

# CSR in Japan, ILO Standards & Supply Chains

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International Labour Office  
Multinational Enterprises  
Programme

# Outline

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1. CSR in Japan
2. What's new about CSR?
3. Good practice case studies
4. Implications
5. What about SMEs
6. ILO's international instrument in CSR: The Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy

# Organizations Consulted

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- Ministry of Health, Labour and Welfare
- Ministry of Economy, Trade and Industry (METI)
- Research Institute of Economy, Trade and Industry (RIETI)
- Japan Institute for Labour Policy and Training (JILPT)
- ILO-Tokyo
- Keizai Doyukai
- Nippon Keidanren
- Nippon-Keidanren International Cooperation Center (NICC)
- Council for Better Corporate Citizenship (CBCC)
- Japan Overseas Enterprises Association (JOEA)
- Japanese Trade Union Confederation (RENGO)
- Japan Council of Metalworkers' Unions (IMF-JC)
- ILO Association of Japan
- National Consumer Affairs Center of Japan (NCAC)
- NEC Corporation
- Nihon Keizai Shimbun, Inc (NIKKEI)
- Pioneer Corporation
- Dial Service Co.
- Benesse Co.
- Hokkai M.I.C
- AEON Co.

# CSR in Japan: Historical Overview

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- CSR not a new concept: Perception that enterprises are social institutions, manifested through philanthropic contributions and beliefs in life-long employment
- **1950s**: Debate on scope of social responsibilities. Keizai Doyukai resolution of 1956 depreciates sole pursuit of profits and calls for harmony between economy and society
- **1960s**: Prevalence of profit factor
- **1970s**: Industrial pollution causes companies to address environmental concerns
- **1980s**: Domination of neo-liberal economic views
- **1990s**: Series of corporate ethics scandals damage public confidence in business
- **2000s**: CSR debate in terms of integrating “social and environmental concerns in business operations and in interaction with stakeholders on a voluntary basis”

# CSR at the International Level

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- **1960s/70s**: Newly independent states view MNEs as threat to sovereignty and efforts to draw up international instruments to regulate MNEs takes place at UN, ILO, OECD
  - ILO's Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (1977)
  - OECD Guidelines for Multinational Enterprises (1976)
- **1980s**: Liberalization and deregulation
- **1990s**: Globalization under increasing skepticism: voluntary codes of conduct for own operations and business partners
- **2000s**: CSR debate broadened to include aligning corporate interests with universal goals of sustainable development. Increasing credibility and accountability through systems of measurement, reporting and monitoring. Some civil society actors calling for legally-binding measures of regulation
- **70s**: South agenda (governments) **1990s**: North agenda (NGOs, consumers, investors, unions and corporate sector)

# Domestic Drivers of CSR

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- Increased understanding of the **business benefits** of integrating social and environmental concerns into corporate practices and principles.
- A series of ethical **corporate scandals** have damaged public confidence
- Domestic investor interest in socially responsible investment (**SRI**).
- Government reforms towards a **smaller government**
- Growth of **civil society** in Japan (The Law to Promote Specified Nonprofit Activities of 1988)
- Growing demand for **“ethical” products**. National Consumer Affairs Center of Japan surveys reveal changing consumer buying behaviour (quality and safety of food products)

