidelines for disclosure, international standards are also referred to. Unless otherwise prescribed by law, the decision about which guidelines to adopt is left up to the discretion of the companies.
- How to use the disclosed information is left up to the users. The main role of the government is to increase the amount of information and maintain the ease of use. Disclosure will proceed at once when the interests of information providers match the interest of readers.
- The Ministry of Health, Labour and Welfare has launched the “Database of Companies Promoting Women’s Participation and Advancement” in 2016 which centrally aggregates corporate information on the status of women’s active participation. The Ministry has demanded companies to disclose their information at a minimum regulatory level and developed the Database as a platform which provides the details of guidelines and information necessary for disclosure side by side for comparison.
- Complex calculations and data input tasks are burdensome for companies. Standards for calculation methods, etc., have been introduced in leaflets and other materials; however, various inquiries on data input continue to be made to Labor Bureaus throughout Japan. Publishing numeric information should be easy for listed companies since they already have the numbers calculated for publishing their CSR reports; however, it may be difficult for other companies that do not have enough information that can be expressed numerically.
- While there are companies that actively disclose their information, there are also those that do not want to disclose their information and be compared with others. It is important to first have companies register in the database and disclose their information. Various efforts, such as improving usability, are being made to increase the number of registered companies.
- Since 2016, the Ministry of the Environment has also been implementing a pilot project, “ESG Dialogue Platform”, which is a database for registering environmental information. The Platform will be built in a form which is in accordance with the Environmental Reporting Guidelines that are revised based on changes in social conditions and the database will be modified to satisfy the disclosure demands of readers and make the reporting easier for companies.

Figure 5 Examples of Government-operated Databases for Optional Registration of Non-financial Information

Names	Operating Ministry	Contents
ESG Dialogue Platform	Ministry of Environment	<ul style="list-style-type: none"> • A database and dialogue platform using XBRL developed for the disclosure of environmental information and development of its platform • In FY 2017, 750 companies and investors participated (453 companies) (as of February 16, 2018).
Database of Companies Promoting Women’s Participation and Advancement	Ministry of Health, Labour and Welfare	<ul style="list-style-type: none"> • A database that centrally aggregates information concerning the status of women’s participation in companies • The number of registered companies is 8,718 (as of February 12, 2018) which is 30 – 40% of the companies that are obliged to disclose.

4-2 Stakeholders' Main Demands and Their Characteristics

Through the presentations of study groups and individual interviews, we strived to understand the information needs of stakeholders in different positions and evaluations of the current disclosure of non-financial information by companies. The main information needs of each stakeholder can be organized as follows:

Figure 6 Main Information Needs by Stakeholders

Stakeholders	Information needs	Points of improvement for evaluation
Investors/asset owners	<ul style="list-style-type: none"> • Priority issues and strategies leading to value creation for determining the future prospects of companies 	<ul style="list-style-type: none"> • Identification of priority issues for achieving continuous value creation • Developing links between strategies and non-financial information • Management of negative information
Evaluation organizations	<ul style="list-style-type: none"> • Objective data that can be compared for evaluation 	<ul style="list-style-type: none"> • Information based on actual business conditions • Information conforming to standards • Reliability of information
Employees/workers Students (future employees)	<ul style="list-style-type: none"> • Information related to labor environment 	<ul style="list-style-type: none"> • Information directly linked to stakeholder interests • Long-term direction of the organization
NGOs/NPOs/civil society	<ul style="list-style-type: none"> • Information related to efforts taken for specific individual issues 	<ul style="list-style-type: none"> • Highly transparent and sincere information • Attitudes towards problem solving
Government	<ul style="list-style-type: none"> • Status of conformity with regulatory requirements 	<ul style="list-style-type: none"> • Contributions made to rule-making through information provision
B-to-B customers (including public procurement)	<ul style="list-style-type: none"> • Status of handling social and environmental aspects in supply chains 	<ul style="list-style-type: none"> • Prioritizing the handling necessary to comply with demands • Contributions to priority issues of customers
Consumers (B-to-C customers)	<ul style="list-style-type: none"> • Information contributing to making purchase decisions • Ease of access and comparison 	<ul style="list-style-type: none"> • Information/messages on other aspects than price and functions • Improving the convenience of information use by making it mobile friendly

The following implications were obtained through further studies:

➤ “Diversity” of stakeholders

Not only do the main information needs of stakeholders vary depending on their positions but also individual circumstances that differ from one investor to another. Stakeholders' interests are diverse and change from time to time based on a number of factors, such as the context in which stakeholders are in, interests, regions, cultures and generations.

➤ **Gap between stakeholders' information needs and the disclosed information**

The information that stakeholders really want to know is often the information that companies feel uneasy about disclosing as public information or the information that companies still do not have a clear understanding of.

➤ **Importance of acquiring an appropriate understanding through stakeholder engagement**

There are some cases where stakeholders do not have the capacity to appropriately evaluate the disclosed information. In order to appropriately acquire an understanding of the stakeholders while meeting the changing expectations, it is important that companies make efforts to promote dialogue and engagement with key stakeholders.

➤ **Expanding the impact of non-financial information on decision-making**

The increased access to information, aggregation of database information and widespread availability of personal reviews due to digitization has created an environment in which the presence or absence of non-financial information disclosure affects the reputation of companies and the decisions of stakeholders.

