



Global Compact Network
Japan

Building the Sustainable World

A Vision of Desirable CSR Activity in the Supply Chain

— A Proposal from the Supply Chain Working Group —

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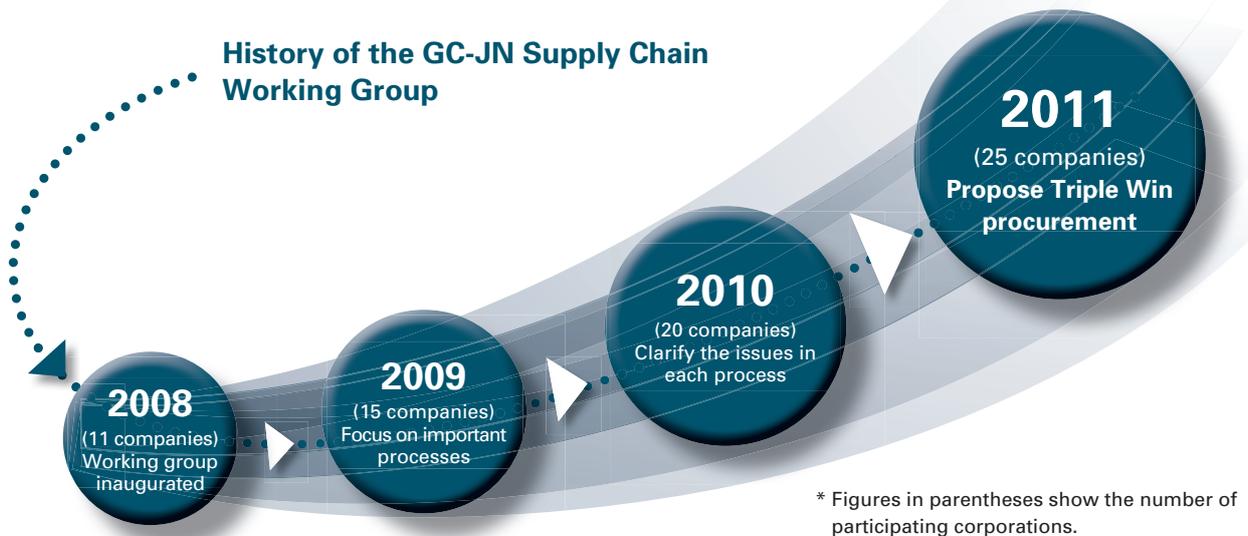
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■ History of the Global Compact Japan Network (GC-JN) Supply Chain Working Group

GC-JN Supply Chain Working Group (hereafter "this working group") was formed in 2008 as a group of 11 GC-JN participating corporations. This was a time when Japanese corporations were beginning to adopt CSR requirements in their procurement policies. The working group started out with each of the participating corporations introducing its supply chain CSR initiatives to the other members, and extracting good practices from among those initiatives. Out of the processes involved in those initiatives, the working group then further focused on the three important processes of supplier briefings, self-assessment questionnaires (SAQ), and audits, and formed a Sub-Working Group for each. The sub-working groups discussed the issues involved in their respective processes and their visions of what those processes should be.

This proposal presents the working group's organized summary of its discussions from 2008 to 2011 and its vision of Triple Win procurement as a supply chain CSR measure that contributes to the sustainability of the buyer, the supplier, and society.

■ A Proposal Based upon Wide-Ranging Practical Experience in the Industry



The corporations that participate in this working group include various kinds of manufacturers, retailers, general trading houses, and other such companies that are buyers and suppliers in a wide range of business categories. Most of the participants also have practical experience in CSR procurement. Consequently, this proposal was created on a foundation of practical experience and a diversity of perspectives.

It is our hope that this proposal may serve as a useful reference for parties who intend to engage in supply chain CSR measures as well as those who intend to improve the measures they are already engaging in.

1.1 What is CSR Procurement?

Increasing corporate activity has been accompanied by growing public awareness of pollution as a social issue. From the 1960s on, there has been demand for corporations to engage in measures addressing environmental problems. With the advent of the 1990s, globalization proceeded rapidly, there were increasing disparities between states and regions, and companies started being called on to take measures addressing poverty, human rights, and other such problems. In this social context, people began to place on corporations the great expectation that they would contribute to sustainable development.*¹ Considering the construction of a sustainable society to be their corporate social responsibility (CSR), the world's corporations began engaging in CSR activities of their own.

Meanwhile, present-day globalized corporate activities include the expansion of supply chains throughout the world for the procurement of products, raw materials, and other materials. There are limits to the results that can be achieved through the CSR activities of a single corporation alone. Therefore corporations are called upon to deploy CSR activities throughout the entire supply chain, taking the corporations that are procurement sources as their basis.

ISO 26000, which was published in 2010, states that social responsibility in the value chain should include consideration by every organization of the potential effects that its own procurement (purchasing) could have on other organizations. They should take care not to exert a negative effect, or to limit their negative effects to a minimum.

Corporate procurement activities are extending globally, and the social problems of the world have begun to exert an influence even on procurement activities. The scale of global corporations has also increased, and some corporations have emerged that exert as much influence as an individual country. In places like developing countries, there are differences in governance capability from country to country, and social expectations of global corporations and other such organizations have increased.

For example, there are many outsourcing production plants located in newly emerging countries and developing countries as supply centers for European and American markets. There is a tendency for these outsourcing production plants to focus on manufacturing management and not to pay sufficient attention to labor management, environmental protection, and other such concerns. It has happened in the past that labor or other such problems that arose in the course of outsourced production developed into product boycotts.

Under circumstances like these, buyers engaging in the procurement of products, materials, raw materials, and so on, need to work together with suppliers to add CSR elements such as the environment, the working environment, and human rights to such usual concerns as quality, performance, price, and time of delivery. They are now being called upon to engage in activities promoting CSR programs throughout the entire supply chain. This working group defines these activities as CSR procurement.

Many corporations now declare CSR procurement policies, and they have begun taking measures accordingly. These are gradually expanding from supply chain measures into value chain measures, which extend across a broader range that also includes the upstream and downstream.

*1 Sustainable development: Development that satisfies needs under actual current conditions without causing the ability of future generations of people to satisfy their own needs to be exposed to risk.

1.2 The Current Situation and Issues in Japan

As noted earlier, Japanese corporations have been slightly behind the top corporations of Europe and America in beginning to engage in CSR activities. At present, Japan is one of the most advanced countries in addressing environmental and other such issues.

However, there is often a one-sided tendency for these to be in-house activities, and the actual present situation is that little progress has been made in support for the entire value chain. A survey of Keidanren member corporations made in 2009 by the Keidanren Committee on Corporate Behavior (with responses from 437 of 1,297 member corporations, or 33.7%) also indicated that supply chain management was one of the areas in which progress had been slowest. (Figure 1)

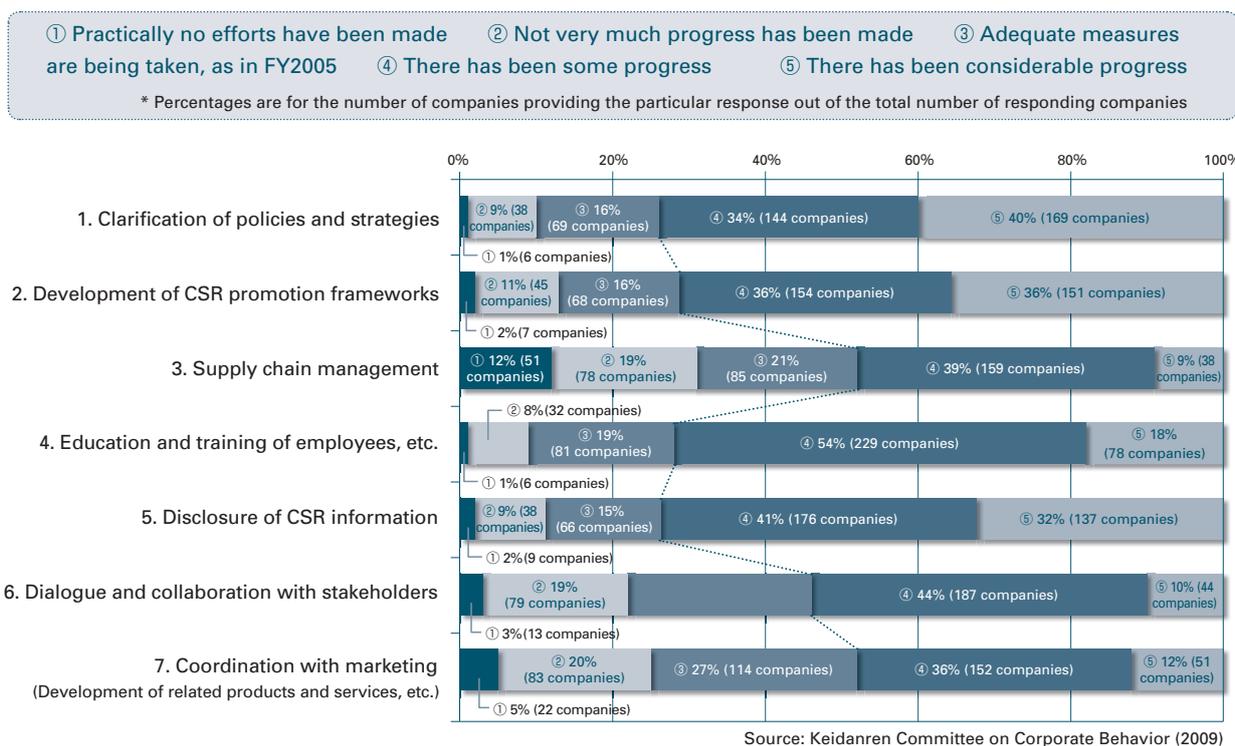


Figure 1. Status of Company CSR Measures by Comparison with 2005

In this working group, the participating corporations clarified the processes of procurement activities (establishment of a corporate philosophy, formulation of CSR procurement policies and code of conduct, sharing of policies by means of briefings, etc., self-assessment by means of SAQ, evaluation and correction by means of audits), shared their current situation and issues, described the factors impeding their progress, and discussed what kind of procurement they should aim for.

