

Stakeholder Dialogue

What CSR Means to ITOCHU Corporation

What CSR does a *Sogo Shosha* have, and what social role must ITOCHU Corporation play? To explore such questions, we staged a dialogue with a panel representing various stakeholder groups on May 24, 2006.

The CSR of a *Sogo Shosha*

The current of CSR and corporate responsibility for social needs

Shima: I have continued to observe the actions of corporate enterprises ever since I became an economic journalist about 40 years ago. I feel the same debate is going on about the ideal corporate character these days under the CSR banner.

A look at postwar corporate history shows that we have gone through various phases. The period of pollution was followed by the oil crises. In the 1980s, some companies established offices for social contribution or chapters of the "1-percent" club. And when Japan's economic bubble factor was at its height, people talked of the transition from "gung-ho" to "beautiful," meaning that companies had to manifest an integrity which would serve as a model for the rest of society. But once the bubble burst, companies did their utmost to survive, and no longer discussed such a transition.

Over the last two or three years, companies have regained some stability, and the focus of discourse in this area has shifted from compliance to CSR. It appears that companies do not have any fixed views on the subject. The term "CSR" has a fresh ring to it, but to my mind, it is essentially the same as the ideal that has been held up for companies from early on. The core of CSR is finding an answer to the question of what the company must do in its involvement with society.

When Professor Clark established the Sapporo Agricultural College, instead of making a mass of rules, he merely exhorted the students to "Be gentlemen." He wanted the students to think for themselves and conduct themselves like responsible adults as opposed to attempting to restrict their behavior with exhaustive regulations. I think this applies to juridical persons as well as private ones.

Nagasaka: I would like to comment on how today's CSR differs from what society has expected from companies in the past.

The CSR concept is a new management system theory that was constructed through partnership between companies and NGOs beginning in the late 1980s. It started to gather momentum in the late 1980s because NGOs made a strategic switch to a line of partnership and collaboration with businesses as opposed to attacking them. This change was prompted by the realization that attacks on companies were not going to resolve the problems of poverty and climate change.

In the CSR outlook, societies call upon companies to address social needs.

By nature, *Sogo Shosha* address needs. At the same time, they acquire seedlings that are on the verge of entering the phase of growth and nurture them up to that of maturation. And once those seedlings reach maturation, they find the succeeding batch and nurture them to maturation. Through skilled performance of this cycle, they have played the role of discovering new business and continued to subsist as a result. In this sense, they have lived by CSR, and will presumably continue to do so in the 21st century as well.

In my opinion, CSR differs fundamentally from conventional management theory in that it obliges the incorporation of not only financial return but also environmental and social factors into all management processes.

This raises the question of just what parties are defining the needs in society and the world. There is a global consensus to the effect that NGOs act as the spokespersons. It is important for Japanese companies to understand this consensus better and to reflect it in their corporate activities. How they put this into practice is a key to business chances and also risk management. For *Sogo Shosha*, I believe that CSR activities offer a golden opportunity to continue prospering in the 21st century.

Adachi: Developing countries are facing very difficult circumstances in respect of sustainability. The ones who best know what is happening in those developing countries and are active on the actual scene are NGOs. I see a need for companies to go a step further and consider how to interact with such groups. I think that, to discharge their role of supporting the social infrastructure, it will be imperative for *Sogo Shosha* to have the inclinations and arrangements for working with NGOs and absorbing information from them.

Nagasaka: CSR has been built up through concerted action by the NGO and NPO sector and corporate enterprises to address actual needs, but awareness of this angle has been completely lacking in Japan. Moreover, even companies that have not mounted serious approaches to CSR can reap profits over the short term when business is good. For such reasons, I think that the CSR boom is receding in Japan. In the rest of the world, however, the situation is quite the contrary; the CSR concept is taking hold among developing countries even in Asia. Ten years from now, Japanese companies neglecting their CSR could very well be confronted with a loss of competitiveness relative to their counterparts in other countries.

Panelists



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Coping with the changing world of financing

Sueyoshi: The UN has identified poverty, the environment, and economic growth as the major issues currently facing the global community. To put it another way, we are confronted with the question of how to cope with negative legacies that are being magnified by economic and social globalization. The adverse influence caused by global warming looms particularly large in this picture. I think it is right to say that the problem, which has been identified as a major risk in the realm of science, is coming to be perceived as a business risk.

Another question is how to implant awareness of the crisis into the perception of society as a whole. To use soccer as a metaphor, it could be said that the 20th century allowed any kind of play on the pitch, which began to be torn up as a result of the rough behavior. Today, we have finally started to get a shared perception of the status of risks. To prevent the pitch from being ruined any further and to repair the damaged areas, we have to change the rules of the games played on it. In other words, we must lay down a new set of international rules—a new order—for operation of the global community in the 21st century. Unless they have this kind of awareness, companies with global operations will not be able to conform to the new rules.