Chapter 5 Implications from the Advanced Cases of Companies

5-1 Advanced Cases of Companies in Japan

Through the survey of presentations of study groups and interviews, we studied the latest trends of advanced cases of companies both within and outside Japan. The survey was conducted on a total of nine companies and the following implications were obtained based on the results:

➤ **Clarification of targets and differentiation of media for disclosure:**

When there are still many companies that disclose information for “multi-stakeholders” instead of clarifying the targets of their disclosure, advanced case companies are delivering their information which is edited to suit the needs of target readers that they have identified for each disclosure medium based on the needs of stakeholders.

In disclosing, providing the information that is as close as possible to the information needs of stakeholders is the basics of all disclosure.

- Osaka Gas clearly identifies that its basic stance is that they will refer to guidelines but disclose the necessary information by focusing on the needs of stakeholders.
- Daiwa House Industry identifies long-term ESG investors as its targets of reporting and uses the sustainability report as a tool for improving ESG ratings and selecting an ESG index (first preliminary report) and the integrated report as a tool for facilitating dialogues with interested stakeholders (second preliminary report). Accordingly, its editorial policy for sustainability reporting, which had been conventionally for multi-stakeholders, was also changed from more of a reading material to a medium for information disclosure.
- Japan Tobacco identifies overseas readers as its target users. Recognizing that it is essential to

understand the interests of overseas stakeholders and disclose non-financial information accordingly to adapt to the rapid pace of globalization, the company narrowed down the expected users of its sustainability reports to overseas institutional investors who account for a large shareholding, overseas NGOs, international organizations and CSR experts.

- Suntory Holdings assumes consumers as its primary readers. Aiming to disclose information that will enhance consumer trust and understanding, the company makes various efforts to increase the readers of its reports, such as distributing CSR reports during factory tours and devising plans to attract more visitors to the information disclosed on its website. Although Suntory Holdings remains unlisted, it practices information disclosure at the same level as that of the listed companies by referring to external guidelines. The reason is because although it remains unlisted, it has a listed subsidiary, Suntory Beverage & Food Limited, and the company highly values transparency to prevent any distrust created among customers due to it being an unlisted company.

➤ **From information disclosure to proactive stakeholder engagement:**

Disclosing information does not necessarily mean that information has been communicated unconditionally. In order to deliver information to readers and encourage the readers to take actions based on the received information, it is essential to proactively hold dialogues and initiate engagement with the intended readers.

In recent years, there has been a gradual increase in the number of companies that held seminars on ESG for investors; however, Omron Corporation and Marui Group offer ESG seminars for a wider range of stakeholders.

- Omron Corporation offers seminars on the company's concrete efforts towards sustainability goals established in FY 2017. These seminars are led by the IR Department and also offered to a wide range of influencers and students.
- In order to increase "corporate value", which is a common interest of all stakeholders, Marui Group identifies "co-creation management" as the core concept of its management and works on information disclosure from the same stance. In the first year when the "Co-creation Management Report", which is an integrated report, was published, the company held a seminar mainly led by field personnel. In the second year, the company offered a seminar by inviting external directors, business partners and customers to create an opportunity for "co-creation" based on the requests of the participants of the first seminar. In the third year, the "Co-creation Sustainability Explanatory Forum" was held for reporting sustainability management as "pre-financial information" that leads to visualization of long-term financial information.

➤ **Improvement of internal systems and fostering of a culture of disclosure**

For integrated disclosure, it is important to remove the silo mentalities of relevant departments that run vertically and to promote disclosure of non-financial information, it is necessary to instill a culture of disclosure where disclosure is considered a common practice. Also, when coordinating the boundaries of information to be disclosed with the actual conditions of the organization, it is necessary that companies make efforts to globalize their internal systems related to disclosure according to the globalization made in their organizational structure and business contents and develop information gathering systems and a disclosure team.

- To raise awareness on information disclosure within a company, participating in engagement opportunities is effective. At Daikin Industries, responsible directors participate in the seminars held for investors and take questions and opinions directly from them, which reportedly is raising the awareness.
- Bridgestone Corporation is currently making a global transition of the report planning and structure that were conventionally focused on Japan to promote disclosure which is in line with the actual conditions of its businesses.
- Japan Tobacco has already established a joint editing system composed of Japanese and overseas members (Japan Tobacco International Headquarters in Switzerland) several years ago. Accordingly, the official sustainability reports are published in English and then translated into Japanese. With this system, not only the quality of English used in the reports increased but also the discussions with European members who consider information disclosure as a “matter of fact” promoted disclosure of negative information and other information that had never been disclosed, which also led to fostering a shared understanding towards information disclosure within the company. Publishing the “Basis of Reporting” which outlines the approaches to monitor and assess the non-financial KPIs of the group globally, defines data and scope of application also increased objectivity and clarified standards of disclosure, which allowed smooth handovers even when the persons in charge change.
- Sumitomo Chemical has launched the “Sustainable Tree” project under the theme of SDGs which aims to raise awareness among employees. This is a posting project where employees share their ideas on how they can contribute to achieving the 17 goals of the SDGs by posting them on the dedicated website. In FY 2017, over 9,000 posts were made. Executive officers also post their commitment to the initiatives taken by their departments along with their photos.

➤ **Steady steps towards substantive integration that cannot be achieved in a short period of time**

Linking non-financial information to value creation and practicing substantive integrated reporting are not something that can be achieved in a short period of time. Even the companies that are regarded as advanced case companies in terms of integrated reporting continue to explore and make efforts to improve the quality of reporting with a medium- to long-term perspective, such as instilling integrated thinking, formulating strategies, building systems and making steady improvements.