In 2011, the corporations participating in this working group created a list of CSR procurement measures relating to the definition of CSR, the CSR procurement management organization, CSR procurement policies, commissioning a questionnaire on codes of conduct, audits, sharing circumstances with suppliers, written contracts, Sustainability Report third-party guarantees, future issues and concerns. At the end of the list, they recorded the characteristics of Japanese corporations.

This provided a basis for various different corporations from a number of different industries to come together and share issues and concerns together with their various experiences, solutions, and skills.

1.3 This Working Group's Vision of What CSR Procurement Should Be

The corporations that take part in this working group are both buyers and suppliers. Working from their own particular experiences, they have recognized that the greatest issue they have to address is related to the fact that, in the current state of affairs, the mainstream in most CSR procurement takes the buyer's perspective and is just a forced formality. There are weaknesses with respect to sharing a vision with suppliers and taking a stance that aims for mutual growth with them.

This working group has narrowed its focus to this issue, formulated as the idea of what CSR procurement directed toward a "triple win" should be. That is, CSR procurement intended to achieve growth in better directions for buyers, suppliers, and, by extension, society as a whole. We have determined to propose a specific vision of this under the designation of Triple Win Procurement.

With Triple Win Procurement, buyers and suppliers work together to improve their products and parts through consideration for quality, price, the environment, human rights, and other such concerns. In addition, this approach seeks to reduce risk, heighten each other's corporate value, and enhance competitiveness. What this means is that it becomes possible, as a result, to enjoy a better society that is safer and feels more secure.

This conceptual approach comes from the merchants of the Omi district. Traditionally known for their business acumen, these merchants had a management philosophy of doing good three ways, namely, good for the seller, good for the buyer, and good for the community. What this means is that not only should a business deal be good for the seller and the buyer, who are the parties involved, but that it must also contribute to the welfare of society as a whole.

Taking this farther, the Triple Win Procurement approach holds that the seller and buyer are equal, each takes on its own role, each does work in its own special area, and both work together efficiently and effectively. No one side is specified as the principal party or the main player. The spirit of equality is respected throughout. Both parties mutually exercise the utmost care with regard to a product or service before placing it on the market, and they are responsible for examining it to determine whether it is truly satisfactory.

It becomes necessary, therefore, for both parties to work together in the truest sense of the word, building a relationship that goes beyond the question of which of the two is the principal party or the main player. We consider it to be important not only for the buyer but also for the supplier to engage voluntarily in autonomous improvement. When the process of building a relationship of this kind has an effect on the various stakeholders involved, and the world is changed for the better, we call it Triple Win Procurement.

1.4 Three Important Processes in Triple Win Procurement as Conceived by this Working Group

Considering the current situation and issues faced by every participating corporation, we have reached the conclusion that the following three processes are essential for achieving Triple Win Procurement. We have formed a Sub-Working Group for each of these processes and examined ideas for the form each process should take.

○ Supplier Briefing (Vision Sharing)

This is the most important process for the buyer and supplier to understand and share their CSR vision. This process could be considered to determine the results of subsequent activities as a whole. There are corporations for which the communication of vision and policies to suppliers flows one-sidedly from the buyer side through briefings, dispatch of documents, disclosure on the Web, and other such means, and there are corporations that do not conduct adequate briefings. This sub-working group has examined ideas of what form should be taken by briefings that are necessary for buyers and suppliers to share their vision.

○ Self-Assessment Questionnaire (SAQ)

This is a process of understanding CSR requirements and conducting self-assessment that we consider to be essential for grasping actual present conditions. Corporations often use a standard version such as the Electric Industry Code of Conduct (EICC), or customize such a version, but there are also notable cases of corporations creating their own guidelines. There are variations in the content and number of questions, the terminology used, and definitions in the answers, which can make this a considerable burden for suppliers that have multiple buyers. At the same time, another problem is that the actual situation cannot be determined from the answers given in many cases.

This sub-working group will propose an SAQ in a form that will enable CSR procurement to be implemented efficiently and accurately from the perspective of both buyer and supplier.

○ Audits and Corrections

An audit is a process in which buyers and suppliers work together directly and indirectly to evaluate actual present conditions, then make use of the results in improvement activities. Audits are very important in achieving mutual growth. There are not very many corporations in Japan that go so far as to conduct audits. Even among those corporations that do, there are virtually none that conduct third-party audits, their audits instead being mainly first-party audits implemented by suppliers and buyers. When audits are implemented by the parties involved, it is essential that a qualified person be placed in charge of it, and that appropriate systems for support, including capacity building, be established.

This sub-working group has drawn up a description of the form that should be taken by a mutual growth-type audit in which buyers and suppliers seek improvement and growth together, along with specifics of its practical implementation.

The sub-working group's vision of the form these measures should take is described in greater detail below in Chapters 2, 3, 4, and 5, together with a proposal for Triple Win procurement. This is procurement in which the buyer does not one-sidedly impose supply chain activities, but rather the buyer and supplier share the risks and advantages of CSR together, and their activities also promote the sustainability of society as a whole.

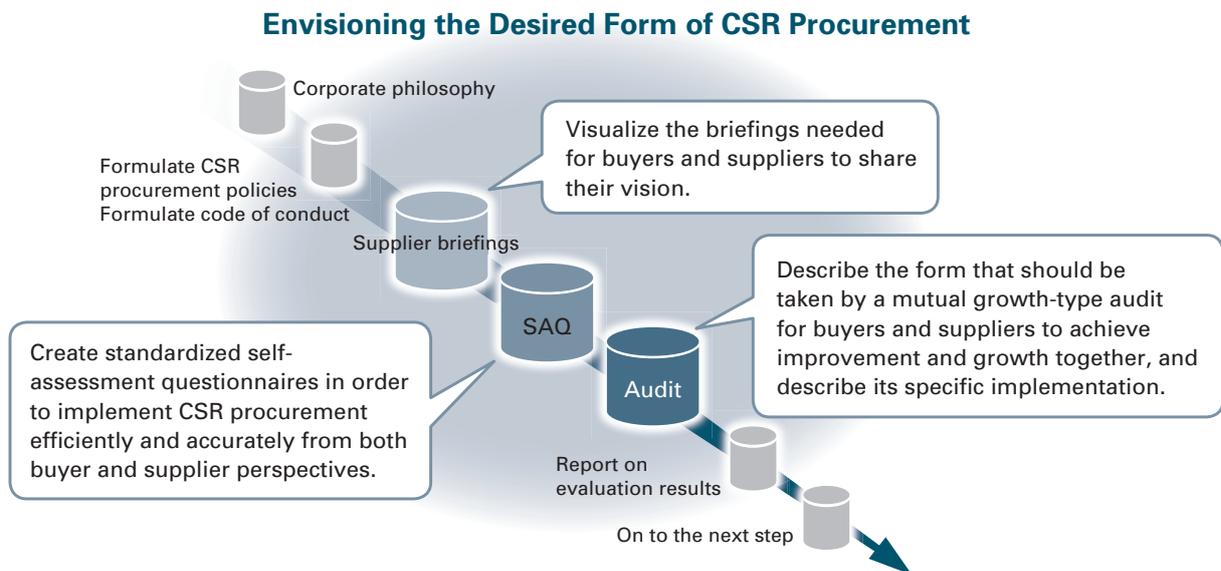


Figure 2. Three Sub-Working Group Activities

Chapter 2 The Form that Should be Taken by Supplier Briefings

Corporate activities are becoming progressively more global, and supply chain management is becoming increasingly important. In this context, the sub-working group on briefings discussed the form that briefings would take in order to achieve a Triple Win, meaning a three-way win that includes not just the buyer, but also the supplier and society. We have described our vision of what such briefings should be in our own ways.

Briefings are held at an early stage in the CSR procurement process. Given the notion that a Triple Win becomes possible only when the buyer and supplier share a vision between them in this way, we took the view that the purpose of briefings is to share a vision.

2.1 Five Important Elements in the Briefing as a Step to Sharing a Vision

Briefing methods include briefing with documents, publication on the Web, and so on. Most corporations use methods like these to publicize their deployment of CSR procurement and link it to subsequent processes. On the other hand, some corporations seek to give their supplier a fuller understanding by setting up occasions to brief the supplier directly. Activities will not yield true results without the supplier's understanding and agreement. Making the effort to hold briefings is itself a first step toward vision-sharing, and the results of our thinking about what form the briefings should take and what content they need to have in order to provide a still deeper understanding is addressed in the following Five Important Elements of Briefings.

- Changes in the social environment in which the corporation is embedded
- Reasons for engaging in CSR procurement
- The effects and envisioned advantages in promoting CSR
- The company's own corporate philosophy, its conceptual approach to CSR, and an overview of its business
- Future plans for activities to promote CSR procurement and actions to be requested

These five elements will be examined individually below.

2.1.1 Changes in the Social Environment in which the Corporation is Embedded

The first important element that should be explained in a briefing is changes in the social environment in which the corporation is embedded. The social responsibility of corporations has been an issue for some time, but this is still not widely recognized by the public. Given these circumstances, even if the buyer wants to promote CSR procurement, the supplier is unlikely to understand the buyer's intentions. It is extremely important to first convey the changes in the social environment in which the corporation is embedded, which provides the context in which the demand for CSR emerged.

