GSR Report 2012

March 2013

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Management Centered Around GSR

Junichi Arai
Representative, GSR Research Group
Senior Research Fellow, Japan Center for Economic Research

The Japan Center for Economic Research started the Global Social Responsibility Research Group in April 2009. This was the aftermath of the collapse of Lehman Brothers, when the social responsibility of corporations was in the limelight. From that point on, our research group has consistently sought to establish what Japanese businesses can and should be doing to tackle issues on a worldwide scale such global issues as environmental degradation, poverty, disease, natural disasters, resources, and human rights violations.

In March 2012, our research group published the “GSR Vision Statement,” which aims to explain what good GSR is all about. Its contents can be summarized as follows:

1. International institutions, national governments, non-governmental organizations, and non-profit organizations cannot solve global issues on their own. The participation of corporations is essential. They possess valuable human resources, technology, capital, and information. They also have the skill to manage large-scale projects. Japanese businesses should play a major role.

2. GSR is corporate social responsibility that aims to solve global issues. If we categorize legal compliance and risk management as “defensive CSR,” then “proactive CSR” is GSR that aims for ties with a global society, working toward sustainable development.

3. The benefit to society from solving issues in the global agenda will not always correlate to an economic return for the associated businesses. GSR is a combination of hard work and innovation that aims to make economics compatible with societal benefit. GSR is a contribution to society that occurs through a corporation’s normal business activities. In that sense, sustainability is crucial and it is important to have a setup that discourages one-off activities.

The fourth year for the research group ends in March 2013. The theme for this year is based on the
“GSR Vision Statement” and we have aimed to once again look carefully at the current state of affairs in solving global issues.

We have been lucky to have had a wide range of speakers attend the monthly meetings. In addition to corporate managers and local workers in charge of CSR activities, I have also invited the heads of NPOs who are working day and night in developing countries, specialists from governmental institutions, and academics that are looking at how Japanese corporations can provide international contributions in the context of global CSR movements. I wanted to build on our GSR vision and get a clear image of the kinds of GSR activities that Japanese companies should be undertaking by coming to grips with some of the latest trends worldwide.

The content of the monthly meetings can be found in the “GSR White Paper 2012.” Please take a look. If I were to summarize the results of the year’s discussions, I would say that it has become clear that GSR is a common global gauge that is essential for solving a variety of issues. At the same time, however, the issues that face the world are so numerous and varied that it is impossible to apply that sort of shared measure across the board.

Repeating the same formula in a different country can give different results. Even if the country is the same, a successful strategy in one region can fail in another. A company can contribute to reducing poverty in one area, and be thanked for it, then apply the same methods to a different place and find that projects stall due to condemnation as foreign exploitation.

To finish this fiscal year’s meetings, we held a special seminar on February 7 on “The Social Responsibility of Global Corporations in Developing Countries,” inviting experts from Japan and abroad. One striking presentation by Senior Fellow Rajiv Kumar from the Center for Policy Research (India) and Professor Nieves Confesor from the Asian Institute of Management (the Philippines) explained how successful projects in India were unsuccessful in the Philippines and vice versa. This gets to the essence of GSR issues.

It may be an obvious statement but the difference between success and failure can depend on how well local needs are understood and whether local support can be secured. However, local needs can be quite varied, so it is difficult to identify a definitive GSR model.

It is true, though, that common features of success can be found after looking at many cases. The
following three points come to mind.

1. Top management takes the initiative and gets involved. This sends a clear message to those inside and outside the company.
2. Good collaboration with international institutions, governments, NPOs, NGOs, and other companies. When we say governments, this does not necessarily mean central government. Effective local governments exist in many countries. Collaboration with other companies is not just about alliances with companies from one’s home country; it is also important to borrow wisdom from companies in other countries.
3. Constant checks and reflection. GSR is a world of trial and error. In developing countries, there have been many cases of projects that had been proceeding well but were derailed following a change of government. Companies must constantly try to view their activities through the eyes of the people in the country they are operating within.

The pace of the world economy’s globalization will likely not slacken in the near future. Asia will play a central role in the next 10 years. After that will come the globalization of countries in the Middle East and South America. In time, Africa will enter the globalization age. For Japanese corporations, doing business in a completely different environment from home will become quite normal. There is no question that it will be increasingly important for corporate management to always be measured by GSR criteria. If Japanese companies have no sense of coexisting with unknown countries and unknown regions, their global management will not run properly.

In Japan, the number of companies that incorporated CSR practices into management increased around the year 2000. At the time it was “defensive CSR,” centered on legal compliance and risk management. Recently there has been a marked change toward “proactive CSR,” namely GSR that is tied to business strategy.

Japan suffers from the demographic challenge of an ageing population and shrinking birth rates. If you only look at the domestic scene, it is hard to paint an optimistic picture of the future for the Japanese economy. Learning how to live alongside regions of the world where development is expected will be necessary. It will be crucial for Japanese businesses to make advances into new regions while gaining the understanding of the opposite side. GSR will be the guiding principle in these endeavors.
A Vision to Take GSR to a New Stage

Heizō Takenaka
Chair, GSR Research Group
Senior Research Fellow, Japan Center for Economic Research
Keiō University Professor

The Japan Center for Economic Research launched the Global Social Responsibility Research Group in 2009. At that stage it was necessary to dedicate considerable time to explain the meaning of “global social responsibility,” but now there is much wider awareness. One factor in this change of circumstances is the progress of globalization over the past few years, which has brought more demands for societal contributions from businesses that operate on a global scale. At the same time, another important point is that contributing to society on a global scale has become an issue with greater visibility, especially among the Japanese companies that participate in our research group. The “Fiscal 2012 GSR Research Group Activities Report” is a compilation of the most recent information on GSR activities. I would like to thank all of the parties involved and express my sincere gratitude for all of their hard work.