- Omron Corporation has been publishing integrated reports since 2012; however, they stated that it was the fifth year when they finally produced what they can confidently say is an integrated report. Incorporating non-financial aspects into management strategies further clarified the position of non-financial information in management strategies.
- Marui Group has been working to improve the quality of integrated reporting over three years based on the plan to make integrated reporting evolve in stages. The company always places engagement with key stakeholders at the center of its efforts.
- Sumitomo Chemical signed the TCFD (Task Force on Climate-related Financial Disclosures) before any other companies based on a viewpoint that promoting disclosure of information on

opportunities and risks related to climate change will gain the trust of stakeholders and consequently lead to the medium- to long-term improvement of corporate value. The chemical industry is an energy-intensive industry so the hurdle to reduce CO₂ emissions is high; however, the company plans to take measures that take into consideration active climate measures taken by companies in Europe and the US.

5-2 Advanced Cases of Companies Overseas

For the advanced cases of overseas companies, we analyzed eight companies based on a literature survey. As the subjects of our study, we selected companies that are globally recognized as being excellent in sustainability performance and reporting, half of them from Europe/US and the other half from Asia/South America. We also conducted an interview survey of a Japanese subsidiary of a global company.

➤ Efforts for building links to medium- to long-term value creation

Several excellent cases of developing links to value creation were observed, for example, a case where non-financial information was identified as backcasting and the progress was disclosed based on the medium- to long-term sustainability strategies; a case where KPIs related to non-financial information and their relevance to finance were quantitatively analyzed and disclosed; and a case where the possibility of the business of one's own company contributing to solving social issues was quantitatively analyzed.

- Adidas (Germany) and Coca-Cola (US) have developed a reporting system which is centered around the progress in reporting of the 5-year sustainability strategies towards 2020.
- SAP (Germany) is pursuing the connectivity of information by analyzing the interactions between economic, environmental and social KPIs. The company also conducts quantitative analysis to understand what would affect its operating profit and attempts to quantify the extent to which a change of 1 percentage point affects its operating profit.
- Huawei Technologies (China) separately publishes a report analyzing the potential contribution of ICT to achieving SDGs. The company objectively verifies that the progress and popularization of ICT is correlated with the achievement of SDGs and convincingly shows its business opportunities in solving social issues.

➤ Responding to issues with high levels of public concern with high transparency

Based on the industry characteristics and business model of one's own company(ies), information is being actively disclosed to increase transparency and fulfill the accountability concerning the issues with particularly high levels of public concern that may cause risks.

- Recognizing its impact on climate change as a mining company, Anglo American plc (UK) has committed itself to the global goal of limiting the global temperature increase to 2 degrees Celsius and compiled the impact of its business and adaptation measures in a climate change report by conducting scenario analysis with reference to the actions of the TCFD (Task Force on Climate-related Financial Disclosures).

- Adidas (Germany), a sportswear brand, which has been criticized about labor conditions in its supply chain since the latter half of the 1990s, disclosed a list of all of its suppliers' factories on its website along with the management status shown with a wealth of quantitative data.
- Nestlé (Switzerland), as a leading company in the food industry, responds to all international standards to be the first to meet social expectations, and also discloses its approaches and position statements for matters that receive many inquiries, such as human rights, environment and labor practices.

➤ **Disclosure based on the interests of various stakeholders and actual business conditions**

Companies are disclosing their information based on the contents of business expansion and areas of business coverage and the matters that are clearly defined as important, such as responding to stakeholders' interests for each region by gaining a detailed understanding of such interests and identifying primary issues and strategies for each business area.

- Mahindra & Mahindra Limited (India) has identified the primary issues for its two largest business divisions, automotive and agricultural machinery, and formulated strategies. The company discloses the progress status on the goals and KPIs that have been set.
- CLP Holdings Limited (Hong Kong) has demonstrated its commitment to work close with local communities and meet their expectations, such as by organizing the concerns/interests of each stakeholder and corresponding measures and introducing examples of concrete activities for each business area, such as Hong Kong, Mainland China, India and Australia.

➤ **Strategic communications for each stakeholder**

Companies are deploying strategies that are focused on not merely disclosing but communicating the information, such as clearly identifying the intended readers, actively utilizing digital technologies and seeking to disclose information in an easy-to-understand format.

- Coca-Cola (US) included sustainability items in its digital magazine which is targeted at general readers and shares various efforts behind the brand in a storytelling manner. The company is working on this online communication tool which places an emphasis on storytelling and visual-oriented contents, instant delivery of information and interactivity through social media. It also provides a handwritten message by its President and CEO which gives a sense of closeness and also shows the seriousness of his commitment.
- In addition to publishing its annual reports, Nestlé (Switzerland) incorporates more pieces of information related to ESG/sustainability than business into its Latest News released about twice a week. Placing emphasis on establishing customer-focused communication through storytelling, the company also actively uses SNS.
- CLP Holdings (Hong Kong) uses six capitals conforming to the IIRC framework as the basic framework of its annual report and CSR report published mainly for investors and changes the contents according to the roles of each medium.

- While keeping a simple structure focused on strategic priority themes for investors/experts, Incheon International Airport Corporation (Korea) successfully created a sophisticated image as well as a sense of closeness by frequently using infographics, graphs and figures and also including airport-related illustrations throughout the report.

