



Risks/Opportunities of CSR in the Japanese Context

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Overview

- **Introduction to ERM**
- **New risks facing business**
- **ASrIA project**
- **Materiality of CSR risks in Japan**

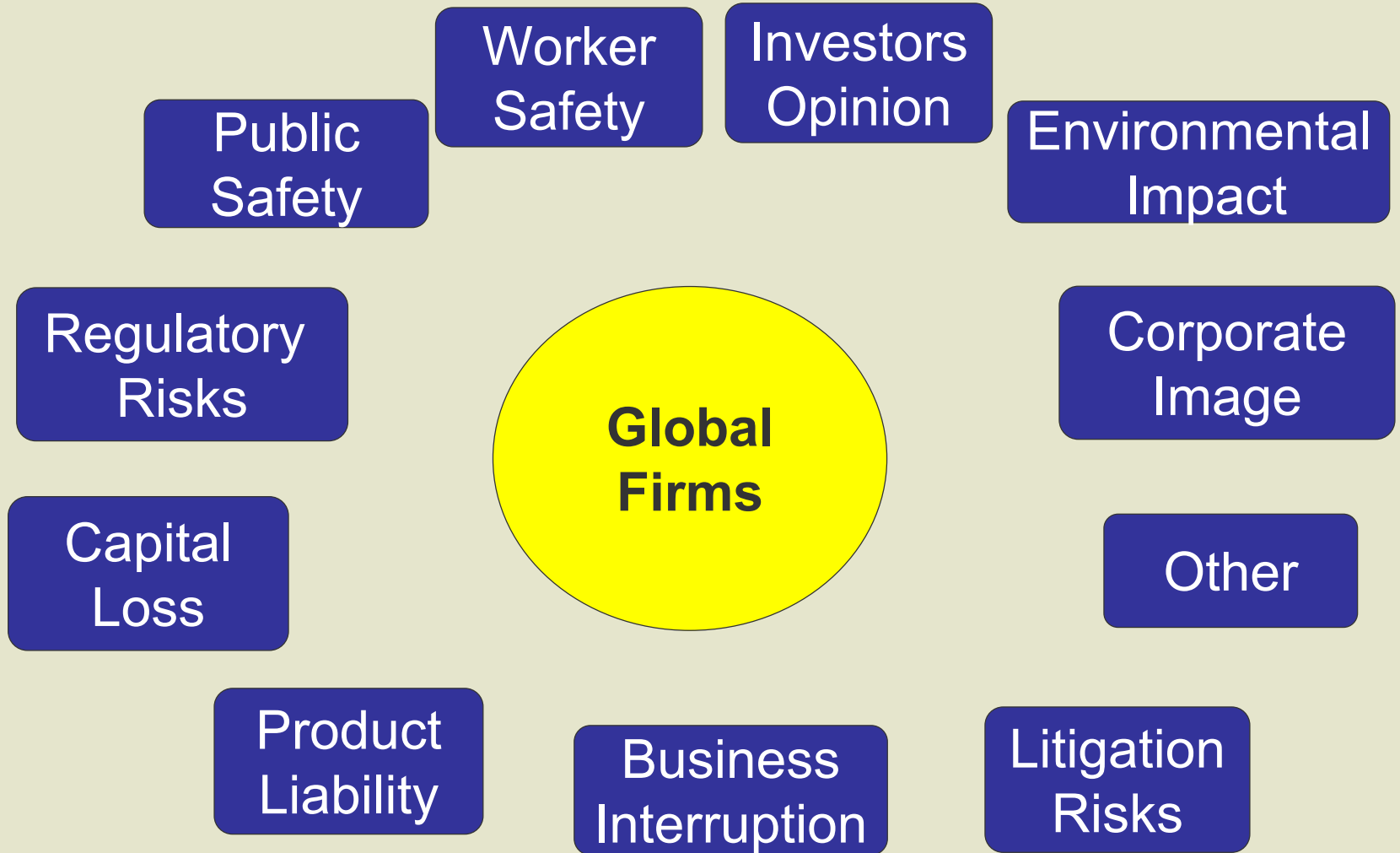
About ERM Group

- **2,300 specialists across 30 disciplines in 36 countries**
- **Strategic Advice/Information services to multinationals on CSR / Energy / Climate Change etc.**
- **Risk Assessment during transactions – Due Diligence**
- **Remediation of contaminated land and groundwater**
- **Impact assessment & planning of development**
- **Technical/engineering services related to air, water, waste**