During the four years during which the research group has been active, however, the Japanese and the global economy have undergone major changes. The position of the Japanese economy on the global stage has declined and we are confronted with the harsh reality that our companies are no longer as competitive. The original approach was for companies to structure themselves so that they can contribute to society by carrying out their core businesses, while at the same time being profitable. The vision that lies behind GSR aims to take this thinking to a new stage so that the contribution to society itself serves as the most effective means of enhancing profits. However, if we look back over the past five or six years, the peak valuation of the yen has appreciated by 40% against the US dollar and by 50% against the Korean won, relative to the lows over that period. It could be said that inappropriate macroeconomic management seriously undermined the business
environment for Japanese companies. But the important point is that even against this background, Japanese businesses, particularly those that participate in our research group, continued to be highly motivated with regard to their GSR activities.

In January 2013, at the annual meeting of the World Economic Forum in Davos, the issue of “Abenomics” was a focus of discussion, marking the first time in a long while that Japan’s presence could be felt. At the event there was also talk of the societal contributions of Japanese companies. The mission statement of the WEF was titled, “Committed to Improving the State of the World.” This is precisely the spirit of GSR. There are many problems that require solutions on a global scale. National governments and international institutions cannot solve these problems on their own. A wide range of entities must work together, including corporations, individuals, and non-profit organizations. An approach with multiple stakeholders is necessary. Above all, it is extremely important that corporations participate and use the considerable means at their disposal in terms of human and physical resources, capital, knowledge, and expertise.

I sincerely hope that readers will take a look at the aims and aspirations of the companies presented in the “Fiscal 2012 GSR Research Group Activities Report” and share information with us on their GSR best practices.
GSR Study Meetings 2012
Presentation Summary

- Toyota practices corporate social responsibility through its regular business activities. This way of thinking was already set out in the Five Main Principles of Toyoda (1935) originating from Toyota’s founder, Sakichi Toyoda, and in the Guiding Principles at Toyota, established in 1992. Then, in 2005, the Contribution Towards Sustainable Development was presented as an interpretation of the guiding principles, taking into consideration Toyota's relations with its stakeholders. This was revised to make its position clearer in 2008, when it became Toyota’s CSR Policy.

- The CSR Policy contains the following key phrases in its opening statements: The company takes the initiative “through all business activities that we carry out in each country and region”; “We comply with local, national and international laws and regulations as well as the spirit thereof”; “We will endeavor to build and maintain sound relationships with our stakeholders through open and fair communication”; “We expect our business partners to support this initiative and act in accordance with it.”

- The CSR demanded of companies in the automotive industry differs depending on the country. A survey of 12,000 people, conducted in 15 countries, revealed the following as the top four topics globally: environment-friendly products, legal compliance, employment creation, and environment-friendly manufacturing. However, the top-ranking concerns differed considerably depending on the country. In Russia and India, “legal compliance” came out on top. In countries where economic trends were comparatively positive, “employment” ranked low on the list.

- One of Toyota’s efforts with regard to a future mobility society centers on the “zeronize and maximize” Approach. There are those who believe that cars are the embodiment of evil, endlessly consuming resources. Toyota wants to minimize the negative impact that cars have on society. For example, by using recycled iron and other recycled materials when constructing car...
bodies and establishing a target of zero consumption of resources. This is the concept of “zeronize.” On the other hand, Toyota also wants to “maximize” the enjoyment of driving and pleasure of mobility. Incidentally, the current Toyota Prius model now costs a third of its launch price and its power efficiency is four times as great.

- Toyota is also thinking of expanding the scope of new businesses in smart communities, which include projects for electric vehicles (EVs) and plug-in hybrid vehicles (PHVs). A paradigm shift is expected for the sphere of urban transportation. Public transportation and car sharing will probably expand further. In order for cities to continue to grow while staying in harmony with nature, it will be desirable to provide efficient, comfortable, and convenient transportation while combining seamlessly a number of different transportation modes.

- There are also issues with regard to Toyota’s CSR activities. Are the messages in the Guiding Principles of Toyota and the CSR Policy really getting through to a global audience? Is the CSR practiced by Toyota in line with the CSR that the world expects from the company? There was a phase where the company’s sense of unity became weaker and we felt we had to ask ourselves these questions. This was the case when the company suffered losses in the period following the collapse of Lehman Brothers bankruptcy, particularly when product quality problems in the United States came to light.

- Upon reflection, the company revealed the Toyota Global Vision on March 9, 2011. This was drawn up after deliberations between representatives from six regions. The English version of the document is the official version. Its spirit is summarized in the phrase, “Rewarded with a smile by exceeding your expectations.” The company president, Akio Toyoda, actively participated in its creation.

- In the shadow of Toyota’s growth until 2007 was the beginning of a rise in fixed costs and a slowdown in the growth of operating profit (after adjusting for foreign exchange rates). Why was appropriate action not taken even though the problems could be seen on the horizon? Was it because CSR was not properly in place? Car unit numbers and profits, which had originally been the outcome of efforts, had become the objectives. The idea that things that should be decided as close to the customer as possible had become weaker. Local outposts of Toyota in each country and region were losing the ability to make decisions on their own.

- Toyota now plans to faithfully carry out the Global Vision. Better cars (making cars that exceed the expectations of customers) goes hand in hand with better towns and societies (contributing to more prosperous local communities and new mobility society). Achieving this will bring about a stable management foundation. If the cycle takes hold, it will also lead to sustainable
growth.