Chapter 6 Ideal Non-financial Information Disclosure in the New Era

- Building a Better Relationship with Various Stakeholders -

6-1 Issues Surrounding the Current Practices of Non-financial Information Disclosure

This investigative research was conducted under the following three types of awareness: [Awareness 1] Discussions of information disclosure may be too biased towards the investment community; [Awareness 2] What should be done to improve the contents of non-financial information disclosure?; [Awareness 3] Perhaps strategies for information disclosure have not been appropriately developed.

Looking at the status of the current practices of non-financial information disclosure that has been observed so far, there are roughly four major issues. The first issue is the “ESG evaluation primacy” in current situation which is caused by the essence of non-financial information disclosure being lost. Secondly, there is a gap between the information needs of stakeholders and disclosed information due to ESG factors having different objectives though allied. Thirdly, the interests of the international community are insufficiently responded to. Lastly, there is a lack of methodology to link the information needs of stakeholders to the company’s value creation.

For each issue, we will examine the main points and future direction of non-financial disclosure.

[Issue 1] Loss of essence of non-financial information disclosure and “ESG evaluation primacy”

The level of awareness towards non-financial information disclosure has certainly increased and there is a growing number of companies that are working towards integrated reporting and active disclosure. On the other hand, a majority of companies that completed the questionnaire understood the issues of “disclosing/explaining non-financial information by linking it to future corporate value” and “linking non-financial information to the main business”. This indicates that some of the issues that were revealed in the FY 2011 Survey, such as “clarification of important non-financial information that is directly linked to sustainable value creation and linking the value creation process with non-financial information”, still remained unsolved ([Awareness 2]). Under these circumstances, while there is increased interest in non-financial information disclosure due to the growing trend of ESG investing, it seems in some cases that companies are only focused on improving the perceptions of specific stakeholders and they are satisfied only to meet the disclosure demand on the surface. This trend may be described as the “ESG evaluation primacy” where the presence of various stakeholders surrounding companies is no longer in sight of companies and disclosure is far from its essentials, which are non-financial information and ESG evaluation for long-term value creation that assumes sustainability of society as a whole.

<Direction towards resolution>

A thorough discussion on “non-financial information that is directly linked to value creation” (= “pre-financial information”)

For commercial companies that must adapt to business environments that change rapidly on a day-to-day basis and pursue relatively short-term profits, it is difficult to recognize the long-term process of improving corporate value as something that is “imminent”. Not to mention, non-financial information does not give a clear picture of how it leads to long-term value creation which hinders the recognition at the central management level to progress concerning the meaning of information disclosure and the importance of the long-term process of corporate value creation through information disclosure. As seen in the recent cases of some companies, significant damage can be caused to management if any problem occurs and it is also possible that there are already risks that are at hand.

In order to break through this situation, first of all, a thorough discussion needs to be carried out which involves not only the CSR department but also company-wide participation including central management. The discussion should include issues, such as the roles that the company wants to fulfill in the future sustainable society the company is in, the types of non-financial information that are directly linked to value creation (= “pre-financial information”) and the level that the company should aim to achieve.

The primary purpose of the demand for information disclosure made by ESG evaluation organizations is to understand such recognition and responsiveness of companies and improvement of ESG evaluation should be the result of meeting such demand. Attempting to only improve the perceptions of evaluation organizations on the surface without having any essential discussions on the disclosure contents could potentially increase the risks to companies.

For example, SAP SE is pursuing the connectivity of information concerning the interactions between value creation and non-financial information by thoroughly studying the interactions between economic, environmental and social KPIs. (Recognizing that it is necessary to understand the interactions between non-financial indicators and their impact on operating profit to achieve the true purpose of integrated reporting, the company conducts cause-and-effect analysis and quantitative analysis. For each of its four indicators, Business Health Culture Index, Employee engagement, Retention and Carbon emissions, the company analyzes how a change of one percentage point would affect its operating profit.)

[Issue 2] Gap between the information needs of stakeholders and disclosed information due to ESG factors having different objectives despite being allied

Although it seems that corporate efforts for non-financial information disclosure are progressing, such efforts may not be valued sufficiently among stakeholders. For example, there are cases where investors and evaluation organizations are not distinguished from each other in corporate reports; however, stakeholders, whether they be “investors”, “evaluation organizations” or “workers”, are different from one another depending on their behavioral principles, interests, regions and generations and those who are involved and considered important also vary depending on the business types, business scales and business areas of each company ([Awareness 1]). Here are the limits of putting diverse information needs of stakeholders who are essentially different from one another into one word, “ESG”. It is impossible to meet the needs of all stakeholders with a single medium and identifying the target readers as “multi-stakeholders”, which do not exist in the first place, can mean the same thing as the target readers have not been identified.

<Direction towards resolution>

Restarting the identification of the stakeholders who are important to one's own company(ies) and working on strategic engagement with them

Companies cannot survive if they cannot maintain their business to be one that various stakeholders want to invest in and thus, meeting the expectations of stakeholders is extremely important for sustainable value creation. Among the companies that completed the questionnaire, it was revealed that investors and rating/evaluation organizations were focused as the expected users of the media for non-financial information disclosure and engagement; however, stakeholders are different from one another and also the types and number of stakeholders involved change depending on the business scales and areas of companies.

