



Selected Summary

(unofficial translation)

Corporate
Social
Responsibility
(CSR) in Japan

2003

Current Status and Future Challenges

CSR Survey 2003

KEIZAI DOYUKAI

<Japan Association of Corporate Executives>

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1. Overview

- Strength and Weakness of Japanese Firms

CSR Survey 2003

- Voluntary self-evaluations by Japanese companies

To compile a self-evaluation by the Japanese business community regarding corporate social responsibility (CSR), Keizai Doyukai called on its 877 companies to conduct voluntary self-evaluations using the Corporate Evaluation Standard proposed in Keizai Doyukai's *15th Corporate White Paper*. Between the end of July and the end of October, 2003, 229 companies responded to this request, representing a response rate of 26.1%.

Markets

- Wide variety of efforts as each firm adopts its own approach

CSR efforts in regard to markets include [1] working toward the sustained creation of value and of new markets, [2] providing value to customers, [3] providing value to shareholders, and [4] conducting business and competition in a free, fair, and transparent manner. Because this area of CSR pertains to the core activities of a business, each company approaches it in its own way, and the mechanisms and outcomes vary widely.

Overall, however, a relatively low percentage of companies reported taking steps toward CSR standards for suppliers, intellectual property strategies, brand management, and privacy policy, areas that have come under scrutiny relatively recently.

Environment

- Large corporations and manufacturers report "satisfactory results"

The degree to which businesses have taken steps to ensure CSR with respect to the environment varies greatly depending on the industry and the size of the company. Among manufacturing firms and large corporations (5,000 or more employees) the majority responded that their efforts had yielded "satisfactory results" in their efforts to lighten the environmental burden and provide full disclosure. This assessment is consistent with European and American SRI (socially responsible investment) ratings of Japanese firms and points to one of the strong points of Japanese corporations.

The latest focus in environmental CSR today is "environmental management," an approach that marries sound business strategy to concern for the environment. Henceforth, corporations will be called on to apply themselves more energetically to environmental management through such practices as "environmental accounting" and the production and sales of environmental goods.

People

- Various efforts under way, but major issues remain, including treatment of female employees

CSR in the category of “people” relates primarily to treatment of employees, another area essential to corporate activity. Companies reported a variety of efforts in the areas of “employing and utilizing highly skilled and competent personnel” and “improving employability.” Overall, however, the percentage of companies that considered their own efforts sufficient was not very high, suggesting the need for more work in this area.

In addition, an extremely low percentage of firms reported progress in regard to such indicators of equitable treatment as the percentage of women on the board of directors, the percentage of women in managerial posts, and the percentage of foreigners in such posts, once again highlighting an ongoing issue for Japan companies. From the standpoint of fostering positive change in Japanese society, as well as that of securing outstanding human resources available, the issues of diversity in hiring and “family-friendly” employment policies are likely to increase in importance henceforth.

Society

- Toward the publication of “sustainability reports” and joint undertakings with NGOs

The category of “society” refers to a corporation’s relationship with the local community, civil society, global society, and so forth. Efforts in this area—particularly efforts above and beyond the requirements of the law and accepted norms—reflect each company’s thinking and thus vary greatly, making sweeping generalizations difficult.

That said, on the basis of public discourse on CSR in international society, the Japanese business community as a whole has thus far put only minimal effort into the key tasks that we can expect to take center stage henceforth: publication of corporate “sustainability reports,” joint undertakings with NGOs, and respect for international norms with regard to the supply chain.

Corporate Governance

- A need to build compliance systems with effective checking mechanisms

In the area of corporate governance, it was clear that relatively few companies appoint, evaluate, and dismiss their executives on the basis of objective performance indicators; for the most part, even firms where a system for objective evaluation exist do not believe the system is functioning satisfactorily. While there is no consensus as to the best system for this purpose, it is clear at the least that companies need to begin developing effective systems whereby managers are subject to a healthy degree of pressure to perform. Nominally, at least, most companies have programs or systems for ensuring compliance; the challenge now is to develop systems with an effective mechanism for compliance checks built in.

2. Rapid Growth of CSR Management Systems:

- *Current Status and Future Challenges*

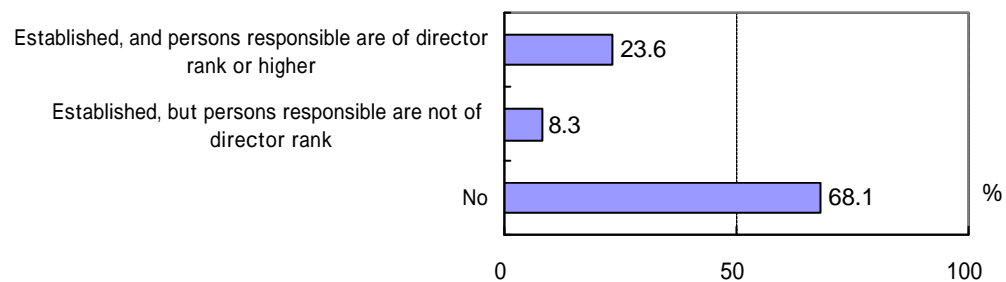
As attention has focused on CSR, an increasing number of firms are rushing to put in place a concrete management apparatus for that purpose; indeed, such developments are reported by the press almost daily. The following is an overview of the status and trends with regard to this sort of “system building” as revealed by the self-evaluations received.