- Another point is management firmly rooted in the local area. It is necessary for Toyota to provide its distinctive products and services in a way that meets the specific needs of communities and countries. The role of Toyota’s head office is to provide global direction and support the independent efforts of each region.

- The restoration and recovery efforts in Tōhoku are also worth introducing. Immediately after the disaster, Toyota sent as many cars as it could—both brand-new and used vehicles. Toyota also provided full support to restart the operations of the semiconductor manufacturers, which supply automakers. Three affiliate companies in the region were merged to establish Toyota Motor East Japan Inc. The Toyota East Japan Technical Skills Academy will be built for skills training. Toyota aims to boost the Tōhoku economy through these efforts.

- Finally, let me touch on my personal views and mention the approach taken with regard to global social responsibility. Toyota’s GSR is the collection of Toyota’s CSR in each country and region. For example, Indus Motors (established in 1993) is a joint venture in Pakistan that dedicates 1% of its pre-tax profits to CSR. The company helps to solve social problems in such areas as education, sanitary improvement, and food support by teaming up with NGOs. Toyota has also been involved in efforts to improve driving manners and eliminate traffic accidents. Society has a wide variety of expectations. Toyota’s head office develops environment-friendly cars and factories and sets out a global CSR policy. The business entities in each country employ local workers and work on investigating the appropriate priorities for each social problem. I hope that we can continue with all of these efforts.

Written by the GSR Research Group Secretariat
May 15, 2012
Speaker: Yoshio Higuchi, Professor, Keiō University

Presentation Summary

● Today I would like to talk about social enterprise in relation to employment, focusing particularly on the topic of job creation.

● European experiences offer many pointers and suggestions for Japan. From just before the oil crisis of the 1970s, the unemployment rate in Europe began to rise very quickly, deteriorating to the level of 5% and then 10%. Compared with the 1% rate of the 1960s due to the extreme labor shortage, this was a radical change that brought heavy demands for employment creation. Keynesian policies were set in motion in each country, and public-sector projects were expanded. However, actual employment creation was limited and fiscal balances worsened. The situation came to resemble very much what Japan is facing now. The limits of macroeconomic policies were strongly felt.

● Politically, the biggest concern was regional employment. In the manufacturing age, creating environments suitable for building factories was sufficient. But the shift of employment to the service sector made it more difficult for areas outside the main urban centers to create employment. It became clear that the market economy could not overcome all problems and that macroeconomic policies were ineffective. It was at this point that the idea gained prominence of leveraging the characteristics of those areas to strategically create employment. One example was the European Union Structural Funds, which were used to stimulate areas such as Liverpool in England and Napoli in Italy. Regions with income levels at or below 70% of the EU average were eligible for grants. To compete for funds, towns submitted plans for reviving their economies.

● We once inspected the Local Economic and Employment Development program from the Organization for Economic Cooperation and Development. The director of the program teaches at Bocconi University in Italy and conducted research on how the region around Lake Como could be reinvigorated in response to the decline of the textiles industry in the area. Two things
were found to be important. The first was capital, which can usually be raised by some means. The second was the existence of a leader, which is crucial.

- Under the administration of Prime Minister Naoto Kan, ¥7 billion was donated to 10 social enterprise organizations to support incubation and internship activities. A report was released last week and I would encourage the audience to take a look. These activities led to the creation of thousands of new jobs. The current administration of Prime Minister Yoshihiko Noda is heavily involved in recovery efforts following the March 2011 earthquake and tsunami. Organizations must be connected in some way to the Iwate, Miyagi, and Fukushima Prefectures in the Tōhoku region to be eligible for donations. Over a period of two years, ¥4 billion will be donated.

- When looking at examples of social enterprise in Britain and the United States, the following common points can be observed:
  - Funds are received by individuals and companies that identify with the mission
  - Increased earnings leads to sustainable operations (in contrast to charitable enterprises)
  - The enterprise gives back to the localities and aims to achieve the mission objectives
  - Involves partnership with the government
  - A large amount of business is commissioned by the government, raising the issue of how to break free from that situation

- In Britain, there was a focus on the long-term unemployed and the homeless. The government’s job-placement office is required to be fair when providing services. Social enterprises can provide personalized services for specific individuals. Unlike government services, which are usually provided to those who visit the relevant office to submit an application, social enterprise involves visiting those who require help but have not come forward to request it.

- The presence of strong management is also worth noting. HCT Group is a social enterprise in the transport industry, providing bus services and school transport. Its managers hold MBAs and are headhunted from financial institutions in the City of London. They are compensated at levels competitive with what they would receive in the City. It was impressive to see such sums being paid to have the business run effectively. HCT provides lodging for the homeless and encourages participants to get into daily routines. It also employs participants as bus drivers once they have acquired a driver’s license.

- Social enterprise in Britain probably employs 5–7% of the British work force. As one would expect, the majority of the work force is employed by private sector companies. However, the private sector cannot help all physically disabled people. This is why the existence of social
In the coming years, proactive employment policies will be in demand in developed countries. The passive employment policies that have been in place until now need to be thrown out. The Ministry of Health, Labor and Welfare is using employment insurance funds to support businesses that create local employment. This is surely one example of policy changing in this direction.

In a town called Niseko in Hokkaidō Prefecture, there were very few people in the tourist industry that could speak English so businesses were unable to deal with tourists from abroad. An English language school was established and people who studied there were employed at hotels. This is one example of the efforts to create local employment mentioned above. Around 200 such programs are now in operation.