It is important to at first identify what stakeholders are truly important to one's own companies and highlight the medium- to long-term management issues by understanding the expectations of the identified stakeholders through continuous engagement. It is also necessary for each company to make strategic decisions as to the extent to which management resources can be allocated to engagement for improving competitiveness. In recent years, there has been a growing number of “collective engagement” cases related to climate change and human rights areas where a group of institutional investors come together to engage in dialogue with companies with the background of the cumulative shareholding ratio. This is a type of dialogue that companies simply cannot ignore for their business and in some cases, companies are required to face up to the dialogue as their business.

Information needs of stakeholders are as diverse as their demands. The demand from ESG evaluation organizations seems to collectively summarize such various demands to a certain extent; however, this does not mean that such demand speaks for all the individual needs of the various stakeholders.

Suntory Holdings Limited discloses its information by focusing on consumers as the primary readers while striving to increase transparency to prevent being an unlisted company that creates distrust among its consumers. CLP Holdings Limited promotes efforts and disclosure that meet the concerns and interests of its stakeholders in each business area.

[Issue 3] Insufficiently responsive to the interests of the international community

Japanese companies seem to lag behind with their efforts towards disclosure of various kinds of non-financial information ([Awareness 3]) and thereby are unable to sufficiently fulfill the accountability expected of global companies. This non-financial information includes “human rights and supply chains” and has been rapidly gaining attention in the international community in recent years; “climate-related information” where the debate about its impact on financial affairs has been launched in a full-fledged manner; “Sustainable Development Goals: SDGs” that are considered to present opportunities for new businesses and can be achieved by reforming core business functions and creating new businesses; and “GRI Standards” that are becoming more established as the global standards for sustainability and governance reporting.

<Direction towards resolution>

Examining response policies to further respond to the interests of the international community

For large companies that operate globally, actively fulfilling their accountability to the international community as a corporate citizen is also indispensable for them to succeed as a global company. While expecting that corporate influence and responsibility will inevitably increase with the business expansion, companies need to anticipate social interests and show their commitment to respond to social

demands. Companies that fall behind the curve are the same as those letting go of the opportunity to be a rule maker, and for the sake of appropriately maintaining their business environments as well, companies are expected to actively participate in international discussions.

There have also been some overseas companies that publish individual reports on climate change and human rights that are of great interest to the international community. Nestlé also publishes its approaches and position statements for issues that are of great social interest in order to respond to social expectations ahead of other companies as a leading company in the food industry.

[Issue 4] Lack of methodology to link the information needs of stakeholders to corporate value creation

There is a significant burden on companies to respond to disclosure demands and the information needs of stakeholders are not sufficiently met even after the necessary resources have been allocated ([Awareness 3]). In the background of these issues, there is a confusion which stems from the “integrated reports” which do not represent the actual situations but only exist as a formality and individual responses to the demands of evaluation organizations for various kinds of information that spread without any strategy or modification to internal structure for disclosure to be implemented beforehand.

<Direction towards resolution>

Organizing communication strategies based on three levels of information

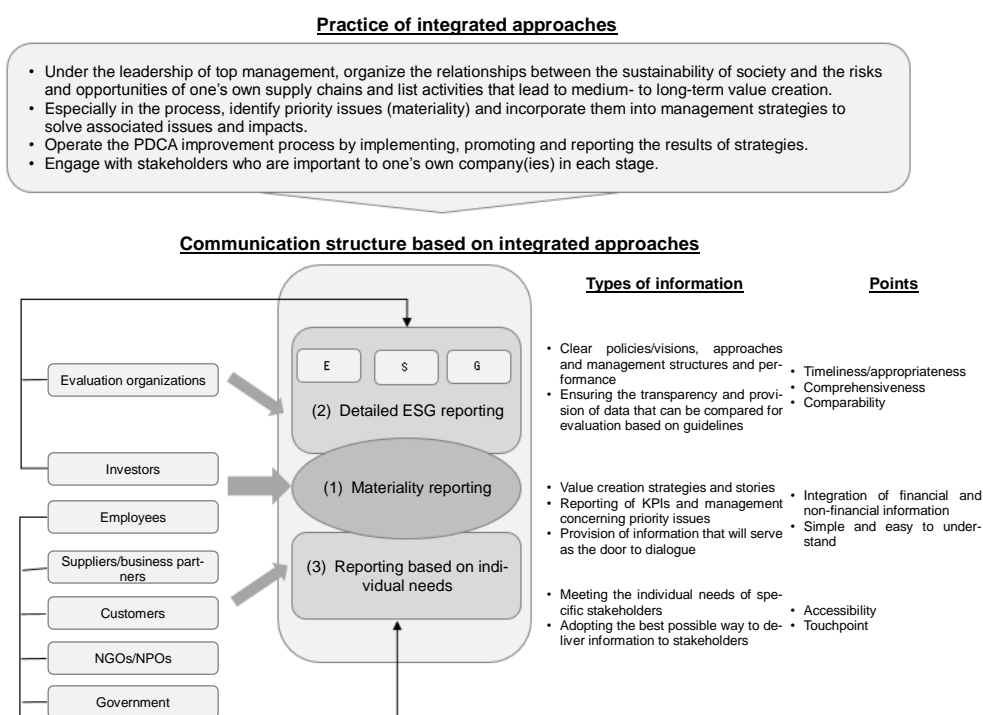
Non-financial information disclosed by companies has three levels of information. The types of information and disclosure points required for each level are different and communication strategies that are in line with the expectations of stakeholders who are important to each company and business characteristics should be developed by referring to various guidelines and assuming the overall image shown in Figure 7. It is also important that each level of information is linked to and consistent with each other, its contents meet the needs of users who are looking for such information and is delivered with appropriate timing in an appropriate way. Furthermore, information dissemination should be dealt with in a way that involves business divisions and the simultaneous integration of internal structures instead of in a conventional way where matters are handled individually by vertically divided departments.