# International Drivers of CSR

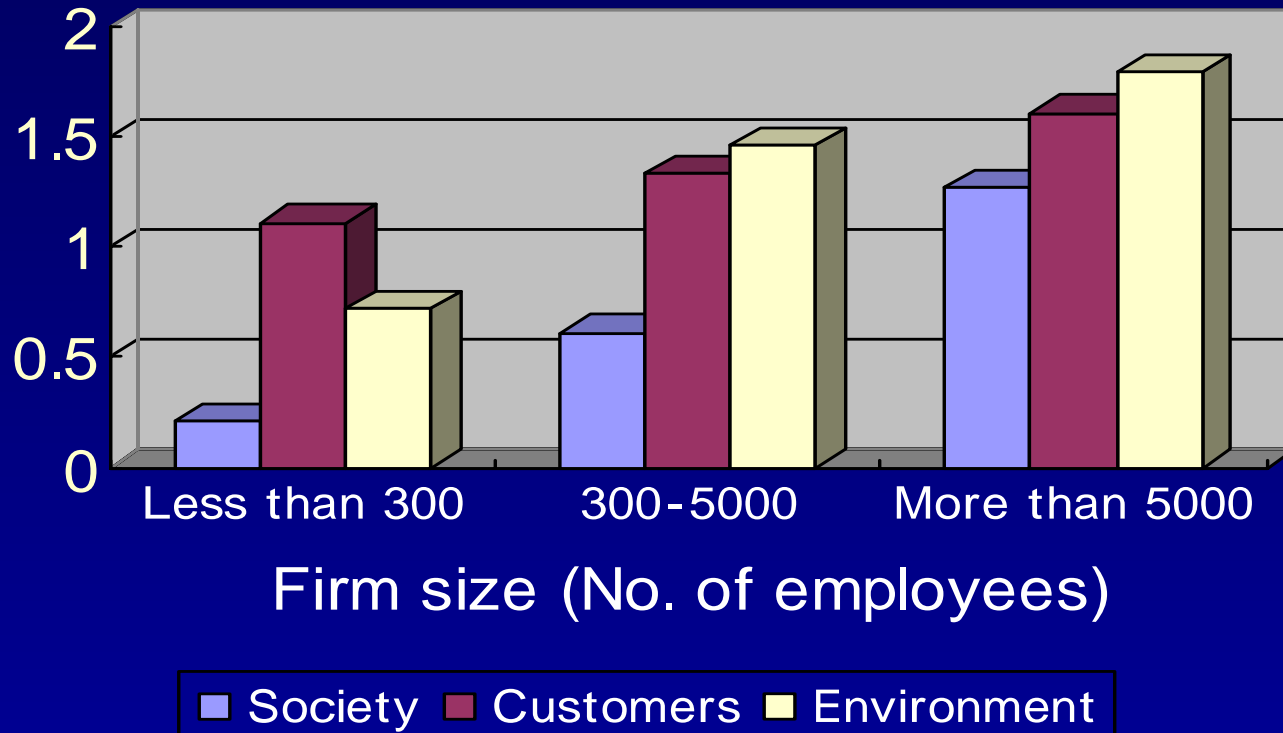
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- ISO's decision to move towards a "Social Responsibility" standard. Awareness of ISO 9000 and ISO 14000 quality and environmental standards already high.
- Companies in Japan are increasing having to respond to questionnaires sent by foreign SRI funds and rating agencies
- Foreign business partners are increasingly asking Japanese firms to abide by their company codes of conduct or other external standards
- Technological advances in information technology has vastly improved dissemination of information, including negative campaigns against companies
- Keeping abreast of regulatory developments in other countries (eg. Nouvelles Regulations Economiques in France)

# Social Issues: The Weak Link of CSR in Japan?

- Consultations reveal companies most likely to address environment and product safety and health

**Figure 1. Existence of Management Policies by Issue**



Source: Keizai Doyukai (2003)