Another noteworthy effort, from the perspective of supporting social enterprise, is the attempt by local municipalities to reform to the system for public bids. One aspect of this is the shift of focus from the bid’s price to the bid’s plan of action. There are also trials to favor businesses that have been certified with the kurumin mark, which the Ministry of Health, Labor and Welfare awards to companies that meet criteria relating to child-raising support and other aspects. Wage levels are calculated for applying companies and those with a level that is too low are excluded. There are also examples of the government putting the brakes on race-to-the-bottom bidding wars.

Economics studies have traditionally looked at wage levels as the incentive for workers. But as social enterprise is showing, a sense of values is becoming increasingly important.

Written by the GSR Research Group Secretariat
June 12, 2012
Speaker: Toshihiro Nakamura, Cofounder and CEO of the US NPO Kopernik

Presentation Summary

- I was in high school when I decided to pursue a career assisting developing countries. I realized that there was no other career path for me when I saw what people like Yasushi Akashi (former United Nations under secretary general) and Sadako Ogata (former United Nations high commissioner for refugees) had achieved, I knew that there was nothing else for me. After studying at Kyoto University and the London School of Economics, I began my career at the United Nations. I have been posted to the UN Integrated Mission in Timor-Leste (nation building), to the United Nations Development Program Indonesia (recovery efforts following the Sumatra disaster), to UNDP Sierra Leone (peace building), and to the UN headquarters in New York.

- Although this work has been fulfilling, it also has given me a keen awareness of the enormous number of people who remain in poverty despite the large amount of aid that is provided. This was the impetus for the creation of Kopernik, which aims to assist the poor by delivering technology to them.

- In East Timor, the heating oil people use at night to light their homes typically accounts for 20% of household expenditures. As an alternative, we provide a solar light is charged during the day using the light from the sun and can then generate light at night. Introducing this sort of technology can make a big difference to the lives of poor people, significantly relieving pressure on their household budgets. After conducting an impact study, we found that families that had access to the solar light could reduce their expenditures on heating oil and flashlight batteries by 94%.

- We are also working to introduce kitchen stoves that are more energy efficient. The poor often burn wood for cooking but this creates several problems. Chopping down trees for this wood inflicts heavy damage on the surrounding environment. And the use of wood-burning stoves increases the time women have to spend on housework. On top of this, the number of people who die from using the stoves in poorly ventilated homes shows no sign of decline. Another
The product we are providing is a container that holds a large amount of water and is easy to transport. The container has been a welcome addition to people’s lives because it eases their work load.

There are many products and technologies that are inexpensive yet very useful to the everyday lives of the poor. Startups and university companies are working on these kinds of products. For example, the solar light that I mentioned earlier was made by a company started by a graduate of Stanford University. That particular company is funded by venture capital, but in many cases the sources of funding are more limited. Delivering the products to the poor also incurs costs. It was thus necessary to come up with a framework that would contribute to resolving those issues.

Kopernik connects three parties: businesses and universities with technologies, aid organizations in developing countries, and donors. We showcase the technologies on our website and the aid organizations tell us what they need. We then take the donations that we collect and deliver the technologies to whichever regions require them. So far, we have delivered items to over 75,000 individuals in 11 countries. We have 46 projects in operation. Many of them are in Indonesia and East Timor. (We have also made deliveries to the disaster area in Tōhoku.)

We do not do this distribution work for free. If we did it for free, it would create a relationship of reliance. Charging for the service means that when the technology is delivered, it is really needed in that area. There are many areas where there is a lack of knowledge and information so we sometimes take the products to those areas and hold technology fairs. Scores of people gather, curious about the technologies that we bring.

We also give feedback to the companies that own the technologies. For example, we learned that there was some dissatisfaction with the more energy efficient cooker we provided. The problem was that cutting the wood small enough to fit in the stove took a lot of time and effort. Cutting the wood was the job of the men in the household and if the women were unable to convince them to do it, they were unable to use the cooker. The company built a new version for us and we are in the process of trying it out. With regards to the water filter that allows for easy water purification, the functionality was good but users found that it was unstable when placed upright. There were also requests for greater color variation.

In developing countries, technology needs can probably be split into the following six fields: energy and the environment, water and sanitation, agriculture, insurance, education, and information communication. Of these, we receive the most requests in the first two fields.
Japanese products generally have high quality standards but are too expensive. We use the WHO quality standards instead, which are less strict.

- It is difficult to expand a business to the “last mile.” Microfinance also tends to be limited to urban areas. Donations are still most probably essential for success. We are testing crowd-funding techniques.

- At Kopernik, we are also striving to cultivate outstanding human resources. We are sending 14 people who are studying at some of the top schools in Europe and the United States (including Harvard Kennedy School and others) to observe some of our projects in operation. These individuals are between 25 and 35 years of age and have practical business experience. They will be conducting impact surveys and giving us feedback. We also often request companies to help us set up new businesses in developing countries. We are currently considering whether to dispatch businesspersons on corporate fellowship programs.

- Kopernik discloses its income and expenditure on our website. From the donations we receive for projects, 10% covers activities expenses. There are also companies like Exxon Mobil that make donations specifically targeting those expenses. We also generate funds by selling lanterns and charging advisory fees.

Written by the GSR Research Group Secretariat
June 27, 2012

Speaker: Hirotaka Takeuchi, Vice Chair, GSR Research Group
Professor, Harvard Business School; Professor Emeritus, Hitotsubashi University

Presentation Summary

・ For the first time in the 104 years since it was founded, Harvard Business School will give credits for a program in which students are completely immersed in a field. This is the Immersion Experience Program (IXP). It is huge change for a business school that has built a reputation through a “case method” involving the analysis and repeated discussion of business scenarios. Today I would like to consider the connection between companies and society while presenting my experiences in the field related to IXP, which involved researching and analyzing rescue operations carried out by companies in the immediate aftermath of the 2011 Great East Japan Earthquake.