Dedicated CSR Departments

- *Established by about 30% of firms*

One major trend is the establishment of either dedicated CSR departments or CSR committees drawing from various departments. The reason for this trend is that, owing to the extremely wide-ranging nature of CSR, companies have perceived the necessity to oversee and promote the efforts carried out by various divisions and sections in a unified manner. This makes it possible to formulate and carry out strategies in consultation with the company’s top executives and to systematically disseminate information regarding the company’s CSR efforts to investors and the general public. About 32% of all the companies that submitted self-evaluations reported that they had established a department (or position) in charge of CSR.

Department (or Position) for CSR Established

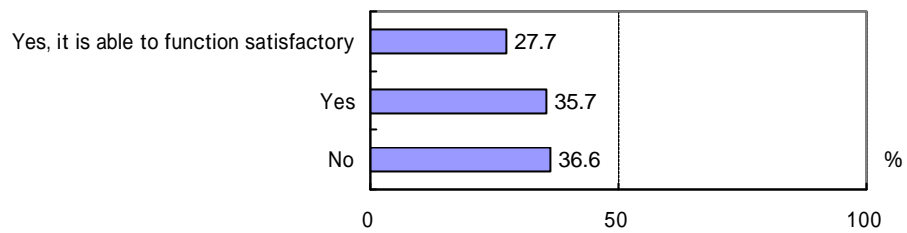


Compliance Systems

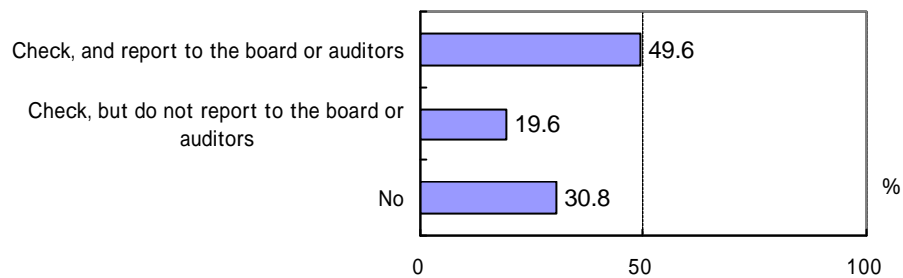
- *The need to include compliance in corporate performance assessment*

In response to a spate of corporate scandals, an increasing number of companies have developed compliance systems (or revamped existing ones). Roughly 80% of responding corporations reported establishing corporate code of conduct and creating a separate office of compliance, but a number of tasks remain in terms of ensuring an effective system for checking compliance. These include establishing an internal complaints desk, conducting compliance status checks, and including compliance in assessments of division performance.

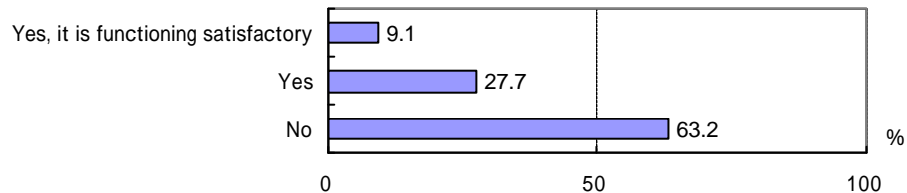
Creation of Internal Complaints Desk



Compliance Status Checks



Mechanism for Including Compliance When Assessing Division Performance

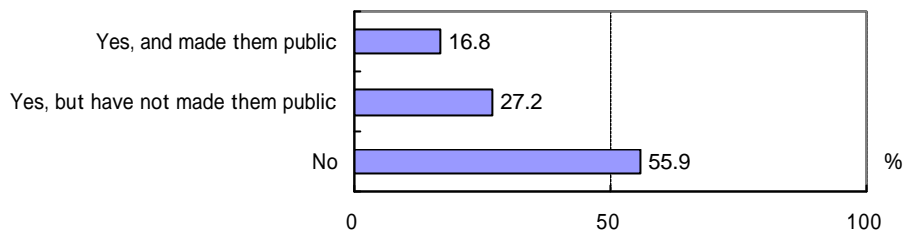


CSR in the Supply Chain

- Few companies go beyond “green” purchasing and procurement

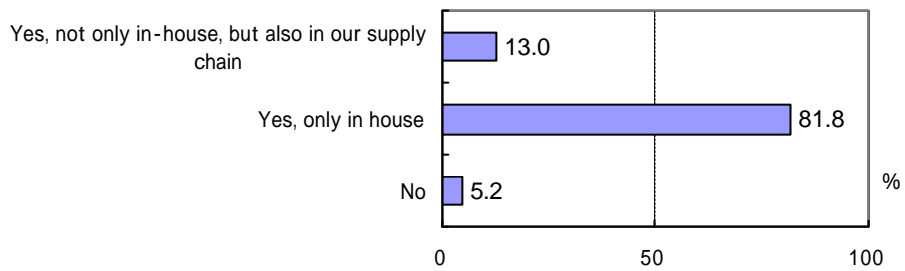
When goods are manufactured or sold using materials or parts with CSR issues, responsibility extends to the manufacturer of the final goods and the retailers that sell them. For this reason, the trend worldwide is to include CSR issues in purchasing and procurement standards. Among the firms that submitted self-evaluations, 44% indicated that they had established procurement standards that incorporated CSR, but accompanying comments suggested that in the majority of cases, those standards did not extend beyond environmental responsibility in purchasing and procurement.

Establishment and Publication of Procurement Standards That Incorporate CSR



Environmental responsibility is not the only CSR issue to consider with respect to global economic activity, however. In response to the question “In overseas business operations, do you respect and observe the terms (including the abolition of child labor and forced labor) of the UN Global Compact and ILO declarations?” only 13% of responding companies chose the response “Yes, not only in our own operations but with respect to our supply chain as well.”