Matsuda: I would like to comment on the topic from the standpoint of corporate stance in today's world of tough competition.

Certainly one of the biggest issues as regards social responsibility is the problem of global warming. While some countries and companies stand to gain from the situation through emissions trading, there are also countries on the losing end, such as Tuvalu, an island country in the South Pacific in danger of submersion. There is nothing wrong with profiting from emissions trading. But companies that do profit from the trading should ask themselves how to support the places being affected by global warming. As I see it, when they participate in projects, companies must evince a stance and send a message showing that they can and will be of assistance in such aspects, even if it is a matter of contributing only 1 percent of their profits.

Adachi: Another point for CSR is how to absorb the views of the impoverished in developing countries. It is a universally recognized fact that, as one of its negative aspects, globalization is breeding more poor throughout the world. Human rights may be observed in Japan, human rights are not given priority in many

developing countries. Frankly, it would not be enough merely to donate 1 percent of the profits. I realize extreme difficulties are involved, but I think that taking steps to solve such problems is at the heart of CSR for *Sogo Shosha*.

Sueyoshi: The Financial Initiative*¹ has the same view. In the financial world, people are thinking of ways for companies to alleviate poverty in developing countries. For example, microfinancing*² schemes are being applied to help the poor get on their feet in economic terms. There has also surfaced a movement to get investment circles more involved.

There are very strong inclinations to take some positive action to resolve problems saddling the global community utilizing financial infrastructures.

A case in point is the establishment of new Principles for Responsible Investment (PRI)*³ on April 27 this year by more than 50 parties, mainly world-class institutional investors in New York, Tokyo, and Paris. The principles are grounded in the conviction that institutional investors ought to incorporate environmental, social, and governance concerns into the decision-making process. This is known as the "ESG" issue, the acronym standing for the environment, society, and governance. The principles also dictate that shareholders are to act in the same way. The institutions declared that investors must seek disclosure of ESG information from companies that are prospective objects of investment.

Under the rules of socially responsible investment (SRI), the scope of investment was somewhat limited. Investors were encouraged to assist companies that had a keen concern about the environment and CSR even if it meant a lower return. But the new declaration brings ESG issues into the realm of investment as a whole.

We have entered an age in which companies that neglect to act on the ESG issue will not be able to attract high-quality investment.

*1 An organization to promote the spread of financial activities with concern for the environment and sustainable advancement, formed by conclusion of an agreement by the UN Environment Programme and individual financial institutions on their own initiative.

*2 A type of financial service furnishing small scale loans to the poor, with the aim of assisting their business operations and supporting their economic independence.

*3 Principles announced by the UN, to have institutional investors managing assets take account of environmental, social, and governance concerns in their investment.

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The theme of CSR at ITOCHU Corporation

Tasks in the formulation and execution of CSR action plans

Matsuda: I think the ITOCHU action plans are put together very well. It is an excellent idea to have things examined in divisional units. The crux is how to strike a balance between business and CSR activities. I think companies should start by realizing that they bear an extremely heavy responsibility in the age of globalization. They must turn a profit and also have the mission of giving their employees a livelihood. It is therefore vital for them to strike a proper balance between CSR and earnings.

Nagasaka: When rating institutions that grew out of NGOs such as ETHIBEL look at reports, they focus on two major points: whether a scheme has been constructed for management of human rights, the environment, labor, and the like, and whether that scheme is functioning properly. One criterion in this connection is the extent of NGO and NPO involvement in individual projects.

I think the ITOCHU report is marvelous as compared to those of other companies, but it may be regarded as a little short of impact when read in translation by international institutions. I say this because there are only a few interactions with NGOs and NPOs. For the future, when ITOCHU establishes standards for action on CSR, the discussion should not be confined to the in-house level. The work should go more smoothly if the company incorporates behavioral standards such as the PRI mentioned by Mr. Sueyoshi as well as GRI (Global Reporting Initiative) indicators.

Shima: How about making a study of the NGOs and NPOs pertaining to ITOCHU's businesses and their codes of conduct, and having the CSR Promotion Office report on the findings to the Division Companies?

By way of example, I would like to mention the book "Shopping for a Better World," which was published in the United States in the 1980s. It contains judgmental standards for building a better society under 11 parameters, including donations, appointment of female executives, in-house promotion of minorities, involvement with military industries, treatment of animals, disclosure of internal information, community contribution in the area of social education, involvement with nuclear power, environmental protection, and contribution to employees. It encourages consumers to buy from companies that rate well in these aspects if levels of quality and price are about the same. Although it came out about 20 years ago, it takes up roughly the same problems and issues that are in the spotlight today. I think it would simplify things for ITOCHU to ponder what it should do while considering how the parameter priorities should be changed and whether any new ones should be added.

Promotion of CSR activities in the supply chain as the key

Matsuda: Supply chain management is another major task. The big question is the extent to which companies can ascertain and influence components of the supply chain, including those in developing countries. It will probably become necessary to set some sort of standards for drawing the line here.