The New Risks Facing Business

Business Risks Facing Global Firms



About the 'Non-traditional' Risks

- **Global firms increasingly held accountable for impacts that were traditionally the domain of government:**
 - Corruption
 - Human rights
 - Environment
 - Labour practice
- **Performance on CSR issues (primarily non-financial nature) increasingly involve material financial impact**

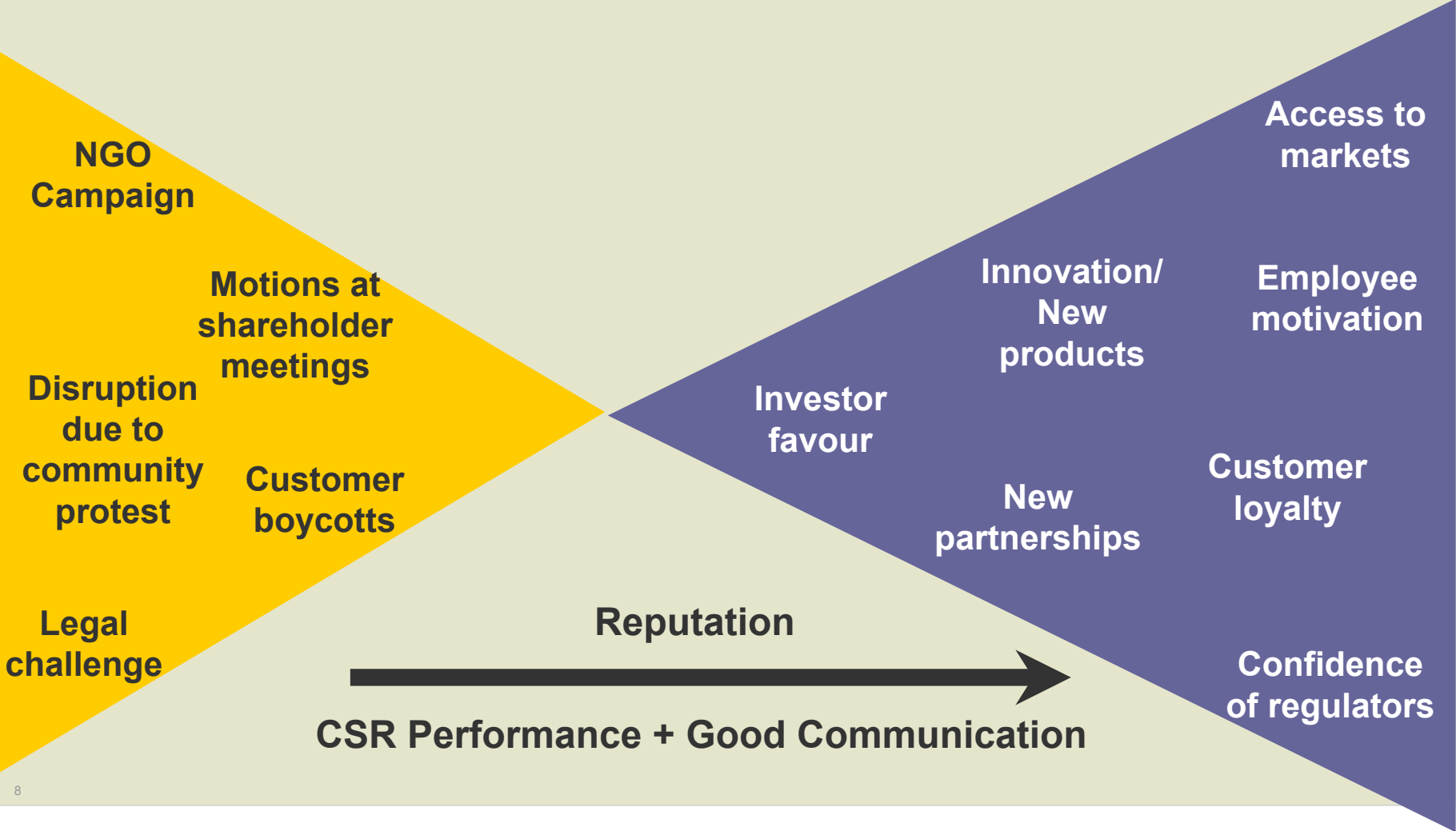
What is Corporate Social Responsibility?