The question, then, is what kind of change in the social environment needs to be conveyed. CSR activities originated in the response to environmental pollution problems that arose in conjunction with corporate activity in the 1970s. Corporate responsibility came to be seen as extending beyond environmental problems to include human rights and all other such social issues. The scope of CSR applicability also extends beyond the range of activities of the corporation itself to include the entire value chain that is influenced by the corporation, and society has grown more demanding in what it requires of corporations. The response to these demands by society was the beginning of CSR procurement.

In support of this view, the international standard for social responsibility that was published in 2010 as ISO 26000 also states that measures for social responsibility should be addressed not just to one's own organization and subsidiaries, but also to customers and suppliers to which the organization's influence extends.

The changes in the social environment that are to be conveyed in briefings means those changes in society that have brought CSR procurement into demand. Rather than explaining what happened with respect to CSR, the briefing should instead describe the history whereby CSR activities became necessary for the supply chain as a whole, including procurement activities. This is more likely to aid the buyer's understanding.

One step toward sharing their vision is for the buyer and supplier to gain a correct understanding of the social context and to understand what is required. This causes a shared awareness between the buyer and supplier so that the vectors of the activities come into alignment and they become able to promote CSR procurement more effectively.

2.1.2 Purpose of Engaging in CSR Procurement

As corporate procurement activities become globalized and supply chains grow more complex, the risks associated with social problems around the world (human rights, labor, the environment, compliance, etc.) are injecting elements of uncertainty into business operations. Corporations must engage in management of CSR risks in order to eliminate negative impacts on business continuity, brands, and other such concerns.

Given this context, the supplier briefings in conventional CSR procurement would commonly have buyers suggesting procurement criteria and codes of conduct for transactions presented from the perspective of eliminating risk for the buyer. Apparently, the reasons for engaging in CSR procurement, and its necessity, were often explained in these terms.

As noted in the preceding paragraph, however, change takes place in the social environment in which the corporation is embedded, and what is demanded of CSR procurement now is a contribution to the resolution of global social issues in the entire supply chain, going beyond just the avoidance of risk. CSR procurement is an effective means for resolving social issues. In the case of large and highly influential multinational corporations, in particular, much is expected of them by the United Nations and other of their many stakeholders as well as by international society, and this constitutes an opportunity to enhance their corporate value.

Making a contribution to sustained improvement and development within the global supply chain assures the long-term continuity of a business and heightens the company's own corporate value. This can certainly be considered one major reason for the company to engage in CSR procurement.

2.1.3 The Effects and Envisioned Advantages in Promoting CSR

The next content that should be included in the briefings is the effects and envisioned advantages in promoting CSR. If a supplier does not have motivation to participate in these activities voluntarily, CSR procurement will not yield its full effects. The view in this working group, therefore, is that the Triple Win approach is the motivating force for promoting CSR procurement. If CSR is perceived as some kind of special activity, and implementation is sensed as a burden, then even the supplier alone will not be able to win, much less achieve a Triple Win. Communication by buyers of the effects they think CSR will have, and the advantages they envision from it, will help to sweep away that sense of a burden, as well. Even if they cannot hold out hope of a short-term effect, suppliers will no doubt feel more motivated to engage in activity if they can be made to understand its long-term advantages.

The advantages that a corporation can expect to enjoy as a result of CSR promotion would generally include the following items.

- Strengthen capability to support risk management compliance
- Strengthen business competitiveness
- Heighten customer satisfaction
- Increase corporate brand strength
- Guarantee the continuity of society, which is the foundation for the continuing existence of business itself

Corporations that take CSR procurement merely as a means to avoid procurement risk may be likely to exert pressure one-sidedly on suppliers to implement CSR (and especially compliance) or to just confirm the status of implementation and go no further. Such cases do not lead to suppliers voluntarily engaging in CSR and taking action themselves to heighten the social value of their existence. This is why it is extremely important to be able to persuade a supplier, as noted above, by explaining how this strengthens business competitiveness, increases customer satisfaction, enhances the corporate brand strength, and provides positive value with the expectation effect from guaranteeing the continuity of society, which is the foundation for the continuation of the supplier's own business. Whether the supplier honestly accepts these arguments, and the relative strength of the supplier's resulting motivation, will of course largely determine how serious the supplier subsequently is about engaging in CSR measures, and an explanation that is logical and persuasive will help facilitate a smoother adoption of CSR internally by the supplier.

There is also variation among suppliers in the extent of their understanding and awareness of CSR, which also makes it necessary to prepare explanations from a variety of approaches. It will be easier to obtain a feeling of empathy from a supplier if the explanation can be understood and feel natural even to people who do not know very much about CSR, or if the content of the explanation can be reviewed by people in other divisions, or if some other such technique is devised.

2.1.4 The Company's Own Corporate Philosophy, Its Conceptual Approach to CSR, and an Overview of its Business

It is very important to explain the company's own corporate philosophy (management philosophy) and its conceptual approach to CSR, as well as the kind of enterprise it is (field of business, sales, number of employees, etc.), as the context in which the buyer began CSR procurement. The reason for this is that a company's corporate philosophy and its CSR measures are interlinked, and it is necessary for the supplier to gain an understanding first of the direction in which the buyer is intending to advance.

In order for the supplier to truly endorse the measures of the buyer corporation, it will not be enough for the buyer just to describe the changes in society or the importance of procurement practices from the buyer's side. That alone would be lacking in persuasiveness. As the changes in social conditions increase the responsibilities that devolve upon the corporation, buyers must describe, with conviction, how they think and how they intend to face up to society. This also means, of course, that buyers themselves promote CSR, they openly state their aim to expand into the supply chain, and they seek to have suppliers promote their own companies' CSR activities. The significance of incorporating these matters into briefings is that doing so allows the buyer to convey directly to suppliers their company's conceptual approach with regard to CSR.

Those member corporations of this working group that conduct briefings in Japan and other countries all include explanations of their company's own corporate philosophy and its conceptual approach to CSR. These could be considered essential items.

2.1.5 Future Plans for Activities to Promote CSR Procurement and Actions to be Requested

The discussion to this point has centered on explanation of matters that have to be explained in the course of promoting CSR procurement in order for buyer and supplier to share a vision of CSR procurement. The last of the five important elements is an explanation of future plans for activities to promote CSR procurement and actions to be requested. The fact that suppliers are to be told in specific detail about how the buyer is going to promote CSR procurement in the future may be obvious but it is also of great importance. The sub-working group conducted a survey of actual conditions in the corporations participating in this working group, and received a considerable number of responses indicating that:

- The respondents conducted briefings but have not taken any particular action since.
- They conducted questionnaire surveys (SAQ) following briefings, but have not provided any feedback on the questionnaire results.
- They have not conducted any particular activities since implementing briefings and SAQ during the first year.

It is necessary to describe the overall scheme at the briefing stage. This would include the planned schedule for SAQ surveys and subsequent audits, how long activities are to be continued, and if any supplier did not satisfy certain criteria for the SAQ or audit, what would happen to their contracts.

The matter of how the buyer intends to proceed with CSR procurement activities also indicates the buyer's commitment. Clearly stating an overall schedule will tend to eliminate hold-ups in those activities.

The process of promotion activities will differ with the kind of business conducted by the supplier and its size. With regard to suppliers, too, a single pattern cannot necessarily be expected to be applicable to all. The question of how to deal with such cases must also be considered.

2.2 Vision-Sharing Issues and Their Solutions

The above has described the sub-working group's views regarding the content of briefings intended to make it possible to share a vision of CSR. In order to verify its conclusions, the sub-working group conducted a survey of actual conditions in the corporations participating in this working group. The survey clarified how the five important elements are handled in actual briefings and how they are conveyed. In this section, a proposal will be made with regard to issues that emerged from the questionnaire and ways to resolve those issues.

2.2.1 The Status of Briefing Implementation

This working group seeks to determine the desired form of procurement aimed to achieve a Triple Win. We have selected briefings, SAQ, and audits as three important processes for that purpose, and we are seeking to determine what form these processes should take. We found from the results of our survey, however, that the implementation rate for the briefings themselves was lower than anticipated.

Corporations that are implementing briefings for domestic suppliers account for 50%. Even of those that are implementing briefings, almost all have done no more than one briefing.

On the other hand, the number of corporations that implement an SAQ was higher at 17 (70.8%), among them some that implement only an SAQ. Given the aim to achieve Triple Win, we consider it essential that briefings for vision-sharing be implemented in advance of measures to promote CSR procurement, and it is necessary that the supplier in question have a full understanding of the necessity

of CSR procurement. Just implementing briefings once at the initial stage of the CSR procurement process cannot be considered sufficient. As each company applies the PDCA cycle to its program, new issues are certain to emerge, and there is certain to be a next step to be taken for further improvement. Under the conditions of business expansion, it will be even more the case that the supplier in question will not be fixed, so that any number of occasions for briefing will be required to deal with the variety of changes that occur.

2.2.2 The Timing of Implementation

The survey results indicated that in the majority of cases, briefings were held just one time when CSR procurement activity was being started. Although there were some exceptional corporations that continue with the implementation of briefings in conjunction with meetings to announce their annual plans and other such regular events, these were found to be extremely few in number.

Other considerations include changes in the number of suppliers involved, changes in the suppliers, and revision of the content that should be explained. When a supplier's understanding advances to a certain extent, it will naturally become necessary to share intentions (vision) at a higher level that is matched to the next step.

As to the timing, it should be good to hold briefings when beginning CSR procurement activity and again, after completing one entire process through SAQ and audit, when a review is conducted and activities are geared to the next objective. The frequency of briefings is not subject to generalization, but we expect that continuing implementation will be necessary.

2.2.3 Selection of Suppliers for Briefing

It is apparent from the survey results that suppliers are selected according to the size of transactions, the extent of risk, and the scope of the company's influence on the supplier. Most corporations appear to consider suppliers to the primary supplier level as briefing recipients.