Respect for International Norms (such as the UN Global Compact and ILO Declarations)

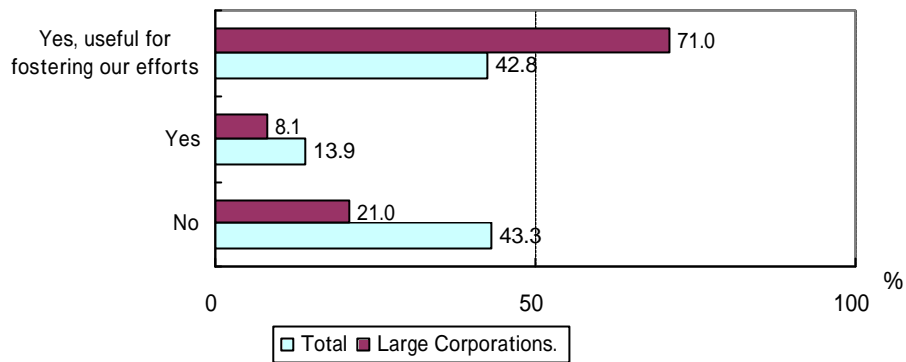


Sustainability Report

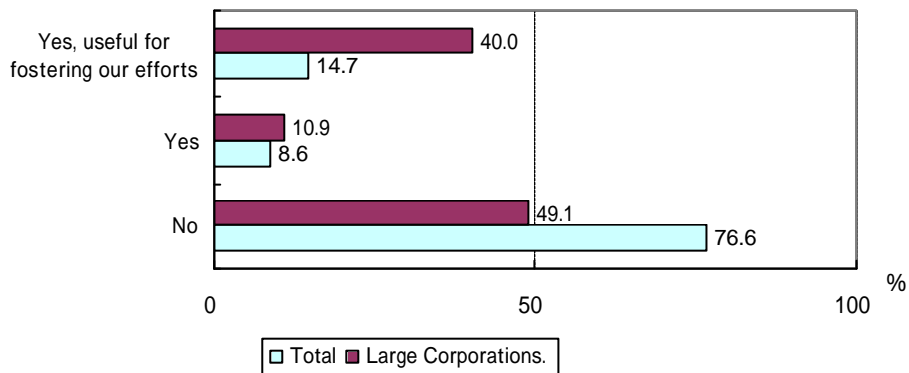
- Prepared by about half of large corporations

Recent years, the international community has begun to adopt the view that companies must report their “triple bottom line,” including their performance with regard to the environment and society as well as finances, and as a result, an increasing number of companies have set to work devising appropriate ways to publish this information. Already 57% of companies responding to the survey, and 79% of companies with 5,000 or more employees, indicated that they had prepared an environmental report. However, only 23% (51% of large corporations) had prepared a “sustainability report” covering both society and the environment.

Compilation of an Environmental Report



Compilation of a Sustainability Report (Social & Environmental)



Challenges Ahead

- Beyond system building to concrete action

As the foregoing indicates, the building of in-house systems relating to CSR is proceeding rapidly. Such system building is likely to have a positive effect in terms of reorganizing efforts thus far carried out in a scattered manner and promoting from a unified CSR standpoint. However, as talk of the creation of ISO standards for CSR grows more serious, some companies will be apt to conclude that they need only put in place the necessary structures, or that meeting standards with regard to management systems will mean they have done all they need to in the area of CSR. It is important that companies realize that system building for its own sake is meaningless. The most important thing is for management to clearly communicate its CSR philosophy—that is, the place CSR occupies in its managerial principles and strategies—and to create an effective mechanism for putting that philosophy into practice. This is a point for companies to take note of now, lest they be tempted to drift passively on the rising tide of CSR.

3. Japan Corporations' Competitive Advantage

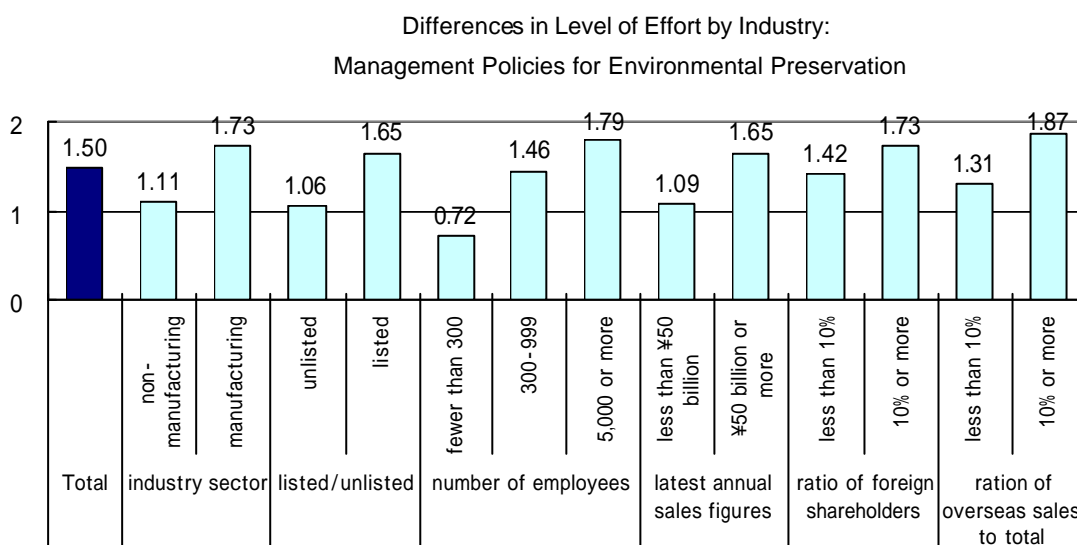
- Innovating Their Way to Environmental Management