When developing communication strategies, practicing integrated approaches is a prerequisite. For example, companies should organize the relationships between the sustainability of society and the risks and opportunities of their supply chains under the leadership of top management and list activities that lead to medium- to long-term value creation. Especially in the process, priority issues (materiality) should be identified and incorporated into management strategies while making concrete how these issues are related to value creation and aiming to solve the associated issues and impacts. When identifying these priority issues (materiality), companies should clarify their concepts and methodologies. The PDCA improvement process should be operated by implementing, promoting, evaluating and reporting the results of strategies and engagement with stakeholders who are important to companies should be held in each stage. What is most important here is that these basic CSR practices should be at the basis of communication strategies.

<Three levels of information>

- (1) **Materiality reporting** which promotes mutual understanding with stakeholders on activities for realizing medium- to long-term value creation strategies and serves as the door/common language of dialogue. The reporting should clearly include stories that are linked to relevant information and KPIs and management concerning priority issues (materiality) that lead to sustainable value creation of companies in a simple and easy-to-understand format (reference guidelines: IIRC Integrated Reporting Framework, Guidance for Collaborative Value Creation, etc.)
- (2) **Detailed ESG reporting** which is necessary for fulfilling responsibility as a corporate citizen that conducts business in a society and ensuring transparency in obtaining a license to operate from society. It is important that the reporting includes clear policies/visions, approaches and management structures and performance of companies and ensures appropriateness/comprehensiveness in line with the actual business conditions for evaluation, timeliness and comparability with other companies. Making no efforts towards such reporting will create a risk that can cause damage to corporate value (reference guidelines: GRI Standards, etc.).
- (3) **Reporting on individual needs** of stakeholders. It is important that the reporting is made by understanding the expectations of individual stakeholders which will meet their information needs and criteria for becoming a preferred company among investors. It is also important to design the best possible way to communicate the information with stakeholders instead of merely disclosing it (reference guidelines: various guidelines related to individual issues).

Figure 7 Information Structure for Non-financial Information Disclosure



6-2 Recommendations for Non-financial Information Disclosure in the New Era

Based on the implications obtained in this investigative research, we make the following recommendations towards non-financial information disclosure that will lead to the creation of sustainable corporate value. The recommendations are aimed at both companies and stakeholders since collaborative efforts between companies and various stakeholders are indispensable for building a sustainable society.

<Recommendations for companies>

Recommendation 1: Identify the relationship between the sustainability of society and the risks and opportunities facing one's own company(ies) and organize the medium- to long-term activities for value creation.

The priority issues (materiality) and activities that lead to medium- to long-term value creation should be organized by identifying the relationships between the sustainability of society and the risks and opportunities in value chains of one's own company(ies). When considering the sustainability of society, megatrends should be paid attention to rather than getting caught up with short-term perspectives or the backcasting can also be applied by formulating a long-term vision. Non-financial information that will be the basis of disclosure will be revealed by incorporating the priority issues and activities that have been organized into the medium-term management and annual plans and identifying the information to be observed at fixed points. When implementing the activities, the PDCA cycle of activities and reporting should be operated by practicing and improving the activities through dialogues and engagement with stakeholders. These processes will allow companies to be able to determine the information that is important from a medium- to long-term perspective and also internal sharing of information to be conducted smoothly.

Adidas and Coca-Cola operate the PDCA cycle of activities and reporting by incorporating non-financial information that has been narrowed down into their 5-year sustainability strategies and making progress in reporting every year. For examples of companies that have organized their priority issues and activities from a medium- to long-term perspective, the FY 2017 Investigative Research Report⁸ conducted by our Forum shows advanced cases of companies where the “Sustainable Development Goals (SDGs)” are linked to corporate value creation.

Recommendation 2: Understand the expectations of important stakeholders and develop communication strategies based on the business characteristics of one's own companies.

When carrying out disclosure based on the processes presented in Recommendation 1 as well, identifying and engaging with stakeholders serves as the starting point. Instead of having a passive attitude, companies need to proactively work towards disclosure. Based on the information needs that have been identified by working to gain mutual understanding through engagement with stakeholders, companies should develop communication strategies while keeping in mind the three levels of information assumed and taking into account their business characteristics. Building an effective non-financial information disclosure system cannot be done overnight. It is necessary that companies develop a plan through which disclosure is made in advancing stages on the premise of a certain transition period. When developing a strategy, its purpose, target, style, contents and touchpoint for each medium should be organized.

As a good example of materiality reporting, the Government Pension Investment Fund (GPIF) has selected and announced, “Excellent Integrated Reports” and “Most-improved Integrated Reports” that

⁸ “Investigative Research Report Concerning the Desirable State of Efforts and Partnerships with International Organizations, the Government, and the Industrial World Aimed at Resolving Social Issues (Such As the SDGs)”http://www.bpfj.jp/act/download_file/98193838/71988285.pdf

were evaluated by GPIF's 16 external asset managers entrusted with domestic equity investment⁹. In terms of detailed ESG reporting, for example, Adidas provides its suppliers' list and detailed monitoring status of supply chains that are of high social interest. Meanwhile, Nestlé is working to deliver information to general consumers by actively utilizing social media.