# Reasons for the Perceived Weakness (I)

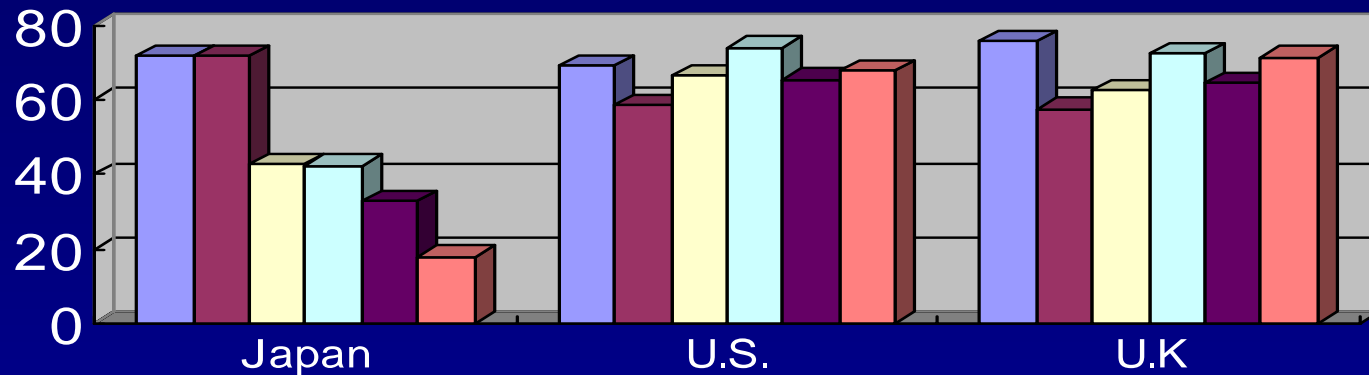
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- Interplay of cultural, religious and historical factors make social issues a **difficult concept**
- Progress **difficult to measure** for companies
- Companies feel that they have traditionally addressed social issues and thus less need to address them systematically
- Social issues are considered **less important in business dealings** with business partners. Suppliers are requested to abide by quality, privacy of confidential information, and environment but not social criteria

## A Reasons for the Perceived Weakness (II)

- Less demand for companies to address social issues from domestic investors. Japanese investors have a relatively lower interest in the social aspects of CSR compared to environmental issues

**Figure 2. Issues of concern about corporate behaviour by private individuals**



■ Environmental measures  
■ Labor relations and employee rights  
■ Equal opportunity  
■ Customer health and safety  
■ Occupational health and safety  
■ Child and forced labour

# Weak Link? New Link

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- **Labour issues:** Scope has widened to include issues such as equal opportunity, work and life balance, and such issues are relatively new to companies
  - For example, 57.5% of private companies are not achieving legally mandated employment quota for persons with disabilities.
- **Novelty of social issues not specific to Japan.** A World Bank/IFC survey of 107 executives from multinational companies, in U.S. and Western Europe reveal that among manufacturing companies, company policies on environmental rights and community health have been in place the longest, with labour rights and human rights having a comparatively shorter lifespan (World Bank/IFC, 2003).

# A comparison: What labour issues are being addressed in company codes of conduct?

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ILO-MULTI database of 258 codes of conduct (percentage of Codes containing reference to):

- Discrimination: 70%
- Child labour: 47%
- Forced labour: 42%
- Freedom of Association: 33%

IMF-JC survey of 58 affiliated companies:

- Discrimination: 44%
- Freedom of Association: 8.3%
- Child / Forced labour: 2%

# Limitations of codes of conduct

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- “Choice” factor: Often fail to include freedom of association and collective bargaining
- May not say much about performance
- May lack external recognition if self-defined
- Often lacks independent verification
- As a consequence, many companies are engaged in multi-stakeholder initiatives around the world