・ I took 21 graduate students to visit Tokyo and the Tōhoku region from January 3 to 13, 2012. We analyzed four companies: Yamato Holdings Co., Ltd. (Yamato); Lawson, Inc.; Fast Retailing Co., Ltd. (Uniqlo); and Ishinomaki Hospital. We were also involved in volunteer activities in Ishinomaki, Miyagi Prefecture.

・ The four companies all showed a rapid response in the immediate aftermath of the earthquake. Tadashi Yanai, president and CEO of Uniqlo, decided a donation of ¥1 billion on the Monday of the week following the disaster. In an interview with him, he told us that he made that decision to encourage other well-off people like him to do the same. And they did: Hiroshi Mikitani, CEO of Rakuten, Inc., and Masayoshi Son, CEO of SoftBank Corp., both followed suit. Yanai believes that the locals should be in charge of the recovery effort, so rather than taking direct command of the work of sending clothing and other essentials to the disaster area, he left it to local organizations.
anything else” and issued the order to his staff: “Send everything from the Kanto region up there. Don’t worry about the cost.” Three days after the disaster, he visited the area himself. Lawson’s motto is “The town’s hotto [at-home] station,” and the company rushed to restart sales. The voices of the everyday people in the disaster area boosted the resolve of the store managers. They worked to shorten the time it took to get products on the shelves through such measures as eliminating the labor of printing the product name on the wrapping film of rice balls.

- Yamato collaborated with the Self-Defense Forces. The Yamato delivery van drivers knew the distribution area very well, but had no way of providing relief. They could tell the Self-Defense Forces, “That house has a family of five, but only three have been accounted for.” The Self-Defense Forces could then send assistance. The graduate students taking part in IXP were full of admiration, saying: “It’s like the US Army coming under the command of FedEx. This would never happen in the US.” Makoto Kigawa, president of Yamato, negotiated with the Japanese government, pledging to donate 10 yen for every domestic parcel delivered. The government agreed to make the initiative tax-free. This laid the foundations for other companies to carry out similar schemes.

- Ishinomaki Hospital says that its prior disaster training did not help. Its usual procedure in an emergency was to evacuate patients from the fourth floor down to the first, but this time they had to escape from the tsunami to higher floors. Hospital staff wrapped patients in blankets and carried them up that way. The outpatients department reopened a week after the disaster, and the hospital started admitting inpatients a month after. I heard that there were many hospitals in the disaster area that were unable to reopen after the disaster and were forced to close down, and I could sense the strength of Ishinomaki Hospital’s attachment to the area.

- Professor Michael Porter of Harvard University stresses that companies have to provide both economic value and societal value. Moreover, he advocates creating societal value based on a company’s core business. This means creating shared value, which Porter distinguishes from CSR. In the face of the emergency situation, all four companies we analyzed during for IXP provided value that was of use to the community through their core businesses: delivery services (Yamato), clothing (Uniqlo), store opening (Lawson), and patient care (Ishinomaki Hospital). Each company responded rapidly to the disaster through its core business.
Emeritus Professor Ikujirō Nonaka of Hitotsubashi University and I co-authored an article titled “The Wise Leader,” published in the May 2011 issue of Harvard Business Review. A wise leader is one who thinks of the common good and then acts; a person with practical wisdom about the judgment that needs to be made in the here and now. Simply put, this is the sort of a person that has wisdom and the capability to make judgments. Perhaps our article was well received because there have been increasing opportunities to reflect on problems such as the greed in the financial sector seen in the Lehman Brothers bankruptcy. The activities of the four companies we examined for IXP are all examples where management decisions were made in the here and now, for benefit of people and society.

There are six factors that make a wise leader. First is the ability to judge what constitutes the common good for a company, an organization, and society. Peter Drucker recognized this when he maintained that management involves cultivation. Yanai has a management philosophy made up of 23 principles, of which 7 concern society. The second thing is the ability to grasp the essence of something. Steve Jobs was no technician, but he achieved enormous success due to his ability draw on his instinct and inspiration to grasp the essence. Sōichirō Honda was similar to Jobs in some ways. For example, when he was judging whether to market a new line of motorcycles, he ordered his development team to drive round him dozens of times while he crouched down to the level of a rider, with his hands on the ground. Along with using his own eyes to check the motorcycles, he also gauged how near to completion they were by using his hands to feel the level of vibration.

The third thing is to create a shared place. The word for “place” in Japanese is ba. As this sounds similar to the English “bar,” Professor Nonaka likens it to an English pub. It is where people come together and new meanings are generated; this is something that happens the world over. The fourth thing is the ability to convey the essence of things. This means conveying tacit knowledge through the use of metaphor or stories. Steve Jobs’ speech at the Stanford University graduation ceremony or Martin Luther King’s famous “I have a dream” speech are good examples.

The fifth thing is the ability to exercise political power. You can call this a Machiavellian element. It concerns the disposition for knowing wrong in order to do right; being broad-minded enough to show tolerance toward all sorts of people; and having the ability to think dialectically. The sixth
thing is to embed practical wisdom into the organization. A system of apprenticeships is essential for this. Yanai was twice unsuccessful in passing on the management of his company, so with the cooperation of Hitotsubashi University Graduate School of International Corporate Strategy he is cultivating two hundred global-class executive trainees, ingraining them with the 23 principles of his management philosophy. Yanai says that of these trainees, he wants half to be non-Japanese, half to be from outside the company, and half to be ordinary people.