Proactive companies make serious attempts to internalize CSR in their operations and educate their staff

Needs, investors, customers, regulators (financial, environmental, etc.),

- **Environmental:** climate change, chemical substances, recycling, etc.
- **Social:** social impacts, labor practices, human rights, etc.

CSR Risks and Opportunities



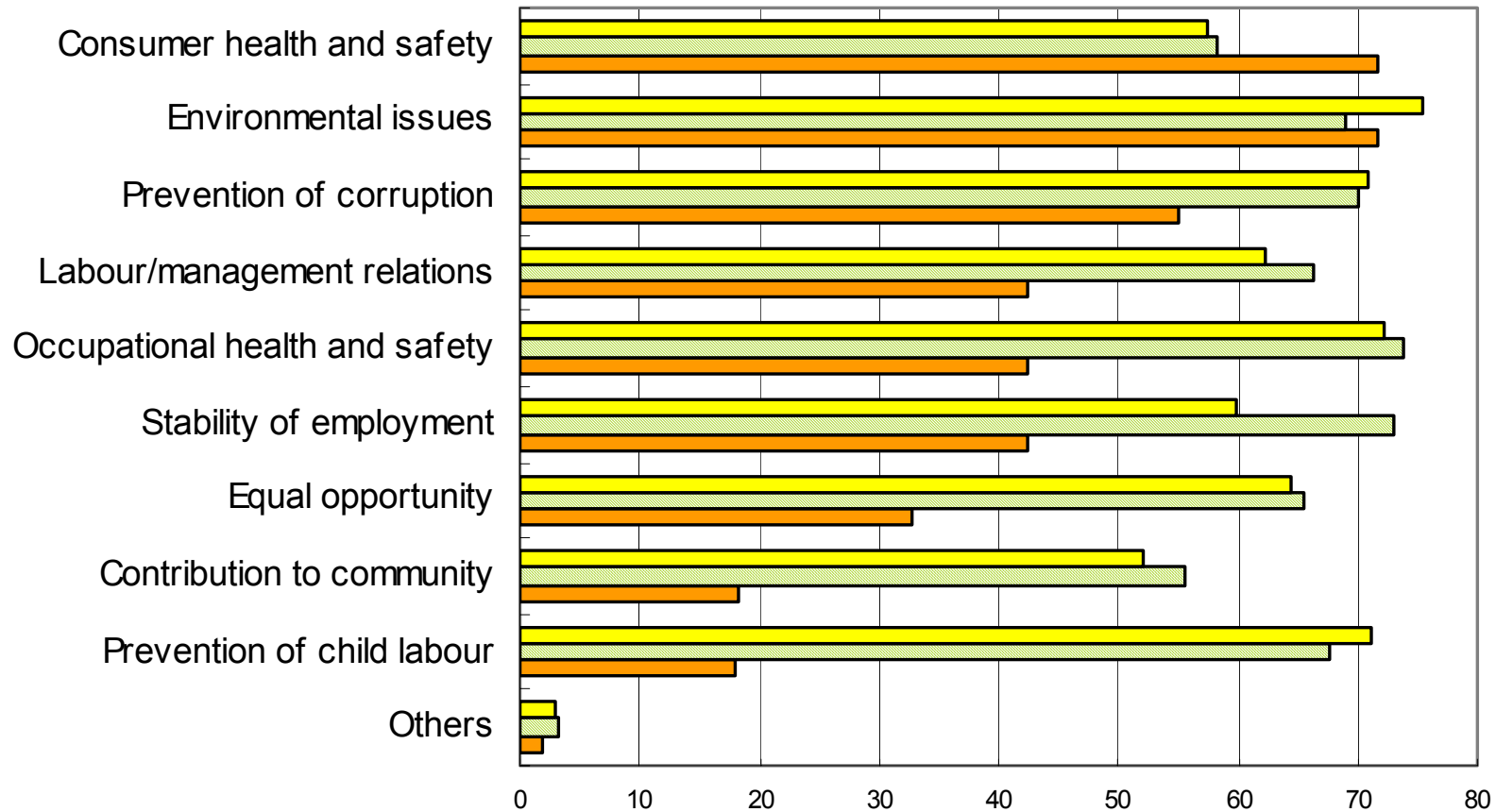
CSR Risks and Opportunities

- **Opportunity: CSR helps manage strategic risks**
 - Minimising the undesired effects of business on people and the environment
 - Managing unwanted risks or events
- **Risk: CSR is highly subjective**
 - Depending on the region: home countries as opposed to Host countries/ Countries of sales / Countries where CSR/SRI concepts originated (investors)
 - Depending on the time: new ethical debates arise daily (bio-ethics, GMOs, alternative HIV drugs)

Investors' Interests - Japan, UK, USA

Comparison of Individual Investors' Interests -
Ministry of the Environment Survey 2003

Japan USA UK





The ASrIA Project:

“Foreign vs Local:

The Debate about SRI Priorities in Japan”

ASrIA: Association for Sustainable &
Responsible Investment in Asia

ASrIA Project: “Foreign vs Local: The Debate about SRI Priorities in Japan”



- **SRI: integrates analysis of material CSR risks/opportunities and performance into stock selection**
- **However, some Japanese companies and members of the SRI community claimed that it is not appropriate to evaluate Japanese companies using Western SRI criteria**
- **Objective: define the framework of SRI priority criteria and method of engagement in Japan**

ASrIA Project: “Foreign vs Local: The Debate about SRI Priorities in Japan”



- **Debate: how to evaluate companies’ CSR risks/opportunities and performance**
 - Universal criteria? or
 - Japan specific criteria?
- **Definition of “Japanese”?**
 - Consumers and public opinion preferences? or
 - Japanese corporate context?
- **No basis for establishing consensus – CSR values in the context of SRI should be defined by the investors only ?**