The larger a corporation is and the more areas of business it is involved in, the more suppliers it will have. In practical terms, it is not possible to brief all suppliers, and the selection of suppliers for briefing is left up to the judgment of each corporation. It would seem advisable, however, to assign priority first to primary suppliers and to those in regions or business fields that are subject to greater risk. The objectives of CSR procurement also include the resolution of social issues, so there are cases when it becomes necessary to set the scope of selection broader or deeper.

2.2.4 Content that Should be Explained

The five important elements that we have discussed are explained by almost all the corporations that conduct briefings. (Figures in parentheses are questionnaire results.)

- Changes in the social environment in which the corporation is embedded (100%)
- Reasons for engaging in CSR procurement (88%)
- The effects and envisioned advantages in promoting CSR (88%)
- The company's corporate philosophy, its conceptual approach to CSR, and an overview of its business (100%)
- Future plans for activities to promote CSR procurement and actions to be requested (75%)

2.2.5 Divisions in Charge

The results show that these are centered on the procurement divisions (88%), while the CSR divisions provide support (63%). What these results suggest is that measures for CSR in the supply chain are not special duties assigned by a specific division or department, but rather are being included as important elements of procurement operations according to selection criteria on a par with quality, cost, and delivery (QCD).

2.2.6 Implementation in Other Countries

The corporations participating in this working group, which were the subjects for the recent survey, include many corporations in the electric and electronic industries that have already built up a record of accomplishment in CSR procurement in other countries than Japan. For this and other reasons, the rate of briefing implementation by these corporations in other countries is 58%, which is higher than the rate of implementation to domestic suppliers (50%). Our view is that this is in part because of the higher procurement risk in other countries, so that CSR procurement itself is being deployed more actively there. On the other hand, there was only one company not in the electric or electronic industries that implemented briefings in other countries.

The sub-working group on briefings has concluded that, in the interest of achieving a Triple Win by means of CSR procurement, briefings must be conducted for suppliers in other countries in order to implement vision-sharing in much the same way as for suppliers in Japan. Language problems and issues particular to other regions are factors, however, and it appears there are still significant obstacles to implementation that must be overcome. Our view is that plans for implementing briefings should be considered, and that combinations of alternative means, such as conducting SAQ first, can be devised for this purpose.

2.3 Conclusion

Briefings are activities conducted to obtain the supplier's understanding and agreement to engage in work together at an early stage in the CSR procurement process. This is not just a matter of buyers making clear what they are aiming for, and what kind of actions they will take to that end, but rather a matter of understanding one another. That is, taking steps for shared vision with the supplier is of the greatest importance if the results of activities are to be anticipated. It is desirable, therefore, to give full consideration to examination of the content and plan for implementation when briefings are conducted.

The SAQ is of great importance for buyers and suppliers in checking their implementation status with regard to the environment, human rights, labor, and other CSR elements. The SAQ was originally a tool by which suppliers could efficiently check that status of their CSR measures in a questionnaire format. However, the definitions of words and indices that can be used in common have not been established, so that there are significant variations in the content and number of questions. Suppliers are faced with the burden of responding to various similar yet non-identical questions posed by multiple buyers, while buyers are facing the issue of being unable to obtain the information they really need. This sub-working group carried out a study of the SAQ with the aim of making it into a standard tool that anybody would be able to use.

3.1 The Position of the SAQ

Corporations that engage in CSR procurement first formulate a CSR procurement policy, develop a code of conduct with specific content based on that policy to present to suppliers, and go on to take measures with suppliers to realize that code of conduct. In order to make these activities effective, a process of communication is required by which the status of measures regarding the substance of requests made is checked with the suppliers after a certain period of time, and further improved activities are encouraged.

The methods used for checking, as shown in Table 1, include the SAQ (a documentary method), surveys, and audits (an interview method). It is necessary to consider not only the level of response that buyers are to require of suppliers, and how far they are to pursue the follow-up on status of improvement, but also cost performance. Checking by interview yields more reliable results than by documentary means, but it is also more expensive. Ideally, therefore, the method of checking should be determined by assessing the risk level^{*2} to ascertain the extent of impact on the buyer when CSR risk from a supplier has emerged.

When the level of risk has been determined to be relatively low, and when the purpose of checking is to ascertain and adjust actual present conditions and awareness of the content of the code of conduct, the SAQ can be an extremely effective communication tool in terms of cost, as well. When an interview-based method such as a survey or audit is chosen, the SAQ can be used in advance to create a checklist that will increase the efficiency of the survey or audit. On the other hand, it is also important to make the effort to create questions that suppliers can answer more easily by including indices or explanatory material with each question, and so on, to assist suppliers to accurately understand the content of the questions.

^{*2} Assessment of risk level: See "Supply Chain Sustainability Risks Mapping" on p. 28 of *Supply Chain Sustainability: A Practical Guide for Continuous Improvement* (United Nations Global Compact and BSR, 2011).

Table 1. Methods for Checking the Status of Supplier Activities

Checking method	Expense	Certainty of effect checking	Improvement requirement level (Larger circled numbers indicate greater improvement level)
Audit (interview)	Greater 	Greater 	④ Implementation extends to follow-up audit ③ Scoring, request to improve weaknesses, request for post-improvement evidence ② Scoring, request to improve weaknesses ① No request for improvement (scoring and analysis only)
Survey (interview)			Conduct overall analysis, submit results to suppliers as improvement requests (Suppliers not evaluated by scores)
SAQ (documentary)			② Scoring, request to improve weaknesses ① No request for improvement (scoring and analysis only)
Pledge (documentary)	Smaller	Smaller	No request for improvement

* Based on results from the survey of corporations participating in the SAQ Working Group, Supply Chain Working Group, Global Compact Japan Network.

3.2 Current SAQ Status and Issues

There are many corporations at present that adopt the SAQ as a method of checking, from the perspective set forth above, and of the 24 corporations participating in this working group, 17 are using the SAQ (as of the end of November 2011). The usual SAQ processes follow the flow from creation of a written explanation to creation of the SAQ, responses by suppliers, and feedback (including audits). Results from the survey of corporations participating in this working group indicate that many corporations do not implement all of the processes, and they also differ in the content and implementation method for each process. Common issues among most corporations, however, are the processes of creation of the SAQ and responses by suppliers. As shown in Table 2, the content and number of questions vary from company to company, and this therefore leads to the imposition of a burden on suppliers. Furthermore, it is not necessarily the case that the supplier and buyer share a common understanding of what individual questions are intended to check or of what must be done. This is also related to the issue of buyers not being able to obtain the information they need. For example, the question, "Do you keep their identification papers when hiring?" contained in a certain SAQ will not yield useful answers unless it is understood that the question derives from the problem of forced labor that occurs in countries and regions where immigrant workers are numerous.

Furthermore, if an SAQ with too many questions is used without ascertaining which are essential in obtaining core information needed by the buyer, then responding to all the questions only imposes a burden, making it unlikely that the truly necessary information will be obtained.

Table 2. Circumstances of SAQ Implementing Companies

Item	Circumstances at companies
Basis of question content	<ul style="list-style-type: none"> · Electric Industry Code of Conduct of the Electronic Industry Citizenship Coalition (EICC) · Japan Electronics and Information Technology Association (JEITA) · Supply Chain CSR Promotion Guidebook · Social Accountability International (SAI) · SA8000 · Corporations' own codes of conduct
Number of questions	20-400 questions
Scope of applicability	Priority to main primary suppliers and outsourced manufacturers
Level of improvement required	Many corporations do not go beyond the steps of providing feedback on results and requesting improvement

* Based on results from the survey of corporations participating in the SAQ Working Group, Supply Chain Working Group, Global Compact Japan Network.

3.3 Examination of the Form a Standard SAQ Should Take

As a result of SAQ Sub-Working Group discussion of methods for resolving the issues noted in section 3.2, the conclusion was reached that realizing an SAQ that anybody could use in a standard manner, that would function efficiently for both suppliers and buyers, and that would assure the sharing of necessary information (hereafter, standard SAQ) would contribute to resolving the issues. In order to examine the form a standard SAQ should take, a comparison was made of the existing SAQs being used by the EICC and the corporations. The necessary headings and questions were identified from the perspective of what the questions are essentially trying to check and what should be checked to answer the questions.

Figure 3 on the next page shows the SAQ Sub-Working Group's organized summary of heading items

and questions based on the comparison of existing SAQs. These were placed under three main headings with reference to the United Nations Global Compact principles of human rights, labor, environment and anti-corruption, and further sub-headings were added under them. Specific question items are included in the sub-headings but even in those sub-headings, the questions can be divided generally into management items (questions intended to confirm the existence of mechanisms for continuing management under the sub-headings) and on-site confirmation items (questions intended to confirm the substance of on-site management relating to the sub-heading in question).