In the area of environment, the interrelationship of CSR and corporate competitiveness is relatively easy to grasp. Efforts to reduce the environmental burden often lead to greater efficiency and lower costs, and the market for environmentally friendly goods and services is growing. This is also the area of CSR in which Japanese corporations have made the most progress. With Japanese companies ranked high by U.S. and European organizations that rate businesses for SRI, it is fair to call environmental CSR one of the strengths of Japanese corporations

Environmental Efforts by Sector and Size

- Manufacturers and large corporations take active approach

Companies' efforts to tackle environmental issues vary greatly by sector and size. The chart below, representing responses to the question concerning "Management policies for environmental preservation," indicates that overall the level of effort is higher in manufacturing industries than in nonmanufacturing and higher in large corporations than in small or medium-sized companies. Since larger corporations and manufacturers tend to place a larger burden on the environment to begin with, and since this disparity results in differences in attitude, it is impossible to assert on the basis of such data that one company surpasses another in environmental CSR. That said, inasmuch as environmental issues will continue to present a key challenge to corporate management, there is a need for all companies to grapple with them in a manner appropriate to their industry and scale.

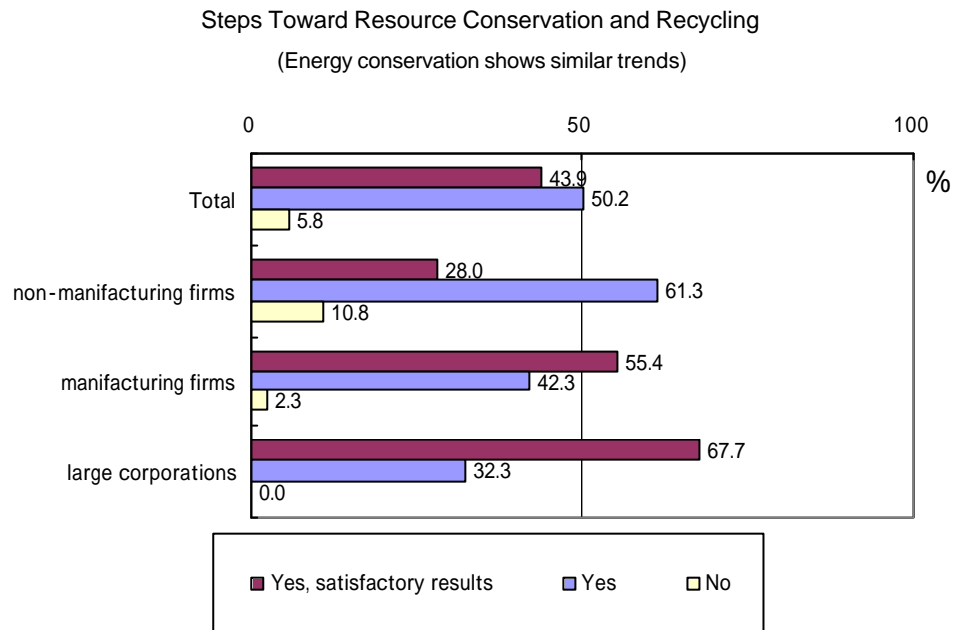


Note: The values represent the average score for the companies in each category based on the following scoring rubric. "Have not established a policy" = 0; "Have established a policy but have not made it public" = 1; "Have established a policy and made it public" = 2.

Reducing the Environmental Burden

- Greenhouse gases must be cut by 6% over the next three years

Although the level varies by industry and size of the firm, generally speaking, companies are putting considerable effort into reducing the environmental burden through resource conservation, recycling, and energy conservation.

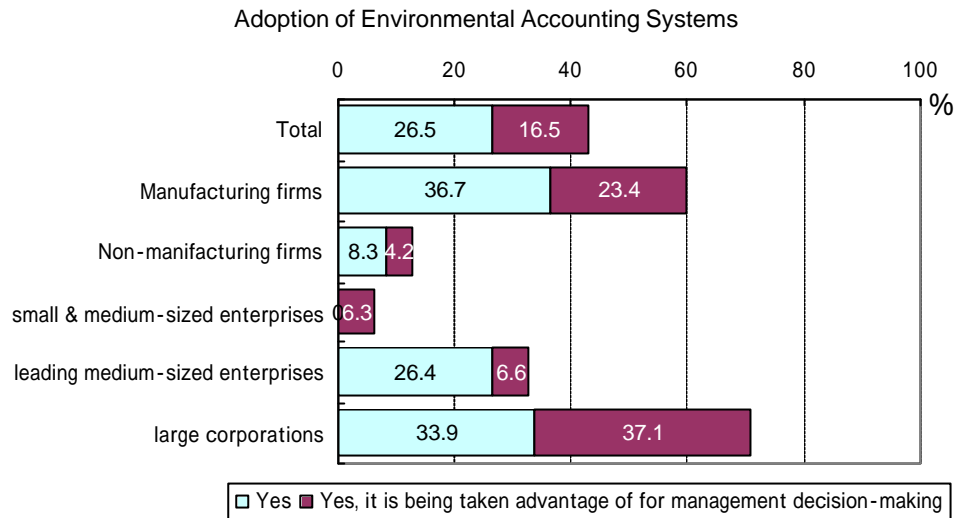


There is particular concern about emissions of greenhouse gases in connection with the mechanism of the Kyoto Protocol to the UN Framework Convention on Climate Change. Under the Kyoto Protocol, Japan's goal is to reduce emissions 6.0% from the 1990 level between 2008 and 2012. Granting the difficulties of a simple comparison, it may be noted that the average target in the self-evaluations submitted was for a reduction of 6.02% in the next three years.