CSR Risks facing Japanese companies



- **Japan: 12 SRI options (<0.01% of market) & 1 SRI index**
- **The most material “SRI pressure” still from international investors and SRI funds**
 - Japanese companies are increasingly competing for places in global SRI funds ($\pm 20\%$ of holdings)
 - 35 Japanese companies listed in DJSI 2003
 - 6.75 % of the group by index 11% by the number of companies in the index

Typical Controversial Issues...



- **Corporate governance:** outside board members, information disclosure
- **Environmental:** animal welfare, nuclear power
- **Labour practices & Human rights**
 - Difference in regulatory framework: how the various indicators will be interpreted?
 - How will the historical/cultural difference be considered? e.g. gender equality
 - Some companies strongly opposed to the fact that SRI evaluation includes operations abroad – “why should we act at a company level?”
 - Different public opinion awareness in Japan and the West



Materiality of CSR Risks in Japan

Growing pressure from foreign and domestic investors

e.g. latest annual review of Dow Jones “top of the class” sustainability index show that they have outperformed their mainstream benchmarks

world

fraud among the middle and senior management level

e.g. leading consumer finance company 3.5 billion JPY settlement to 5,200 workers for failing to pay them for overtime

e.g. Collapse of a major Japanese food company due to their deception and poor management of food preparation

CSR Risks – What to Watch for?

- **Japanese companies and Western investors need to be aware of the divergence that exists between the investors' interests in Japan and the West**
- **However, CSR and SRI concepts have and will continue to be driven by foreign stakeholders and investors**
- **It is likely that those sustainability criteria will be increasingly integrated into mainstream asset management**
- **Japanese companies and financial sector need to effectively address those CSR type risks**

For further information...

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