- A manager that satisfies all six factors would be a philosopher, craftsman, idealist, politician, novelist, and teacher. One option would be to do what companies like Sony, Honda, or Shiseido did when they were established by having a duo of top managers who combine to cover all six of those qualities.

Written by the GSR Research Group Secretariat
July 10, 2012

Speaker: William Hiroyuki Saito, President, InTecur

Presentation Summary

• I want to discuss CSR by taking into consideration the issue of knowing your own strengths and weaknesses, and the experience of starting a business.

• I was born in 1971 and brought up in Los Angeles. One thing that I am grateful to my parents for is that they had me study mathematics from a very young age, perhaps out of concern that as a child of immigrants I would never master English. I am also grateful that they sent me to a school that made me feel completely comfortable with debating so that I could be accepted in American society. I soon ran out of things I could learn from mathematics textbooks, so my teacher suggested to my parents that they try me out on a computer. My parents took out a loan using our newly-purchased house as collateral in order to buy me a computer, which was very expensive at the time. Before long, I began to receive orders to develop computer programs. I developed software for an accounting office, and when the company was acquired by Merrill Lynch (now Bank of America), my software began to be used widely.

• At my dorm room at university, where I was studying university, I started my own business. Using my knowledge of mathematics and computers, I developed software for displaying kanji characters on the computer screen in an eight-bit format. I also got involved in producing printers and other peripheral devices. I went on to develop software for video conferencing and eventually concentrated on fingerprint-recognition technology. During that period, there were many times that I suffered business setbacks. But my biometric identification technology was licensed to around 160 companies and in 2004 I sold that business to Microsoft for a considerable sum.

• People from NEC and other Japanese companies kindly gave me business opportunities when I was in my teens and twenties, and this led to my success. I would like Japanese business to regain the vigor it had during the period of so-called “Japan bashing.” For this to happen, a number of issues
need to be resolved.

- You often hear people praise Japan’s manufacturers of electronic components for doing well, but there is no room for complacency. The profit margins are much narrower than they are for manufacturers of finished products. In the case of the iPhone, for example, the newer models use fewer and fewer components made in Japan. For all the talk of globalization, the average revenue from overseas investment is low among Japanese companies, at 4.6%, compared to 8.9% among US companies.

- M&A activity is said to have become proactive, but it is very small compared to cash reserves left dormant. Moreover, M&A is “A” only, with not enough “M.” A case in point is Elpida Memory, Inc., which was formed by the merger of three semiconductor companies; Elpida Memory was unable to generate beneficial results from the merger and was eventually acquired by Micron technology, Inc.

- Next, we can look at R&D. In terms of “R,” you can say that Japan’s clout is unsurpassed, but I wonder about “D.” Japan is not developing any new industries. I would like Japan to reflect on the history of the US semiconductor industry and Silicon Valley. William Shockley, who invented the transistor, was working at Bell laboratories on the East Coast of the United States. He moved to the West Coast, which was racing ahead of the rest of the country, to start his own company. Researchers who parted company from Shockley went on to develop semiconductors at Fairchild Semiconductor International, Inc., from which companies such as Intel Corporation branched off. This led to the Silicon Valley of today. The key is “D.”

- Suppose there is a pyramid, with “data” at the bottom is data, “information” at the next tier, then “knowledge,” and “wisdom” at the peak. Japan is strong as far as information goes, but weak higher up on the pyramid. Japan may be able to handle the question of “what,” but it lacks the ability to work out “why.” This seems to be affecting business in the country.

- I see CSR in the following way. Naturally, responsibility to shareholders is very important to a company. But focusing only on shareholders is no good for sustainable business; companies have to look to their stakeholders. If we think of stakeholders as the people, CSR comes down to creating new taxable industries.

- There is also a stratified relationship. That is, society is composed of businesses, government, and
citizens. Supporting the society where these three come together is innovation, which creates wealth. Entrepreneurship brings out innovation. For this to be successful, risk management is essential, and the foundation is teamwork.

• Every year I visit around 40 countries, and I do not think Japan can be beaten on innovation. However, I am worried that there are very few joint applications for patents. A vast numbers of patents may be taken out, but I suspect these patents tend to be irrelevant or meaningless from a global point of view. There are a decreasing number of Japanese people studying abroad, and a questionnaire in Nature magazine also found that that the level of happiness among Japanese researchers was lower than among their counterparts in any other country. These sorts of problems have a root cause. Perhaps the time has come to change the definition of innovation. Elements related to design and liberal arts are essential. The internal components of mobile phones made by Japanese manufacturers are probably superior to those of Apple phones, but Apple is far stronger because its level of design surpasses those of Japanese phones.

• The definition of entrepreneurship in Japanese should probably be changed. Translating it directly from the English as “the spirit of someone who starts up a company” is not really good enough. An entrepreneur is someone who turns ideas into things. Making products and services useful to everyone is important, as is the ability to translate ideas into reality. An entrepreneur could be described as a “change agent.” I have judged idea contests around the world involving a total of around 10,000 young contestants, and I believe the important thing is passion. It is all about persuading other people.

• I would like you to look at a list of companies that are respected worldwide. Many of the companies in the top positions were established by two or more people. Apple, Microsoft, Google, Honda, Sony . . . Also, the Nobel prizes in the fields of natural science are all joint awards. Having a passionate team is the foundation for success.

• Diversity and women are valuable when putting a team together. Getting the participation of young, highly innovative personnel is also essential. Huge numbers of people took part in the Apollo Program and the Manhattan Project in the United States, and the average age for both projects was 27.