Challenges Ahead

- From environmental preservation to environmental management

From the perspective of connecting CSR to sustained creation of value and strengthened competitiveness, the pursuit of environmental management, which strives to achieve both environmental preservation and business profits, will be the key challenge for corporations. With this in mind, Japanese companies need to put more effort into "environmental accounting," which gauges the economic costs and benefits of efforts to protect the environment and applies this information to management decisions, and into the production and sale of eco-friendly goods and services.



4. Utilization of Human Resources in the 21st Century

- An Important Aspect of CSR

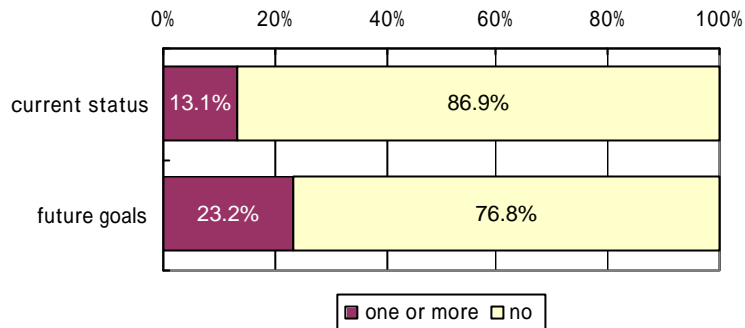
In its *21st Century Declaration* (December 2000), Keizai Doyukai describes the new Japan it envisions as “a society in which self-reliant individuals are able to find hope in the future, are empowered to actively pursue their individual challenges and are able to find meaning in life. It should be a society which gives full expression to and utilizes the energies of a diverse range of individuals.” With this image of a new Japan in mind, and from the standpoint of securing outstanding talent within a society in which people are having fewer children and living longer, companies must recognize the need to shift way from a traditional mode of thinking and focus on making use of diverse human resources, developing employee capabilities, and creating a congenial and family-friendly work environment.

Utilization of Diverse Human Resources

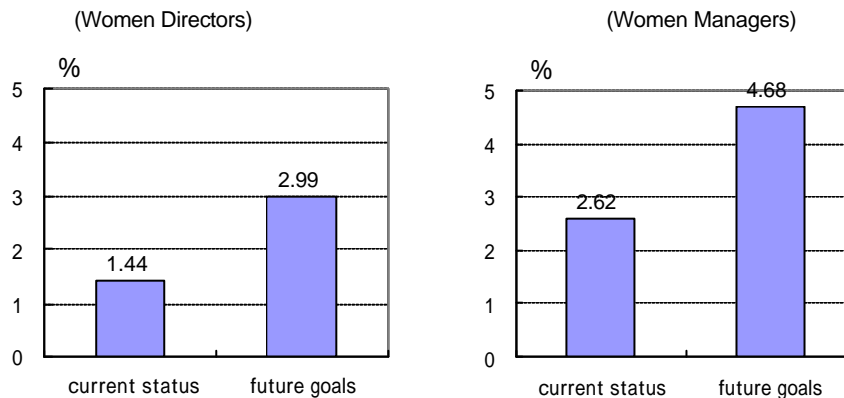
- Issues remain, especially in the treatment of women

Japanese corporations continue to lag in the hiring and effective utilization of women and foreigners. From the standpoint of securing outstanding human resources, Japanese companies need to practice “diversity management” to promote diversity in employment. In the present circumstances, rapidly increasing the ratio of women and foreigners in responsible positions would be difficult, but on average, responding companies reported a goal of roughly doubling the percentage of women directors and managers within the next three years. Keizai Doyukai looks forward to the results of efforts to achieve a more diverse workforce.

Women Directors: Percentage of Companies Reporting One or More
(Current status and future goals)



Ratio of Women Directors and Managers (Section Manager or Higher):
(Current status and future goals)

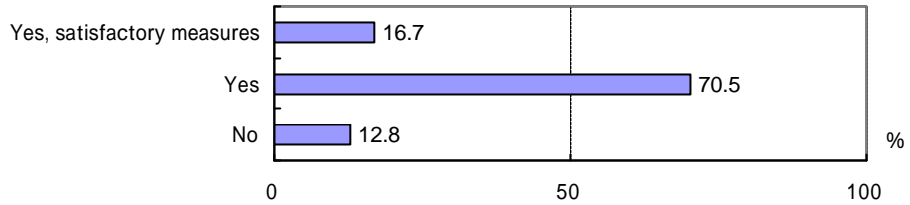


A Family-friendly Workplace

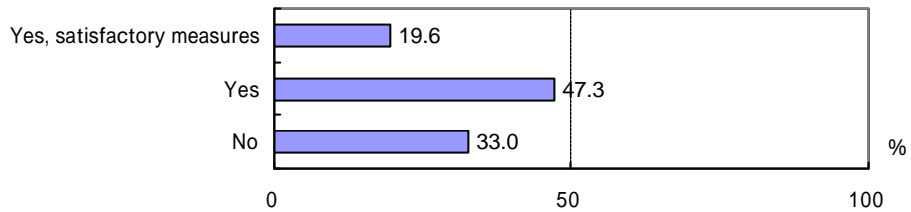
- Some companies go beyond legal requirements

For the hiring and effective utilization of diverse human resources, it is essential to create a family-friendly work environment; in so doing, moreover, companies are more likely to attract talented men and women alike. In addition, the company-centered ethic and long work hours that have prevailed in Japan until now have created a breed of human being with no time for family or community, putting an unhealthy strain on the fabric of society. With all of this in mind, companies should take the lead in launching initiatives to improve the work environment. Among companies submitting a self-evaluation, a majority indicated that they were taking steps toward creating a family-friendly workplace, but overall, few responded that these measures were sufficient.