Recommendation 3: Under the leadership of top management, formulate organizational-level integration strategies and foster the culture of disclosure.

In order for companies to continue to create sustainable value, it is important that their management first think for themselves about the necessary actions, and practice and incorporate them into the organizational system, rather than merely responding to external demands in a reflective or superficial way only to improve immediate appraisal. The importance of management acting on their own initiative is obvious even looking at the results of the questionnaire survey on companies in Japan. Top management needs to first gain a detailed understanding of the relationship between business and non-financial information. Then, he/she should issue a message on the importance of non-financial information with his/her own words, deepen the discussion as an organization through the board of directors and lead the formulation and promotion of integrated corporate strategies. Top management should actively participate in engagement opportunities with stakeholders to directly hear and feel their expectations towards the company and practice a corporate culture that values disclosure and dialogue. At the same time, a cross-organizational disclosure system should be established to realize integrated information disclosure which will not result in a siloed approach. It is important not to be too caught up with superficial attributes such as report format and external evaluations made from short-term perspectives and demonstrate a commitment to pursuing consistent disclosure based on beliefs, visions and management policies that will be sustainable over the medium- to long-term.

Particularly, management's participation in engagement opportunities is very important. At Daikin Industries, management participates in the seminars held for investors and take questions and opinions directly from them, which reportedly is raising awareness. Also, at Omron Corporation and Marui Group, which are highly praised by external parties, messages on the importance of non-financial information are delivered internally and externally by top management.

Recommendation 4: Pursue information disclosure based on corporate characteristics

Stakeholders who are important to companies vary depending on different industry and business types, business scales and market types. The ideal information disclosure according to the characteristics of each company should be examined while having a common recognition that disclosing non-financial information is important to all companies.

The larger the companies that operate globally, the more the number and types of their stakeholders and greater diversity of information needs. In order to appropriately respond to disclosure demand without incurring excess burden associated while meeting the expectations of the international community and actively fulfilling accountability, it is important to develop a strategic disclosure system. Companies with small-scale business and those that mainly operate in Japan need to particularly focus on meeting the expectations of employees who are their important stakeholders and also establish a system which allows them to respond to the demands from B-to-B customers including large global companies. For smaller companies, it is also necessary to first focus on identifying the elements that lead to their sustainable competitiveness and narrowing down the identified elements for disclosure.

⁹ http://www.gpif.go.jp/operation/pdf/300119_integration_report.pdf

<Recommendations for various stakeholders>

Recommendation 5: Collaboratively develop infrastructure that ensures non-financial information is appropriately and effectively disclosed and evaluated.

Working collaboratively with various stakeholders is indispensable for building a sustainable society and to that end, it is necessary that companies and various stakeholders work together to develop a platform for fostering values and cultures where non-financial information is appropriately disclosed and evaluated, developing indicators and evaluation criteria as specific common languages and achieving effective disclosure. For example, evaluation organizations should provide thorough feedback and take other necessary actions to increase the transparency of their evaluations as much as possible. Also, efforts towards unification and efficiency of disclosure demands should be made as much as possible so that appropriate disclosure of the demanded corporate information can be made within the limited resources. For investors, it is necessary to show how they use the disclosed information and link it to corporate value and ask questions from the viewpoint of long-term value creation at dialogue opportunities with companies. In terms of labor unions, efforts should be made to deepen the mutual understanding between employees and companies by holding explanatory meetings for employees jointly with companies. These are the actions that are expected of various stakeholders.

Recommendation 6: The government should pursue policies based on a smart mix (a combination of mandatory requirements and voluntary measures).

The government should develop guidelines as a common language based on the viewpoint that guidelines are necessary but regulations should be minimized. If everything is left up to the autonomy of companies in responding to various guidelines, it will result in an insufficient level of response and a delayed response which will consequently bring down the competitiveness of Japanese companies. On the other hand, excessive regulations can also hinder healthy competition. It is expected that the government create the best-balanced rules taking into account the above concerns; however, as a prerequisite for such rules, it is necessary to develop policies that cut across various ministries rather than from top to bottom and are identified within a wide range of CSR promotion policies beyond information disclosure. A flood of guidelines applied by different ministries will intensify a top to bottom approach in the organization which will increase the burden of responding to such guidelines. It is also important to ensure conformity with global standards to avoid any excessive burden and double standards caused by the differences. For that purpose, the government is expected to exchange information and build partnerships with the governments of other major countries and look to formulate rules that are beneficial to Japanese companies.

FY2017– CSR FORUM, JAPAN List of Committee Members

(the chair)

Tetsuyuki Kagaya	Hitotsubashi University	Professor of Economics and Administration
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(the adviser)

Yoshihiro Fujii	Sophia University	Professor Emeritus
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(the committee)