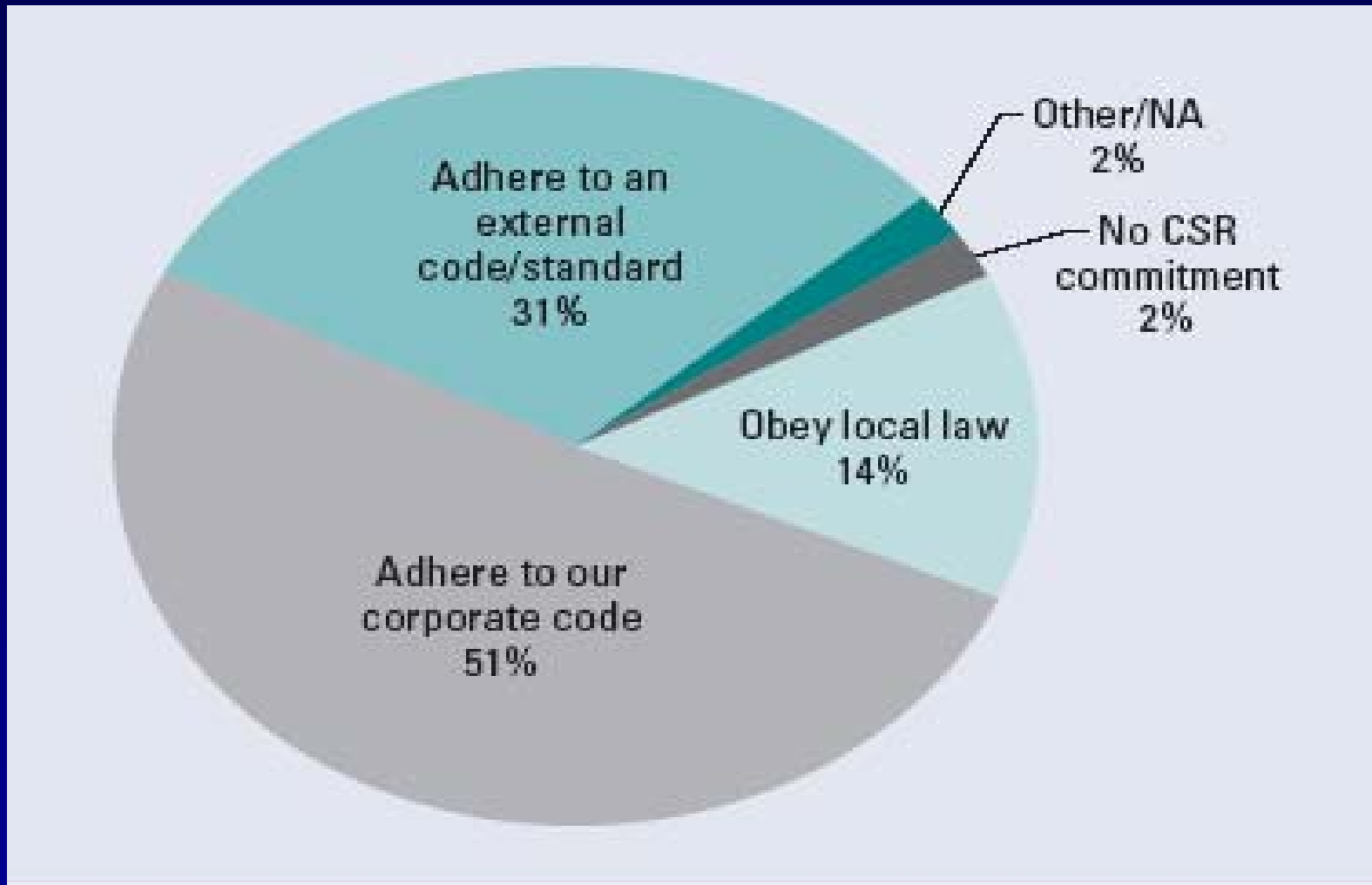
# What's new about CSR now?

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- Global supply chains, while allowing cost efficiencies, has put buyer companies at risk of exposure to bad working conditions, although company is not the employer. Corporate codes of conduct are **going beyond a company's own operations**, whether domestic or foreign, to apply equally to business partners
- CSR initiatives, including codes of conduct, increasingly based on **dialogue** with stakeholders
- Increased awareness of the “business case” for CSR
- Companies' contribution to global sustainable development (eg United Nations Global Compact)

# Level of CSR commitment requested by MNEs

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Source: World Bank / IFC (2003)

## **Case study of supplier codes of conduct: AEON**

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- One of Japan's largest retail store operators
- Consolidated revenues of JPY 3.5 trillion in 2003 and total of 65,000 employees
- Requires business partners to observe generally recognized international standards, including those related to labour
- The company's commitment to CSR extends also to its business partners and suppliers
- In 2003, established a Code of Conduct for the suppliers of its TOPVALU products.
- Code has 13 provisions, including those related to freedom of association and the right to collective bargaining, child labour, forced labour and discrimination.