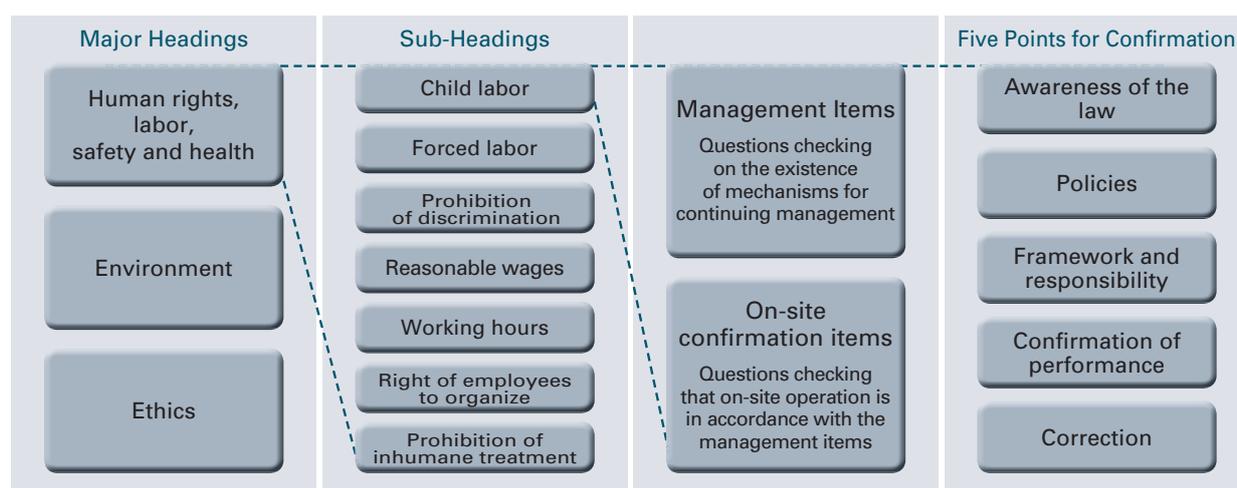


Figure 3. Organized Summary of Headings and Questions Based on Comparison of Existing SAQs

The elements making up the management items in each sub-heading were examined in order to further organize the information for standardization. The results showed that each sub-heading is made up of five common elements. The SAQ Sub-Working Group takes the view that the use of a basic SAQ incorporating these five elements will lead to a standard SAQ, and proposes Five Points for Confirmation that will serve as common indices when buyers create an SAQ and when suppliers respond to an SAQ.

3.4 SAQ Five Points for Confirmation

The Five Points for Confirmation do not comprehend all the perspectives that are supposed to be in an SAQ. It will naturally be necessary to set individual confirmation items under each sub-heading, and further for buyers to set questions according to the risks envisioned by their individual companies, regional characteristics, and other such factors. Our view, however, is that understanding the Five Points for Confirmation with regard to the management mechanisms that constitute the base for CSR management will make it possible for both buyers and suppliers to engage in efficient, reliable information-sharing.

The Five Points for Confirmation in the SAQ management items will be explained individually in the following. These are, namely, awareness, understanding, and violation status with regard to laws and regulations; policies; framework and responsibility; performance; and correction.

The explanations on each point are organized by the following three perspectives:

- (1) Why it is necessary
- (2) What needs to be done to satisfy it
- (3) What is to be confirmed

3.4.1. Confirmation of Awareness, Understanding, and Violation Status with Regard to Laws and Regulations

In-house confirmation of awareness and understanding of relevant laws, regulations, and social norms, as well as status of violation or compliance

(1) Why it is necessary

If the activities of a corporation violate or deviate from laws, regulations, and international codes of conduct, then the corporation will be subject to legal sanctions. This will also lead to lowering of the brand image, and in serious cases the corporation may even have to withdraw from the market. In global business activities, in particular, laws differ with the countries concerned, and there are also cases when priority should be given to compliance with international codes of conduct over a country's laws. Problems sometimes occur because of inadequate recognition of the substance of these codes and laws.

In CSR procurement, supplier violations are problems that extend beyond the supplier alone. It is important, therefore, for buyers to pose questions in the SAQ as to whether a supplier is aware of and understands relevant laws, regulations, and international codes of conduct, and whether the supplier has conducted in-house checks to determine whether any violations or deviations have occurred.

(2) What needs to be done to satisfy it

① Management of laws and regulations

It is necessary, first of all, that the company be aware at all levels of what laws, regulations, and international codes of conduct apply to the survey items. For that purpose, we consider it sufficient for the following measures to be in place:

- (a) Possession of tools for examining the content of laws, regulations, and social norms (law and regulation survey lists and lists of international codes of conduct) (on the Web, as independent systems, etc.)
- (b) Documentation of criteria for violations and deviations from applicable laws and regulations
- (c) Build and manage history management systems to track surveys of relevant laws and regulations
- (d) Clearly define what company departments are involved with applicable laws and regulations
- (e) Establish channels for collecting information (adding to them as necessary)
- (f) Conduct thorough management of list updates (adding as necessary)

② Awareness of laws and regulations

Next, it is necessary that the concerned parties understand the purpose of the applicable laws, regulations, and international codes of conduct, and how those controls relate to their own scope of operations. For that purpose, it would be desirable to implement measures as follows for legal coordinators and employees of related divisions at every site when there are multiple sites:

- (a) Education to make widely known the criteria determining violations of and deviation from laws, regulations, and international codes of conduct
- (b) Education to make widely known the content of operating manuals, guidelines, and other such material

③ Regular checking to ascertain the status of violations or compliance, and correction if there are problems

We consider it sufficient if self-checks are carried out to determine that violations have not occurred in operational processes in light of the criteria for violations and deviations, and if corrections are made in the event that problems are found.

(3) What is to be confirmed

As a means to confirm the practices of the supplier described in (2) above, it is also necessary to set questions on the assumption that checks of regulations, records, and other such documentation, together with interviews, can confirm the existence of management mechanisms and the fact of implementation in the departments and divisions required.

① Management of laws and regulations

(a) Tools for examining the content of laws and regulations (on the Web, as independent systems, etc.)

Check survey lists of related laws and regulations to confirm that enactments and updates of applicable laws and regulations are listed, together with the existence of applicable international codes of conduct.

(b) Check documents to determine whether criteria for violations and deviation are clearly stated

(c) Check on the creation of history management systems to track surveys and check on the history of management results

② Awareness of laws and regulations

(a) Degree of understanding by concerned parties regarding laws, regulations, and criteria for violations and deviations

- Check educational records
- Conduct interviews of employees

(b) Check to determine whether there are any notations (including on intranets) relating to the prevention of violation or deviation with regard to in-house regulations, operating manuals, criteria, etc.

③ Make corrections in the event of problems found in regular checks regarding violations or compliance

(a) Check records relating to results of self-checks regarding criteria for violations and deviations and relating to corrections of problems found

It is also desirable to check that monitoring of mechanisms to prevent violation and deviation is performed by the supplier's in-house audit or other such department or by a third-party organization, and that regular audits are conducted.

3.4.2 Confirmation of Policies

Whether policies approved by management are in place

(1) Why it is necessary

It is necessary to confirm by the SAQ not only that there are presently no violations of laws and regulations or of social norms relating to the various items of human rights, labor, environment, and anti-corruption, but also that mechanisms for continuously maintaining that state are in place and in operation. Such policies serve as the foundation for creating mechanisms of this kind in corporate activities.

(2) What needs to be done to satisfy it

For policies, it is necessary to have formal documents that clearly state the corporation's conceptual approach to the items concerned together with criteria for judging what actions should be taken by the members of the organization. It is also important that policies be presented in a manner that communicates them reliably to all the organization members who are supposed to take action in line with the policies, in a manner that will be understood, and by a method that anyone can access. In addition, it is important that education and other activities be underway to make the policies widely known.

At the same time, policies show the transparency of the corporation to outside stakeholders and fulfill the function of accountability. From the policies explicitly stated on the Web, in CSR reports, and by other such means, stakeholders can gain a solid understanding of the scope of what that corporation considers its social responsibility and of what its measures are intended to achieve, and this enables them to evaluate the corporation correctly.

(3) What is to be confirmed

Given the above, an SAQ should confirm the following points:

- ① Whether or not there are policies that have been approved by management and documented
- ② Whether the policies in question are presented in a form that can be accessed by all the constituent members (including group corporations) that are supposed to take action in line with those policies, and whether the policies have been made widely known (also confirm the means by which they are presented and made widely known, as necessary)
- ③ Whether or not there has been disclosure outside the company (also confirm the means of disclosure, as necessary, including a request to note URLs if there is a Web presence)

There can be cases when corporations formulate their policies by area, such as human rights, labor, environment, anti-corruption, and so on, or by individual item, such as child labor, forced labor, and so on. In the former, it will be necessary either to state what individual items are included under those areas, or to devise some means for selecting from among alternatives that have been prepared in advance. With items that are related to laws and regulations, in particular, it will be desirable to include a notation of when the item was most recently reviewed in order to confirm that policies support the most up-to-date content of the laws and regulations.

3.4.3 Confirmation of Framework and Responsibility

A department or person responsible for management is in place

(1) Why it is necessary

Corporations are required to have created effective management systems and mechanisms relating to the SAQ items to be checked. In order to guarantee the operation of these management mechanisms as well as their periodic review, the department responsible for that management or the person responsible for management in the corporation must be clearly identified. Ordinarily, management is the activity of controlling and giving direction to the everyday work activities of an organization so as to effectively and efficiently achieve the objectives of the organization's administration. These operations are referred to as management operations, and there must be an organization or a person or persons to take on this role.

(2) What needs to be done to satisfy it

In the case of a department responsible for management, this indicates the organization with responsibility for the corporate activities related to the SAQ items to be checked. In the case of a person, the person is called a manager, and in corporations, this person may also be termed an executive because the person has the managerial position of the head of the organization. The person responsible for management indicates the person who has responsibility as representative of the manager. Depending upon the corporation, the person at the top may be a manager or may be a person responsible for management. The department responsible for management or the person responsible for management will be responsible for appropriately determining the specific manner of performing the activities in the SAQ items, for guiding the employees involved in that execution, for issuing instructions to them, and for seeing that the activities are carried out as prescribed in an effective and efficient manner. It is therefore essential that the person responsible for management be explicitly identified, and it is also desirable for that person to have accomplished the following points:

- (a) That the organizational division of duties for the department responsible for management is established in in-house documentation; and
- (b) That the division of duties for the person responsible for management or for the person corresponding to the person responsible for management is established in in-house documentation.