• Japanese organizations seem to be hindered by fear of conflict. Because people do not actually trust
each other, they seem to be afraid that someone behind them might try to hold them back. This is why communication is poor. The mentality of not wanting to fail and wanting to hide weakness is also at work here. However, we learn from our mistakes, and innovation comes from repeated hardship. The opposite of success is not failure; it is not doing anything.

・ What I would like to emphasize, looking at Japan’s strengths and weaknesses from the outside, is that if you do not step out into the world, you cannot see the difference between “want and “need.” For this reason, diversity is a constant necessity. To succeed, act as a team, tackle things with passion.

Written by the GSR Research Group Secretariat
Taking Part in Rio+20

Speaker: Takeshi Miyamoto, Vice Chair, GSR Research Group; Secretary General, Global Compact Japan Network

Presentation Summary

- The Rio+20 United Nations Conference on Sustainable Development was held in Rio de Janeiro, Brazil, from June 20 to 22, 2012. This was exactly 20 years on from the 1992 Rio Summit. The primary purpose of the conference was to examine the results to date and discuss the nature of future actions. I will report mainly on the Corporate Sustainability Forum (CSF), an enormously successful event that the UN Global Compact hosted in connection to Rio+20, but I will start with a review of Rio+20.

- With regard to the essence of the outcome document adopted by the conference, there was particular interest in policy on bringing about green economy and in how the Sustainable Development Goals (SDGs) would be put together.

- Some developing countries had voiced caution about a “green economy,” seeing it as a new form of exploitation by the developed world. For this reason, no official definition was given of a green economy. Instead, it was simply described as a tool for advancing sustainable development, with different countries having different approaches. However, the Japanese government’s proposal for a definition of green economy expresses the concept well: “an economic system which promotes sustainable growth while improving human well-being, by pursuing economic growth and the environmental conservation in tandem, properly utilizing and conserving natural resources and ecosystem services.”

- However, I would have liked there to be more detail about the SDGs. There was only an agreement to comprehensively formulate SDGs as post-MDGs (the MDGs are the Millennium Development Goals to be achieved by 2015). This probably means that the 26 issues such as poverty eradication, food security and nutrition, sustainable agriculture, and water and sanitation mentioned in the Thematic Areas and Cross-sectoral Issues of the outcome document are included in the SDGs.

- Overall, the conference did not have as much substance as people had hoped. This time around almost no heads of state participated and in the end it just came down to the negotiations of administrative officers. Minister for Foreign Affairs Kōichirō Genba gave an address, but his turn did not come until the middle of the night because the preceding countries’ speakers had delivered overly lengthy speeches.
The conference seems to be symbolic of the inability of states to reach decisions. At the same time, businesses are rapidly transcending borders. The fact that several thousand companies from around the world took part in the discussions at the CSF is an indication that the business world now plays a leading role. The theme of the CSF was Innovation & Collaboration for the Future We Want. The private sector and investors involved in sustainable development put forward various examples of action and ideas, and called on governments to take measures to support such activities globally. Global Compact Japan Network set up a session on green business.

Some 200 commitments pledging future action were made at the CSF. There was particular interest in collective action commitments, in which companies pool their technology and skills in their respective fields of expertise for collective action. An example is the CEO Water Mandate, signed by the CEOs of 45 companies. There were also commitments made by local networks of the Global Compact and commitments by individual companies. The following six Japanese companies made commitments: Hitachi, Mitsubishi Chemical Holdings, Nissan Motor, Osaka Gas, Sompo Japan Insurance, and Sumitomo Chemical.

There were so many individual sessions at the CSF that I cannot introduce them all. The liveliest one was the Economics & Finance of Sustainable Development session. Also, the program Proposal for Integrated Reporting of Corporate Strategy, Governance, Economy, Society, and Environment by the International Integrated Reporting Council (IIRC) was standing room only. There was considerable interest in sessions such as Low-carbon Solutions that Accelerate Change (involving discussions on the effects of distributing music, films, and other content online) and Recognizing That Water Issues Are Important Issues of Gender (touching on how women generally shoulder the largest burden in jobs relating to water).

BASD2012 (Business Action for Sustainable Development 2012), an event led by the private sector, was held Immediately before Rio+20. The key message was that companies should further increase the scale of their activities. The ideas that best practices should be developed laterally and that there should be a unified approach to the value chain were discussed. There were discussions on how to attach value at the corporate level to natural capital and social capital, using the financial report of the German company Puma as an example.

Just last week, a round table meeting of the Global Compact local networks of Japan, the Republic of Korea, and China was held. The Republic of Korea showed a conspicuously proactive attitude, just as it did at Rio+20, and pressed strongly for discussions in the field. When one considers the market scale in the Republic of Korea, globalization is necessary for the survival of Korean companies. They are trying to take part in building international frameworks in the various fields of the Global Compact. I feel that there are many things here that Japanese companies could learn from that approach.
2. CSR and Fostering New Leaders: The United Nations' PRME and the Directionality of New Management Education

Speaker: Mitsuhiro Umezu, Associate Professor, Faculty of Business and Commerce, Keio University

Presentation Summary

・As its English name indicates, the United Nations is an organization that is, by nature, led by nations—meaning states and peoples. This is why heads of state and diplomats put forth their views at the UN. However, the limits of the organization have become visible. Such tasks as redressing poverty and social disparities to improve the position of the weaker members of society now require private-sector initiatives. The UN Global Compact is an idea launched at the Davos meeting by Kofi Annan when he was UN secretary-general, and it was subsequently approved at the UN General Assembly as a program under the direct control of the secretary-general. The UNDP and many other responsible agencies had been involved in measures against poverty and other initiatives, but Annan’s aim was to incorporate the wisdom and activities of the private sector through the Global Compact in order to trigger a reform of the UN.