Steps to Accommodate Employees' Family Circumstances
(System and implementation)



Support for Childrearing and Long-Term Nursing Care:
Initiatives Going Beyond Legal Requirements



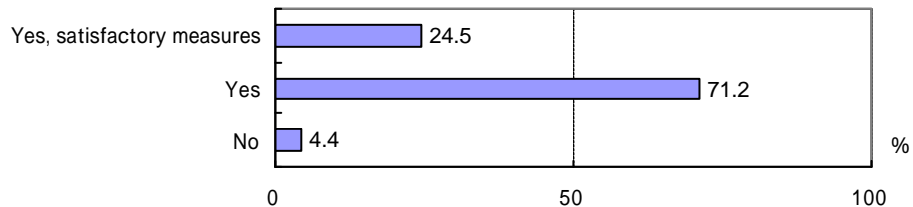
Improving Employability

- Toward an enhanced and expanded approach

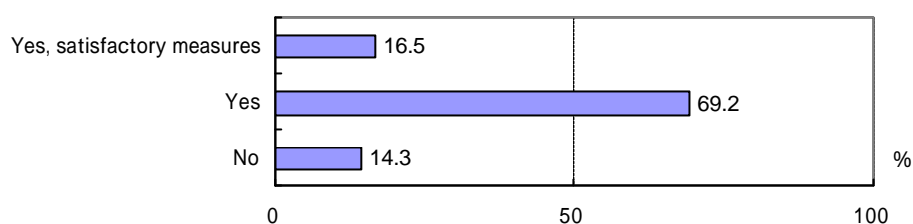
The implementation of in-house education and training programs has taken on increasing importance from the standpoint of enhancing the “market value” of each employee. From the managerial perspective, meanwhile, the issue of nurturing the next generation of managers is a matter of the utmost concern.

Another issue to be considered in the future is employee volunteerism. In some European and American corporations, support for employee volunteerism is seen not just as a contribution to society but as a way of developing employee skills. As a future CSR issue, Japanese companies need to begin embracing such strategic thinking.

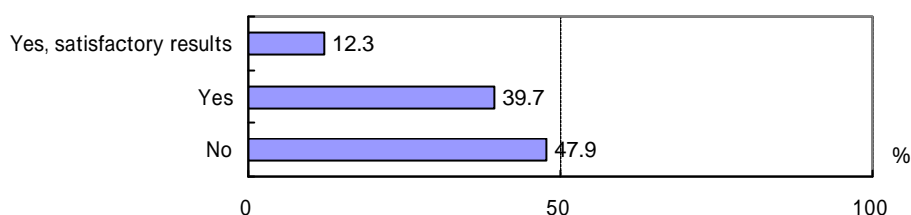
Education and Training Programs to Enhance Employee Capabilities (Employability)



Nurturing the Next Generation of Senior Executives



Support of Employee Volunteerism



5. Corporate Governance in Japan

- Current Status and Future Challenges

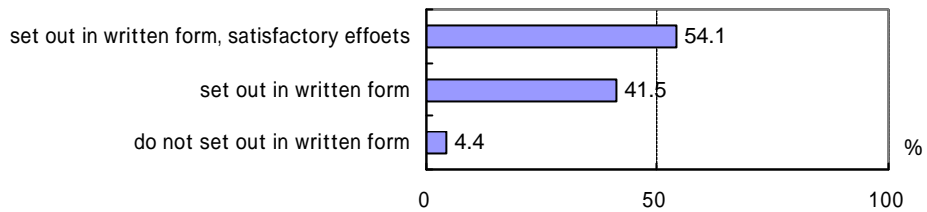
Corporate governance has become a hot topic in Japan, especially in connection with the 2003 amendment to the Commercial Code allowing companies to establish a committee-based board. The point to remember about corporate governance is that the purpose is not to create a governing apparatus but to “ensure the continuance of outstanding management and so ensure the sustained growth and development of the company.” Accordingly, it is necessary to consider corporate governance from the standpoint of what functions are necessary to achieve that end and whether the management system as set up is performing those functions.

Ensuring Management That Reflects the Corporate Principle

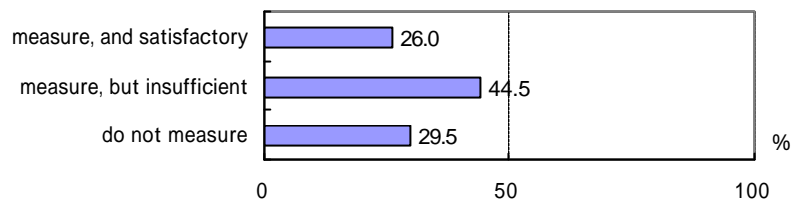
- Employees may not fully share company values

A corporate principle is more than something to decorate the wall. It establishes a direction for management and the foundation on which a corporate culture is built. It is the job of the senior executives to ensure that this principle is communicated to everyone until it permeates the entire company. Companies’ responses to self-evaluation questions in this area suggested that they are working to disseminate the corporate principle throughout the company and to ascertain whether their efforts have been successful, but that the values put forth in that principle may not be fully shared by employees.