## **AEON code of conduct for TOPVALU products**

- Initially held explanatory meetings to brief suppliers
- Instituted an audit, corrective action and monitoring procedure
- Initiated for TOPVALU products, with plans to be applied to other product suppliers (good learning experience)
- Benefits: Helps maintain high quality of the products, circumvent risks and facilitate smooth global sourcing

## Case study of dialogue in CSR initiatives: Pioneer Corp.

- One of Japan's best-known electronics company
- Total revenues of JPY 700 trillion and 36,000 employees
- Pioneer is aiming to promote CSR by fostering better understanding of the its code of conduct, establishing an organization for CSR management within the company, and by applying CSR to entire supply chain
- Initiatives are management-led, but management and union are in dialogue
  - Hold regular meetings on CSR
  - Company understands that dialogue with union is necessary to identify issues but also for CSR culture to take root within company

## **Benesse Corp.**

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- Leading comprehensive provider of services, including nursing care and language education
- Sales of JPY258 billion and 1500 employees
- Demonstrates its credibility as a leading provider of welfare services and lifestyles through its own personnel policies
- Provides menu of welfare services from which employees can choose from so that employees can achieve a more diversified and flexible lifestyles
- Equal opportunities: 60% of employees are women (33% of directors and executives)
- Such policies have increased Benesse's ability to attract, develop and retain competent employees, which are key to enhanced competitiveness and long-term value

# Implications from research (I)

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- Japanese corporations have innovative, leading practices in the environmental aspects of CSR. There is scope, however, to take this innovative capacity to the social aspects
- Social dialogue: CSR is a company-led initiative but companies will gain increased understanding and perspectives through more dialogue with stakeholders, particularly unions

## Implications from research (II)

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- Currently there exists no “local” multi-stakeholder initiatives in Japan. Such initiatives could be supported by the social partners as an initial learning platform for a unique Japanese model of CSR
- Companies CSR initiatives remain focused at the local level. There are opportunities to link local and global initiatives to contribute to global sustainable development

## Implications concerning SMEs

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- Business networks within Japan have weakened and SMEs find economic outlook to be difficult. In such a atmosphere, important to stress the business case for CSR
- SMEs are innovators and as such are highly interested in quality management standards such as the “Japan Quality Award” Tools for CSR could then be integrated with such quality management tools
- For SMEs, individual leadership is all the more critical for CSR. While recognizing their time constraints, SME leaders should be encouraged to attend forums on CSR to be inspired and stimulated by others
- Large companies can play a vital role in supporting and inspiring CSR in SMEs



THE TRIPARTITE  
DECLARATION OF  
PRINCIPLES  
CONCERNING  
MULTINATIONAL  
ENTERPRISES  
AND SOCIAL POLICY  
(1977)

## **MNE Declaration: 2 interdependent aims**

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- Encourage MNEs' positive contributions to economic and social progress
- Minimize and resolve difficulties arising from MNE operations

# MNE Declaration and CSR

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*The MNE Declaration aims at:*

- Inspiring company policies and programmes
- Offering benchmarks for corporate performance
- Providing baselines for global framework agreements

# Issues

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- **General policies**
- **Employment**
- **Training**
- **Conditions of work and life**
- **Industrial relations**

# General Policies

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**Government, business and labour, through consultations and good practice:**

- Obey national laws
- Respect international standards
  - United Nations human rights instruments
  - Fundamental Principles and Rights at Work
- Support development priorities

# Employment

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- Promote full and productive employment in MNEs, directly and through linkages
- Pursue equality of opportunity and treatment
- Enhance employment security in set-up and changes of MNE operations

# Skills training

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- Develop national policies for vocational training and guidance
- Ensure training meets needs of MNEs and host country labour market
- Encourage skills development for employability

## Conditions of work and life

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- Wages, benefits and conditions of work in MNEs as favourable as those of comparable employers
  - If no comparable employers, best possible conditions in MNEs
- Basic amenities of a good standard for workers
- Help abolish child labour
- Ensure highest standards of safety and health at work

# Industrial relations

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- Respect freedom of association and the right to organize
- Recognize and facilitate collective bargaining
- Provide consultations mechanisms
- Processes to examine individual and joint grievances and voluntary conciliation machinery to prevent and settle disputes