(3) What is to be confirmed

It is desirable to confirm that the person responsible for management or the department responsible for management is established. It is also necessary to take care regarding the following two points:

- Depending upon the size and other characteristics of the corporation that is being surveyed, there may not be any department responsible for management of activities related to the SAQ items. In that case, therefore, it will be necessary to make it possible to confirm whether or not there is a person responsible for management. There may also be cases in which a single individual is the person responsible for management of multiple items, and though it may be possible to inquire about the responsible person through the CSR connection, the framework should be devised to enable confirmation of the person responsible for management for each item so that those concerned can be made aware of how each item should be handled.
- Depending upon the corporation that is being surveyed, an explanation of the management systems in the corporation should be included as necessary. This would include, for example, explanation by such statements as "this refers to application of the PDCA cycle, which is the continuing operational cycle of planning, doing, checking, and acting (or improving)," and "activity that starts by defining the issues that should be resolved with regard to operation of the corporate organization and plans the kinds of results that are to be achieved and the methods for achieving them in order to resolve those issues."

3.4.4 Confirmation of Performance

Objectives and implementation plans have been formulated and mechanisms for confirming the extent of achievement are in place (confirmation of performance)

(1) Why it is necessary

Having employees understand laws and regulations, having the company's CSR policies decided in a top-down manner by company management on the basis of an understanding of the laws and regulations, and having CSR promotion implemented in line with policy by the authorized department or person having responsibility, are important elements of the arrangement. It is also important to confirm whether these elements are actually being put into efficient operation, and whether the results of operation are in accord with the company's own policies of confirmation of performance. Such confirmation is also important as an operational element. It is by implementing both these elements of mechanism and elements of operation that the corporation first becomes able to realize effective CSR promotion.

(2) What needs to be done to satisfy it

It is desirable that the items under the following headings ① to ④ be accomplished:

① Setting objectives

- That achievement be possible
- That achievement criteria be clearly stated

② Creating implementation plans

- That they be approved by management
- That they be specific in content (responsible department or person, schedule, etc.)

③ Confirmation

- That criteria be clear
- That it be possible for anyone to implement and that the results have uniformity
- That there be a mechanism for confirming results

④ General

- That matters be documented (recorded in written regulations, etc.)
- That periodic reviews be conducted (for example, ISO 26000)
- That they be made known to concerned parties
- That history management be implemented
- That matters be handled not just as a formality, but as having practical effect

(3) What is to be confirmed

It is desirable that questions be written from the following perspectives, and that the status of implementation be confirmed in-house.

Perspective 1: Confirm with evidence (documentary evidence) when investigating whether or not a mechanism is in place or examining content (For example, written terms, regulations, etc., and history management documents, etc.)

* Even if the evidence is not complete, an evaluation that is positive to some extent will be given if the mechanism is in place.

Perspective 2: Confirm in-house and by external survey, investigation, and audit results when conducting a survey, investigation, or audit of the operational results in the preceding paragraph

3.4.5 Confirmation of Correction

Mechanisms are in place for making corrections, as necessary, on the basis of assessment results

(1) Why it is necessary

Improvement measures undertaken jointly by buyers and suppliers will be explained in Chapter 4. This section, therefore, will focus first on improvements that arise from what buyers or sellers notice in their own activities. Section 3.4.4 states that "Objectives and implementation plans have been formulated and mechanisms for confirming the extent of achievement are in place (confirmation of performance)," and that objectives are determined, implementation plans are in place, and the extent of achievement is assessed. For those items and headings that have not yet been achieved, implementing improvements will constitute application of the PDCA cycle.

(2) What needs to be done to satisfy it

It is desirable that the following be accomplished:

- Promotion of CSR measures has clarified the aimed-for image
- Correction objectives have been formulated and a correction schedule has been created
- The person responsible for promotion is clearly identified
- Progress is regularly confirmed

(3) What is to be confirmed

It is desirable that the following two points be confirmed:

- ① Are there any items or headings that have not been achieved?
- ② Have corrections been made or are they being made to items or headings that have not been achieved?

The work of confirmation does not require that the format of correction plans and written improvement plans be questioned. However, it is necessary to confirm whether or not the responsible person and the date are recorded properly, whether or not the person in charge of related departments or divisions has been properly incorporated into plans, and whether or not mechanisms for regularly managing progress are in place.

3.5 Conclusion

This chapter has provided an organized overview of the position of SAQ, its actual present conditions, and its issues in the course of the promotion of CSR procurement by both buyers and suppliers, together with an examination of the form that SAQ should take under those conditions. As a result, we arrived at the conclusion that the creation of an SAQ that has the Five Points for Confirmation as essential elements for an SAQ that anybody could use as a standard (standard SAQ) would be an effective solution to the actual present conditions of the SAQ. The SAQ causes the vision shared through briefings to be subjected to confirmation of actual present conditions and search for issues, thus realizing the vision on a level at which it can be examined as an initiative, and the SAQ provides information that serves as preliminary preparation for the implementation of a more efficient audit. In this way, therefore, it can be considered to serve an important bridging function, and this is further reason why the use of an easy-to-use, easy-to-implement standard SAQ serves as motivation to enable more practical deployment of CSR in the supply chain.

The kinds of SAQ that are created will differ according to each corporation's position and the status of its progress in CSR procurement. When buyers create the questions, however, it is important that they incorporate the Five Points for Confirmation given in section 3.4 for the SAQ.

Chapter 4 The Form that Should be Taken by Audits

This chapter presents an organized summary of the processes and perspectives that are necessary for a mutual growth-type audit, together with actual audit criteria and methods.

4.1 Toward Realization of the Mutual Growth-Type Audit

(1) The place of the audit in CSR procurement

This is one of the processes by which buyers and suppliers cooperate on making improvements to CSR-related measures. Specifically, buyers assess the activities of suppliers in light of global social norms, request improvement as appropriate, and perform follow-up.

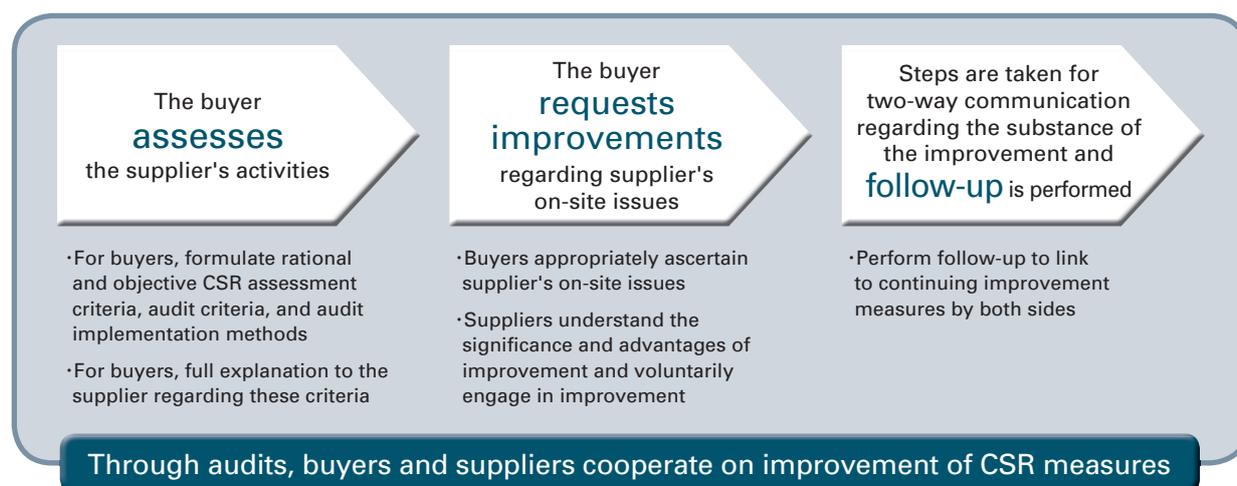


Figure 4. The Place of the Audit in CSR Procurement

(2) What this working group considers the audit as it should be

With emphasis on fair, just, and evenhanded attitudes in the buyer and the supplier, and having clarified the advantages not just for the buyer but also for the supplier, both parties achieve growth by working together to resolve issues. Furthermore, this is a mutual growth-type audit that also leads to autonomous CSR measures on the part of the supplier, as well.

(3) Main advantages of the mutual growth-type audit

- ① **Advantages for both buyers and suppliers**
 - Competitiveness is enhanced by active CSR measures (Innovation relating to processes, innovation relating to products and services)
 - Avoidance of CSR-related risks (labor issues, environmental issues, etc.)
- ② **Advantages for buyers**
 - Contributes to creation of a more stable supply chain
- ③ **Advantages for suppliers**
 - Contributes to creation of more long-term, stable relationship with the buyer
 - Specific example: Increase in production efficiency and increase in employee satisfaction by improvement of working environment, etc.

(4) Important points of attention in mutual growth-type audit

- ① **Criteria, methods, etc. for measures**
 - That CSR assessment criteria, audit criteria, and audit implementation methods be reasonable and objective in light of global social norms
 - That the buyer satisfies accountability with regard to measures and increases transparency

② Buyer and supplier attitudes

- Fair, just, and evenhanded attitudes on the part of buyer and supplier
- Supplier understanding of measures and their persuasiveness to supplier
- Buyer's understanding of supplier's on-site circumstances

4.2 Processes and Perspectives Necessary for Mutual Growth-Type Audits

As shown in Figure 5 below, mutual growth-type audits are made up of a multiplicity of processes, from the selection of the supplier to be audited to the final follow-up on improvement results.