Sueyoshi: On the subject of supply chains, it is my conviction that companies must not outsource CSR activities. Management becomes looser as core operations get farther away from the corporate nucleus. External rating institutions would also take an extremely dim view of it.

For these reasons, I consider it important to balance between business outsourcing and CSR functions performed by headquarters, and to hammer out a distinctive CSR policy that befits its nature as a *Sogo Shosha* and wins the empathy of society.

Distinctive CSR in keeping with ITOCHU's character

Shima: I suggest ITOCHU should think about doing something unique. It should have the notion of creating its own axis. On the environmental front, for example, clouds of yellow dust have become a substantial problem in China and neighboring countries. ITOCHU could conceivably assemble environmental and energy-conserving technology from Japan and the whole world, and cooperate with China on environmental problems while doing business there. This would presumably also help to improve relations between China and Japan. It would be extremely distinctive, and may even lead to advancement with a linkage between business and social issues. In connection with the problem of poverty, education is a major factor, and it would be good to explore the prospect of developing business with a focus on education and poverty.

What can ITOCHU do for the world and for Japan? It is imperative for the company to clearly define its views and work out distinctive approaches.

Sueyoshi: I, too, am in favor of distinctive CSR activities. The crucial element is not the way in which ITOCHU makes a commitment to the world, but the contents of this commitment. Unless ITOCHU delivers a message that the company is determined to get involved in various CSR activities as means and tools to fulfill its



commitment, the message will be greatly muted both within Japan and overseas. In my view, ITOCHU must do its utmost to ascertain what the world wants and which parties need help.

Nagasaka: ITOCHU is promoting the MOTTAINAI Project. It would indeed be "mottainai" (a waste) if the company did not weave Maathai's concept into its own overall concept.



I suggest that ITOCHU could make an in-house examination of the significance of Maathai's movement and implant an awareness of it to see that it takes root in the company. The word "mottainai" has been publicized by the world's NGOs and through corporate CSR activities. I think it would be wonderful if a Japanese term were to come into widespread use in civil society around the globe.

I would also like to say a few words about the relationship between CSR and labor unions. The positioning of labor unions is

extremely important for CSR. Although they have very little power of influence in Japan, labor unions are viewed as having a definite social role to discharge in most other countries. An organization will have a very great impact internationally if it is addressing CSR together with its labor union. ITOCHU actively engages in dialogue with its labor union, and I suggest ITOCHU to make good use of this in the report.

Matsuda: I think it would be good to hold such dialogue on the level of the Division Companies as well. I believe a lot of issues that have been overlooked by employees would come to light through dialogue inclusive of NGOs and NPOs. This practice would probably clarify what ITOCHU should emphasize, without being bound by the conventional idea of CSR.



Sueyoshi: ITOCHU consists of seven Division Companies, each of which is taking CSR actions on its own. If so, how does it maintain its unity as a company? It is crucial for ITOCHU to draw an appropriate distinction between activities by the seven Division Companies and what must be done in a unified manner by the

company as a whole.

I would also like to comment on the CSR missions of the Division Companies. Looking at the mission statements, it occurred to me that they could have been composed, say, 20 years ago. Take safety and security, for example. The pattern of pursuing safety today is completely different from that of 20 years ago. Therefore, unless the difference is brought out, the statement will not deliver a strong message that things are really going to change. What kind of added value does ITOCHU prize? I would like to see the company tell the society about it.

Proposals to make Japan respected around the world

Shima: We have to look not only at the world but also at Japan. The big problems facing Japan in the 21st century are population decline, population aging, safety and security, and local economic revitalization. These problems are closest to us. I think it is critical to begin taking some concrete action on them, too.

Japan is the world's second-greatest economic power, but appears bound to become a middle-ranking one in 20 or 30 years. Japan is on the verge of losing its current identity in the global context. It consequently needs to plot a strategy for its future evolution and figure out how it can remain respected in the international community even as a medium power. *Sogo Shosha* possess all kinds of information. As such, they should have a keen realization that it is a major role of theirs to prepare proposals based on this information instead of leaving things to the government.

Thoughts on the dialogue

This was the first time for us to hold a dialogue with our stakeholders. The panelists from various fields gave us some valuable views and proposals.

I believe we gained their understanding of our CSR approach of formulating and executing CSR action plans by each of the seven Division Companies. At the same time, the panelists pointed out the need for further coordination with NGOs and NPOs, the question of the extent of responsibility for ascertaining and promoting CSR initiatives in the supply chain, and the advisability of developing distinctive CSR programs befitting our character. Their expression of opinions from various standpoints gave us a good idea of what society expects of us and made our tasks for the next step clearer.

For the future, we shall continue with our efforts to deepen our dialogue and communication with stakeholders, and to develop CSR activities so that we fulfill our social responsibilities.

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