Efforts to Clearly State and Disseminate Corporate Principle



Dissemination of Values Put Forth in Corporate Principle

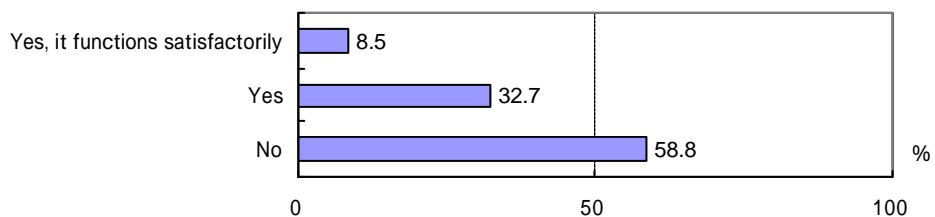


System for Selecting Outstanding Executives

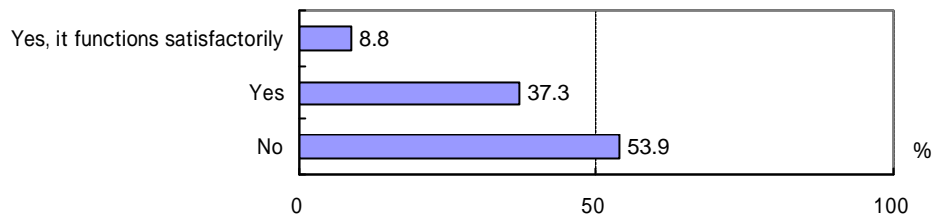
- Few companies believe theirs is “functioning satisfactorily”

One major issue in the ongoing public debate over corporate governance is the appointment and evaluation of CEOs. Even in companies that are currently performing well under outstanding management, there is no guarantee that growth will continue into the future. In order to respond appropriately to changes in the business environment and create corporate value in a sustained manner, companies should be wary of becoming overly reliant on the personal qualities of individual leaders. Companies should subject management’s decisions to a healthy degree of scrutiny and at the same time have mechanisms for appointing, evaluating, and if necessary dismissing executives on the basis of objective criteria. A committee-based board is a powerful tool for achieving this, but the form of the governing structure is less important than the way it functions. The self-evaluations submitted revealed that less than half of responding companies have an objective mechanism, and furthermore that very few of those with such a mechanism believe it to be functioning satisfactorily.

Mechanism Involving People Other than the Current CEO (and Past CEOs) in the Selection of Candidates for Next CEO



Mechanism Whereby People Other than Past CEOs Evaluate
and If Necessary Dismiss the Current CEO



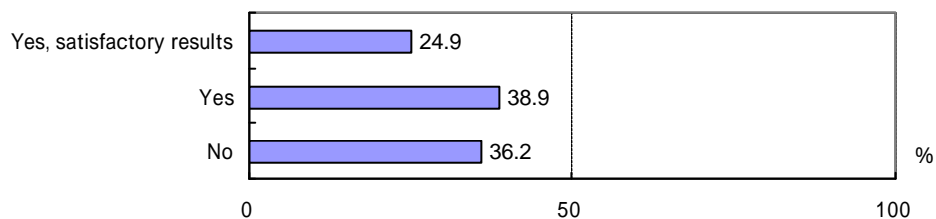
Incorporating an External Perspective in Management

- More than 60% have taken steps

In the debate over corporate governance, some have opposed the appointment of outside directors, arguing, “How could an outsider know how to manage the company?” However, recent developments appear to indicate that management reform benefits from the incorporation of an outside viewpoint in some form, be it the establishment of a committee-based board or the appointment of outside directors. The self-evaluations indicated that about 64% of companies are taking steps to incorporate an external perspective in management.

Incorporation of an External Perspective

(appointment of outside directors, establishment of management advisory committees, etc.)



6. Market Evolution

*- Society’s Judgments Make Corporations Fitter,
Corporations Lead the Market’s Values*

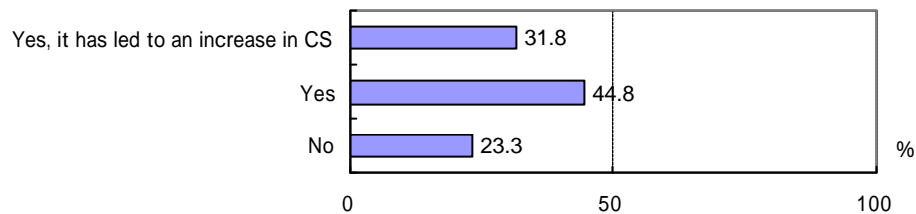
CSR strives for the synergistic development of society and the corporation. It also shapes the corporation into a fitter and healthier entity through wide-ranging communication with stakeholders. The concept of “market evolution,” meanwhile, stresses that a corporation should not simply await the market’s judgments passively but should instead stand by its ideals, interacting positively with the market and making a case for its own values to a variety of stakeholders. In this way, companies can win the understanding and approval of the market and help change the market’s values.

The Company and Its Customers

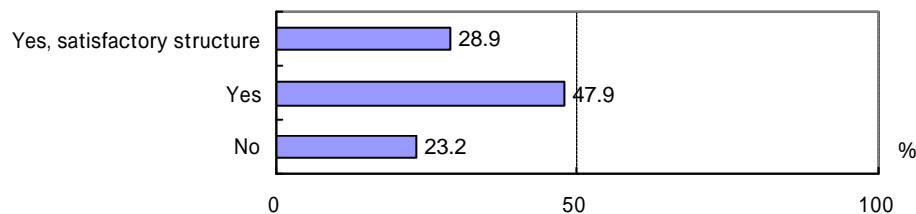
- The new issue of protecting personal information

The most fundamental prerequisite for the sustained creation of value is for a company to grasp its customers' needs and translate that information into better goods and services, while at the same time improving customer satisfaction by dealing with customers in good faith. The self-evaluations submitted indicate that virtually all companies are working in some way to improve satisfaction, whether through systems for listening to customers' wishes and complaints or through policies for responding to accidents and problems. However, more than 20% responded that they carried out no customer satisfaction surveys and had no established policies for protecting individual customer information.