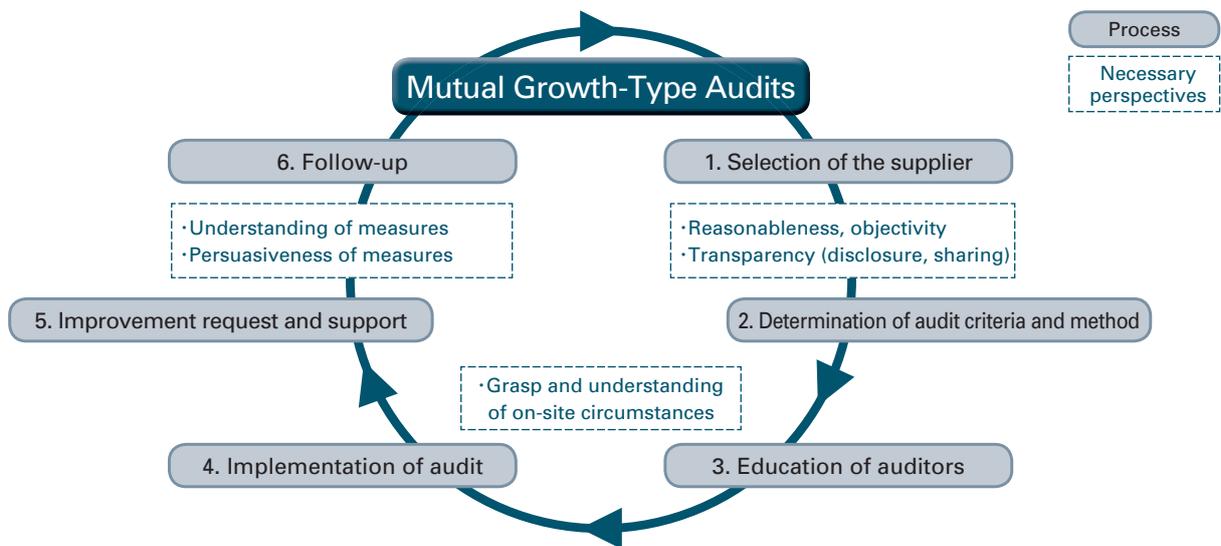


Figure 5. Processes and Perspectives Necessary for Mutual Growth-Type Audits

This working group conducted discussions of the processes and perspectives necessary for mutual growth-type audits that lead to both the parties involved undergoing growth and ultimately leading to the supplier's voluntarily and autonomously engaging in CSR measures.

4.2.1 Selection of the Supplier

This is the process by which the buyer selects the supplier to be audited from the perspective of CSR procurement risk (procurement pattern, transaction amount, regional quality, self-diagnostic questionnaire results, etc.).

(1) Necessary perspectives

The following is important in order to increase persuasiveness to the supplier being audited:

- Adequate explanation of selection criteria by the buyer to the supplier

* For the supplier, undergoing an audit entails the burden of preparation for the audit and responding on the day of the audit. It is important, therefore to give a full explanation of the audit selection criteria and to increase persuasiveness to the supplier in order to make the necessity for conducting the audit understood.

(2) Case example

- ☑ Criteria for selection of the enterprise to be audited are disclosed on the Web and by other such means. Alternatively, the buyer visits or otherwise has contact with the supplier in advance and provides a full explanation of the selection criteria.

(3) An advanced case example

There are also some cases of suppliers that sought to develop long-term relationships with buyers by requesting that buyers conduct an audit in order to re-perceive issues in their own company and make improvements.

4.2.2 Determination of Audit Criteria and Method

This is a process of determining the criteria and the method by which the buyer is to confirm the status of the supplier.

(1) Necessary perspectives

The following is important in order to increase the effectiveness of the audit and to increase persuasiveness to the supplier being audited.

- ☑ Establish audit criteria according to global social norms*³ (assurance of objectivity and reasonableness)
- ☑ Disclosure and sharing of audit criteria (assurance of transparency)
- ☑ Sharing of audit results (see section 4.2.6 on Follow-Up)

*³ Examples of global social norms: United Nations Global Compact, ILO treaties (labor-management, intergovernmental agreements), OECD Guidelines for Multinational Enterprises (NGO, labor-management, intergovernmental agreements), ISO 26000 (multi-stakeholder agreements), etc.

(2) An advanced case example

In order to further increase the effectiveness of the audit and its persuasiveness to the supplier, there are also cases in which buyers establish audit criteria with the involvement of suppliers, NGOs, and other concerned stakeholders.

(3) Explanation of audit methods

Audits are mainly carried out by one of the following two types of method.

- ☑ Two-party audit: The buyer corporation conducts the audit.
→This is considered to excel in terms of guidance for improvement suited to the supplier's circumstances.
- ☑ Third-party audit: An audit corporation or other such third party conducts the audit.
→This is considered to excel in terms of objectivity.

(4) An advanced case example

There are also some corporations that combine these methods so as to enjoy both the benefits of the two-party audit and of the third-party audit in order to heighten the effectiveness of the audit. (See section 5.2 regarding Good Practices for Corporations Participating in this Supply Chain Working Group.)

4.2.3 Education of Auditors

This is a process of developing auditors who have a correct understanding of the audit criteria formulated by the buyer and who are capable of verifying their content by means of the audit as well as of providing guidance for improvement as necessary.

The education of auditors mainly consists of the two types below.

- ☑ Methods that emphasize the performance of the object of the audit (observance of laws and social norms, demands by society)
 - ☑ Methods that emphasize the management of the object of the audit
- There are also cases in which these are carried out in combination.

(1) Necessary perspectives

It is important to develop auditors like the following in order to conduct appropriate audits, increase persuasiveness to the supplier being audited, and to link to voluntary supplier measures for improvement.

- ☑ There is a correct understanding of supplier action guidelines and other such audit criteria
- ☑ There is a capability for appropriate verification of the audit content
- ☑ There is an understanding of the supplier's size, work environment, and other such characteristics, and a capability for appropriate guidance for improvement

(2) An advanced case example

There are also some cases of diagnosticians (personnel who understand the necessary criteria and other such requirements for undergoing an audit and who examine issues for improvement) being developed on the supplier side and promoting voluntary improvement measures.

4.2.4 Audit Implementation

This is a process by which the buyer goes to the supplier's on-site location and audits the supplier's arrangements and performance in accordance with the audit criteria.

(1) Necessary perspectives

The following is important in order to increase the effectiveness of the audit, increase its persuasiveness to the supplier, and link to voluntary improvement measures by the supplier.

- ☑ Deepen understanding of the supplier's on-site circumstances through communication with the supplier in the audit
 - ☑ Consideration for the burden on the supplier side in conjunction with the audit
- It is important for buyers to follow advance preparations and procedures like the following in order to make audits proceed smoothly.

- The buyer provides the supplier in advance with information necessary to prepare for audit (self-assessment questionnaires (SAQ), assessment results from self-diagnosis sheets, audit criteria, etc.)
- Buyers give full consideration to supplier convenience when requesting supplier cooperation in terms of audit schedule and personnel man-hours

(2) Examples of advance preparation and procedures for audit

Heading	Particulars
Establish audit headings	<ul style="list-style-type: none"> · Example 1: All the headings in SAQs or self-diagnosis sheets that the supplier responded to separately should be used as audit headings. · Example 2: Focus on SAQ and self-diagnosis sheet headings that are judged to relate to high risk, on responses that do not appear consistent, and so on, and use those as audit headings. · Decide on the number of audit headings in light of the audit schedule.
Advance preparation for audit	<ul style="list-style-type: none"> · Obtain site details*¹ from the supplier before conducting the audit. *1 Number of employees, plant layout, chemical substances handled, heavy equipment, etc. · Perform analysis of self-assessment questionnaires (SAQ) and self-diagnosis sheets that the supplier has responded to separately. Isolate those headings that appear to be incompatible, grade them by their degree of importance, provide the supplier with explanations, and prepare improvement measures in advance.
Audit schedule coordination, advance information material distribution, etc.	<ul style="list-style-type: none"> · Regarding the audit schedule, proceed on the basis of communication with the supplier rather than one-sided notification, if possible making an advance visit and then requesting cooperation. · The buyer provides the supplier with all the information*² needed by the supplier in order to make advance preparations. *2 Questionnaire diagnostic results and other advance assessment results, audit criteria, etc.
If incompatibility occurs during audit implementation	<ul style="list-style-type: none"> · If issues that are not compatible with audit criteria arise, the buyer should; <ul style="list-style-type: none"> <input checked="" type="checkbox"/> explain the reason for the incompatibility <input checked="" type="checkbox"/> and discuss improvement measures with the supplier.*³ *3 It may be important to engage in discussion not of uniform measures for improvement with regard to audit criteria, but of measures founded in an on-site understanding of the supplier and geared to the level of measures undertaken.

4.2.5 Improvement Request and Support

This is the process by which the buyer requests improvements with regard to issues found on-site at the supplier on the basis of an audit that was conducted.

(1) Necessary perspectives

The following is important in order to increase the effectiveness of improvement requests and support as well as to increase persuasiveness to the supplier and link to voluntary improvement measures by the supplier.

Make improvement requests on-site during the audit, not after the audit

* Making the improvement request on-site enables appropriate communication with the buyer if the supplier has questions or doubts regarding the content of the request.

When additional investment or equipment is required for improvement, work out an appropriate time frame that also takes the supplier's circumstances into consideration

* Rather than insisting one-sidedly on a time frame determined on the buyer's sole authority, a reasonable time frame that is acceptable to both parties should be set.

Consider improvement requests (a method for making improvements by policies, procedures, records, corrections, etc.) in light of the supplier's size of business, business characteristics, regional characteristics, etc.

(2) As measures to be anticipated in the future

For buyers and suppliers to share good practices from improvement case examples is an instance of support for voluntary improvements by the supplier. This will be even more effective if information is shared through the collaboration of an industry rather than limiting it to a single buyer corporation.