Haruko Kanamaru	AEON Co,Ltd	General CSR Division Manager ,Corporate Citizenship Dept.
Yasunobu Hasegawa	AJINOMOTO CO.,INC	Group Manager CSR Dept
Koichi Kaneda	ANA HOLDINGS INC.	CSR head , Corporate Communications & Public Affairs
Akihiko inatsugi	Bridgestone Corporation	General Manager CSR & Environmental Strategy Department
Kaori Kuroda	CSO Network Japan	Executive Director
Masahito Yoshizawa	DAIKIN INDUSTRIES,LTD	Manager CSR and Global Environment Center
Keiichi Ushijima	Ernst & Young Institute Co., Ltd.	Japan CCaSS Leader, Managing Director Climate Change and Sustainability Services (CCaSS)
Mimi Togoe	Fujitsu limited	Director , Corporate Environmental and CSR Strategy Unit ,CSR and Sustainable Development Strategy Div, Responsible Management Dept.
Kazunori Takahashi	Hitachi, Ltd.	Senior Manager Planning Department CSR and Environmental Strategy Division.
Hitoshi Suzuki	Institute for International Socio-Economic Studies	Adviser
Hideto Kawakita	International Institute for Human, Organization and the Earth	CEO, Editor of Socio Management Review
Akira Kurihara	ITOCHU Corporation	General Manager CSR Promotion & Global Environment Department Corporate Communications Division
Masaru Arai	Japan Sustainable Investment Forum	Chair
Haruo Hatanaka	Kao Corporation	Vice President,

		Sustainability Planning Group Corporate Strategy
Tomoko Hasegawa	Keidanren , Japan Business Federation	Director Education & CSR Bureau
Hidemi Tomita	Lloyd's Register Japan KK	Senior Project Principal
George Iguchi	Nissay Asset Management Corporation	Chartered Financial Analyst® Head of Corporate Governance, Senior General Manager of Equity Investment Department
Akira Hoshi	Panasonic Corporation	Chief, CSR & Planning Section, CSR & Citizenship De- partment, Groupwide Brand Communications Division
Tamaki Shimamoto	SHISEIDO CO.LTD,	Department Director, Sustainability Strategy Department
Masao Seki	SOMPO JAPAN INSURANCE INC.	Senior Advisor on CSR
Mitsu Shippee	Sony Corporation	Senior Manager Corporate Social Responsibility Section Corporate Communications & CSR Department
Hideki Hirabayashi	Toray industries, Inc.	Board of Directors, General manager CSR operations Dept.
Hiroshi suzuki	TOYOTA MOTOR CORPORATION	Project General Manager Corporate Affairs Dept.

(METI)

Kayo Matsumoto	Ministry of Economy, Trade Industry	Director, Corporate Accounting, Disclosure and CSR Policy Office
Keiko Murayama	Ministry of Economy, Trade Industry	Accounting Standard Chief, Corporate Accounting, Disclosure and CSR Policy Office
Kenji Tanaka	Development Bank of Japan Inc.	General manager Corporate Management&Accounting Research Office, Research Instiyute of Capital Formation

(Secretariat)

Mitsuyasu Iwata	Business policy forum,japan	President
Takeshi Miyamoto	Business policy forum,japan	Director general

Hiroshi Takeda	Business policy forum,japan	General manager	Planning & research div.
Hiroaki Konishi	Business policy forum,japan	Senior researcher	Planning & research div.
Takeshi Nozawa	Lloyd' s Register Japan KK	Researcher	
Yurie Sato	Lloyd' s Register Japan KK	Researcher	

BUSINESS POLICY FORUM, JAPAN



<The purpose of establishment>

BUSINESS POLICY FORUM, JAPAN was established in July 1984 as a think tank to re-search various issues surrounding the Japanese economy and business activities with the support of Business Circles and MITI (Ministry of International, Trade and Industry, METI at present).

<Outline of the organization>

(Name) Business Policy Forum, Japan (General Incorporation Foundation)
(Address) 1-13-1 Nishishinbashi, Minato-ku, Tokyo, Japan
(Phone) +81-3-3503-7671 (URL) <http://www.bpfj.jp/>
(E-mail) info@bpf-f.or.jp
(Supporting member) 52 parties
(Executive) Chairman President ; Tomio Tsutsumi, President ; Mitsuyasu Iwata

<Activities>

We research and make policy recommendations widely about economic, social and corporate problems, for example,

- **CSR (CSR FORUM, JAPAN)**
- Corporate management
- Corporate laws
- Corporate tax system
- Employment system
- Development of human resources
- International Competitiveness Manufacturing Industries of Japan
- Social security system etc

CSR Forum, Japan

◇ Overview of CSR Forum, Japan

In 2004, Business Policy Forum, Japan launched CSR Forum, Japan with support from the Ministry of Economy, Trade and Industry as a business initiative to propose efforts for corporate social responsibility (CSR). Since then, with typical Japanese companies participating in the forum, we have utilized this as a CSR network that represents Japan and, in cooperation with national and international organizations, every year we have released information on a variety of research results.

The main missions of CSR Forum, Japan are as follows.

- Provide support for companies by sharing experiences, insight and the latest information on CSR
- Implement research projects related to CSR policies and business
- Promote communication and collaboration between companies and related organizations

(Reference) Actual results achieved through research so far (most recent five years)

FY2016— Investigative Research Report Concerning the Desirable State of Efforts and Partnerships with International Organizations, the Government, and the Industrial World Aimed at Resolving Social Issues (Such As the SDGs)

FY2015 — Research report on international strategies of CSR towards strengthening Japanese companies' competitiveness

FY2014 — Aiming to achieve the following three points, we will carry out “research on companies' global development and CSR.”

FY2013 — Study Report on How to Make Appropriate Use of ISO 26000 and other International Standards on Corporate Social Responsibility in Businesses
Appropriate way to use international standards so that companies can achieve corporate social responsibility

FY2012 — Report on Issues concerning Business and Human Rights in Emerging Countries

How to respect human rights in emerging countries and achieve busin