Customer Satisfaction Survey



Basic Policy and/or Manual for Protecting Individual Customer Information



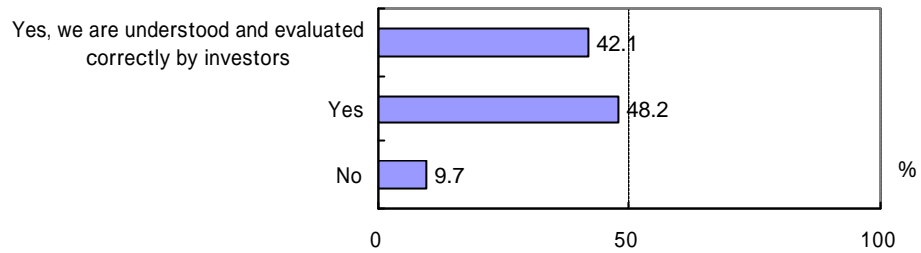
The Corporation and Its Shareholders

- More effort needed to gain understanding and approval of shareholders and investors

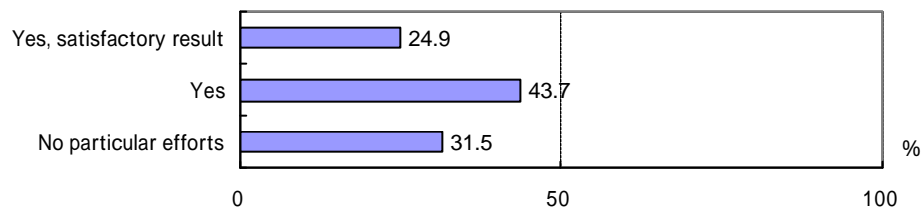
It is a basic responsibility of the corporation to respond to the expectations of the shareholders and investors who provide capital and provide a reasonable return on their investment by the sustained creation of value. From the standpoint of CSR, in order to win the trust and approval of shareholders and investors, it has become crucial for companies to enhance transparency and accountability through active investor relations. More than 90% of responding companies are making some effort to be correctly understood and appreciated by shareholders and investors, as by establishing dedicated IR departments, but almost half this percentage nonetheless feel that they are not correctly understood and appreciated by these stakeholders and that further efforts are needed. With regard to general meetings of shareholders, only about 25% of companies

reported that they had achieved satisfactory results in their efforts to demonstrate that they value the shareholders (as by avoiding dates that conflict with other shareholder meetings and allowing time for shareholder comments in addition to the formal proceedings).

Fostering Correct Understanding and Appreciation by Shareholders and Investors,
as by Establishing a Dedicated IR Department



Valuing Shareholders
(avoiding dates that conflict with other shareholder meetings, etc.)

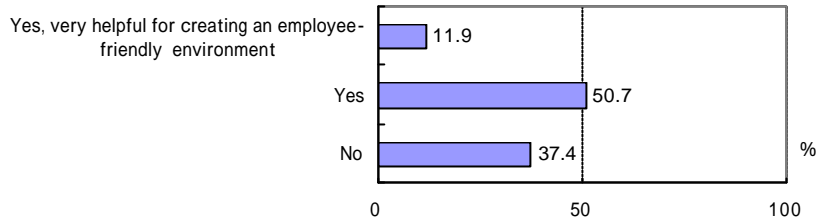


The Corporation and Its Employees

- Many companies have not gauged employee satisfaction

In the sense that employees rate and choose companies, they too constitute a market. In the submitted self-evaluations, a full 37% of companies reported that they had not conducted employee satisfaction surveys. Corporations that respond this way on the questionnaires used by the American and European organizations to rate companies for SRI are rated low in employee satisfaction for that reason alone. Whether or not one agrees with that method of assessment, there is little question that the survey process has genuine value in terms of improving employee motivation and tapping into hidden potential.

Employee Satisfaction Surveys

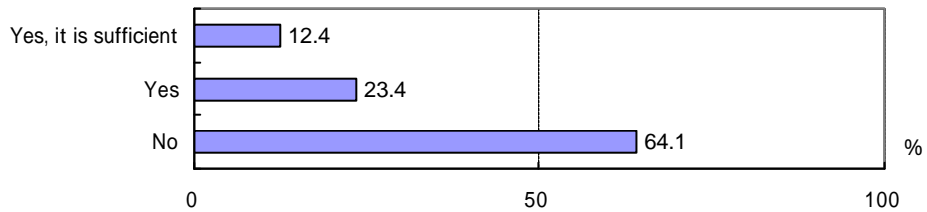


The Corporation and Community

- A need for dialogue and joint action with NGOs (NPOs), not just financial support

In Japan today, individuals and nonprofit organizations are working to create a civil society, fostering hopes for a new form of social governance. Corporations, too, are being called on to incorporate society's values into their management practices and contribute to the creation of a better society, not merely through financial support but also through active dialogue, cooperation, and joint action with a wide variety of social entities. In that sense, such tasks as 'joint action with NPOs' and "mechanisms for direct dialogue with various stakeholders" deserve to be pursued yet more energetically.

Joint Action with Domestic and Overseas NGOs (NPOs)



Mechanisms for Direct Dialogue Between Senior Executives and Various Stakeholders