4.2.6 Follow-Up

This is the process by which the buyer confirms the progress made by the supplier following an improvement request.

(1) Necessary perspectives

The following is important in order to increase persuasiveness to the supplier and to link to voluntary improvement measures by the supplier as well as to have both buyer and supplier continue improvement measures.

Follow-up is carried out as much as possible on-site at the supplier and while confirming progress with improvement results

* It is important for this to be done on-site in order for the buyer and the supplier to obtain a grasp of on-site issues more appropriately as well as in order to engage in measures for improvement on the basis of mutual understanding.

* Seeing improvement results on-site with one's own eyes leads to more voluntary engagement in improvement measures by both sides and to increased improvement speed.

(2) An advanced case example

There are also some cases of audits that realize a high degree of transparency, with the audit criteria, audit results, follow-up, and other such information being disclosed on the Web with the consent of the buyer and supplier. This can also heighten the proper sense of responsibility with regard to the audit.

* When other buyers see these audit results on the Web, it can lead to the use of simplified audits by those buyers for this supplier as well as to the provision of product selection information to customers who are considering the purchase of products.

4.3 Conclusion

Realizing solutions to issues by means of audits means, in other words, that by working together on the basis of their mutual understanding, the supplier and buyer achieve an experience of success. That experience of success can provide leverage for the independence and autonomous mobility of the organizations and people who achieved that success.

This chapter will provide an organized overview of points for attention regarding the forms that mutual growth-type CSR procurement and audits should take, followed by an introduction to good practices pursued by the corporations participating in this working group.

5.1 Points for Attention in Triple Win CSR Procurement and Mutual Growth-Type Audits

The following are points to consider for buyers and suppliers to grow together and seek continuous improvement in CSR procurement and in audits, as well as to contribute to a sustainable society.

- ☑ In the process of providing the supplier with explanation, audit, and follow-up, continue engaging in measures for consistent mutual growth-type CSR procurement and audit
- ☑ The buyer continues with explanatory efforts to the supplier that clarify the supplier's strengths and advantages and induce autonomy in the supplier
- ☑ Aim not for an audit that only identifies nonconformance with audit criteria, but rather for an audit that provides a roadmap for improvement
- ☑ Take steps to provide education and development that makes use of all and varied opportunities by explanations, audits, follow-up, study groups, and other such occasions relating to CSR procurement and audits in order to improve suppliers' issue resolution capabilities for taking voluntary improvement measures
- ☑ Maintain two-way communication with a sustained, direct human presence, rather than just one-sided communications from buyer to supplier, in order to build common values for both the supplier and the buyer, to obtain the supplier's understanding and acceptance of these efforts, and to engage in improvement measures with a sense of solidarity between suppliers and buyers

5.2 Good Practices of Corporations Participating in this Working Group

The following will introduce good practices that the corporations participating in this working group engage in. These are measures that enable growth for both buyers and suppliers.

1) Measures making use of the advantages in both third-party and two-party audits: Major retailer Company A

The company obtained the cooperation of an expert CSR consultant and formulated its own guidelines (codes of conduct) in accordance with the SA8000 and ISO 14001 international standards regarding the company's accountability to society for products that the company planned and developed under its own brand in Japan. The company explained this to the supplier, obtained its understanding, and has the status of its compliance with the guidelines audited by an international auditing organization with which it has no interests in common (third-party audit), and has assessments and certification of conformance conducted by a specialized CSR organization (implemented at 95% or more of its sites in Japan and other countries).

Those plants that have been certified in compliance by third-party audits have periodic audits conducted by certified auditors who have had training in the company's standards (two-party audit). The items covered in the two-party audit are items given emphasis in the third-party audit. Plants that receive superior results in the third-party audit and two-party audit are subject to an arrangement whereby the supplier performs the audit (single-party audit). This arrangement is confirmed by means of an SA8000 audit. Plants that have acquired SA8000 and ISO 14001 certification are treated as having undergone third-party audits, so they are initially subject to two-party audits under this company's system. Plants that have issues pointed out in third-party audit results, are requested to make improvements, but fall behind in their response, are given individual explanations and support with an emphasis on management by expert consultants. For two-party audits, the emphasis is not on pointing out issues and requesting improvements. They are treated instead as internal audits, and the focus is on giving the suppliers and plant managers' explanations of the importance of CSR procurement and the content of requests, and presenting them with cases and explanatory materials, while implementing the audits.

The single-party audits are considered to be one stage in the mutual growth-type audit, involving recognition by the supplier of the importance of management. Given this approach, the company takes these audits as an arrangement for receiving reports, confirmation, and engaging in management.

Looking to the future, this company is considering the expansion of CSR procurement to company brand products and materials planned and developed in China and the ASEAN region.

2) Measures to deepen the understanding of CSR procurement by the company and suppliers: Major information equipment manufacturer Company F

Company F positions its suppliers as business partners that share philosophy and policies, and is working globally to build co-existence and co-prosperity.

The work of promoting CSR procurement includes holding briefings and seminars for top executives and sharing values related to CSR with suppliers. With that achieved, the company provides suppliers with a self-check list (composed of the three areas of human rights and labor, corporate ethics, and the environment) based on the EICC code of conduct. The company is supporting improvement activities by suppliers in light of the list analysis results.

In providing support for improvement activities, personnel in charge of Company F personnel, legal, CSR, and procurement visit suppliers to engage in dialogue with the personnel in charge at the suppliers. They focus mainly on items from their self-check list that could have a particularly serious impact or cause major damage to corporate management if they are not complied with. They also engage in exchanges of views, not just during their confirmation visit but continuing afterward, as well, as a way of seeking increased persuasiveness and practicality with regard to improvement.

In addition, Company F learns about the best practices of its suppliers by means of the confirmation visits, and they deploy these lessons horizontally not only in-house but also to other suppliers.

3) Measures that place importance on two-way communication by means of audits: Major information equipment manufacturer Company E

In order to put its management philosophy into concrete practice, this company has formulated principles of corporate behavior that are composed of a number of important key elements. Building relationships of trust with all of the company's business partners is one of those key elements.

All of the company's suppliers are encouraged to participate in the procurement program (CSR procurement program, as stated in this work) as business partners. Company E records the substance of its requests in procurement guidelines and supplier codes of conduct. The company then works together with suppliers in the programs concerned, and promotes the programs, on the understanding that the suppliers understand those guidelines and codes.

One of those processes is the audit. Audits are carried out on the basis of analysis results (quantitative scoring from the perspective of CSR procurement risk) following implementation of an SAQ in conformance with the EICC. The audit team goes to the supplier's head office or plant and conducts a two-party audit over a period of several days. The audit team is composed of in-house auditors certified by the company. They undergo auditor training intended to give them a grasp of audit techniques, such as making them able to give improvement hints on the spot.

It is important that auditors not neglect advance preparations for audit implementation. For example, they should know the supplier's circumstances, which mean, specifically, that they should perform and document an in-depth analysis of the SAQ. This will tend to make for a smooth audit and it will enable optimization of the audit schedule. Company E gives audits a two-day schedule on an empirical basis. The reason for this is that an audit is a tool that is, first and foremost, a sampling inspection, and completeness is difficult to achieve. The aim is to engage in communication with a direct human presence by means of continuing audits repeated when appropriate, in this way building a relationship of mutual trust and undergoing mutual growth.

Conclusion

CSR procurement, which is the core of CSR activity, has been carried out in different ways by different companies around the world on a trial-and-error basis. Now, however, the overall framework of this practice is gradually being published by the electric and electronic industries, the United Nations Global Compact, and other such groups. Under these circumstances, this working group has discussed three processes we consider important in procurement activities, considering the form those processes should take in light of the experiences of our participating corporations, and keeping in mind our vision of Triple Win procurement. It is understood, of course, that the three processes do not stand independently from each other, but should rather be put into practice as a single package. The processes are very closely related, and each process is intended to lead smoothly to the execution of the next process in a way that elicits understanding and acceptance. We consider it important that not only the assessment results, but also the substance of the individual processes should be subject to constant review so that CSR procurement as a whole can advance in an upward spiral.

It is our hope that this publication will be of some help in further promoting the practice of CSR procurement, both for those corporations that are about to begin it as well as those corporations that are already putting it into practice in a variety of forms.

Many issues other than the three processes are involved in a fully realized implementation of CSR procurement. There are additional practical points that still need to be discussed, including the questions of where to set the objectives for scope of applicability and thoroughness, given the limited resources (personnel, supplies, money) available to the corporation, and where to obtain the human resources to promote CSR procurement. It is our hope that the activities of this working group will be further advanced in the future, and that we will be able to propose, as a set of guidelines or in some other such form, a framework that also incorporates these issues.

June 30, 2012

Global Compact Japan Network
Supply Chain Working Group
Fiscal Year 2011 Participating Corporations

AJINOMOTO CO.,INC.
AEON Co., Ltd.
USHIO INC.
SCSK Corporation
EBARA CORPORATION
Osaka Gas Co., Ltd.
Oki Electric Industry Co., Ltd.
OMRON Corporation
Kirin Holdings Company, Limited
KONICA MINOLTA, INC.
Sharp Corporation
Sumitomo Corporation
SEIKO EPSON CORPORATION
Sojitz Corporation
Dai Nippon Printing Co., Ltd.
Tamron Co., Ltd.
DIC Corporation
Central Nippon Expressway Company Limited
NIKON CORPORATION
Nippon Yusen Kabushiki Kaisha (NYK LINE)
Hitachi, Ltd.
Fuji Xerox Co., Ltd.
FUJITSU LIMITED
Mitsubishi Heavy Industries, Ltd.
RICOH COMPANY, LTD.

25 Corporations

Building the Sustainable World
A Vision of Desirable CSR Activity in the Supply Chain
—A Proposal from the Supply Chain Working Group—

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