・I would like to talk about PRME (Principles for Responsible Management Education), which began as a sub-program of the Global Compact. The backdrop to this is the concept of involving academia in activities based on an awareness of social responsibility. There are currently 469 universities worldwide taking part in PRME, including five in Japan.

・I would like to introduce an episode that took place when I was teaching at Northwestern University. It occurred at a graduation ceremony. The graduates appearing at this happy occasion were introduced in groups by department or graduate school; when the chair called out, for example, “School of Medicine,” a huge cry went up and the venue echoed with applause. But when it was the turn of the Business School, there was a storm of booing. The Kellogg School of Management of Northwestern University is the leading business school in the United States, yet no one congratulated the students. This is because business schools have a bad reputation for putting moneymaking above all else. The universities taking part in the PRME all share the sense of crisis that we are approaching a time of great change in management education.

・The 3rd Global Forum for Responsible Management Education was held to coincide with Rio+20, and some 300 scholars from around 40 countries gathered together. A variety of proposals for reform to management education were debated, and the declaration “The Future We Want: A Roadmap for Management Education to 2020” was adopted. A phrase that appeared many times during the debates was “planetary boundaries.” This means acting in awareness of the limits of our planet and having an awareness of issues related to sustainability. The academic field of management education is now undergoing a reorganization to center on theories concerning social
responsibility. The methods of management education are also undergoing a change, moving away from the previous focus on classroom learning toward new approaches centered on project-based learning. Still, management education lags behind the changes seen in other academic fields, and the declarative statement clearly specifies the need for an urgent response in this respect.

• PRME comprises six principles for responsible management education. These include the principle, “We will develop the capabilities of students to be future generators of sustainable value for business and society at large and to work for an inclusive and sustainable global economy.” There are comparatively few Japanese universities taking part, probably because the idea of participation in a value-based platform is not well understood. Just as with the word “commitment” in the Global Compact, there seems to be a part of this that Japanese people cannot readily come to terms with.

• For participation in PRME, each university decides what it will do in line with the six principles, and acts accordingly. There is no inspection by a third-party organization in the way there is with the International Organization for Standardization (ISO). Universities just have to submit their Sharing Information on Progress document once every 18 months. In other words, the most important thing is accepting the values of the six educational principles and acting in accordance with actual conditions.

• With the huge change in values taking place worldwide, I would like to increase the number of Japanese universities taking part in PRME, thereby joining the circle of debates with universities from around the world and fostering the new leaders of the future. The GSR Research Group will host the GSR Project Idea Contest for Students this weekend, and I hope the participants will consider the proposal I made at the Global Forum for Responsible Management Education for a student CSR ideas Olympics.

Written by the GSR Research Group Secretariat
Presentation Summary

・The government sector was completely undermined by the Great East Japan Earthquake of March 11, 2011. Unfortunately, however, many of the social problems Japan faces cannot be addressed by the corporate sector alone, nor can they be handled by NPOs on their own. It is important for various stakeholders to rally together. This is the concept that Dr. Michael Porter refers to as creating shared value (CSV). Having stakeholders from different fields help each other out as they address social issues creates a win-win relationship. Building the structure for a feedback cycle between the government, private, and social sectors is tied to CSV.

・A leader who acts as mediator between various stakeholders requires the sensitivity to be aware of environmental change, the capacity to grasp this from other people’s problems as if they were one’s own, and the practical ability to translate this into action. Also, we are now in a time of relentless change when it is difficult to set fixed objectives. Rather, it has become a time in which value is attached to setting the direction toward a goal and managing the process leading to its fulfillment. Just making a pledge to do something is not enough. You need to put forward a specific framework of how you will achieve your pledge.

・Rereading the Charter Oath in Five Articles, an oath made in 1868 by the Emperor Meiji announcing the goals of the government, one feels that the first four articles in particular are things that are also required in the present age. For example, “all matters [shall be] decided by open discussion” indicates that all stakeholders should heighten mutual discussions on an equal footing, which is the fundamental thinking of stakeholder dialog. The policy that “All classes, high and low, shall be united in vigorously carrying out the administration of affairs of state” seems to be calling on Japanese companies to coexist with the community on the basis of the culture and history of whichever country they are operating in. To implement this, it is essential to acquire a liberal arts outlook during one’s youth. “Evil customs of the past shall be broken off and everything based upon the just laws of nature” sounds like it is emphasizing adaptation to the emergence of what is known as “soft law,” seen in, for example, ISO26000.

・I believe that future CSR initiatives should aim to develop leaders that can respond to values that presuppose a new social structure for a new age, and by so doing ensure the type of innovation needed to resolve issues.
For example, look at konpu gacha [a now-banned mobile-phone game]. It was clear this was going to become a social problem, but what would have happened if stakeholders had discussed it fully at an early stage? Once discussion begins over whether to ban konpu gacha or leave it be—all or nothing—the inevitable conclusion is that konpu gacha should be banned. But even konpu gacha has its uses. If there had more discussion, perhaps there would have been a different solution.

One Japanese brewery has started to have opportunities for discussions with an NPO that aims to eliminate alcoholism. The NPO requested a suspension in sales of non-alcohol beer. The reason for this was that women and others who would by nature tend to keep away from alcohol start drinking alcoholic beverages as a result of drinking non-alcohol beer, so that non-alcohol beer creates the opportunity for alcoholism. On the other hand, it is certainly true that non-alcohol beer is a valuable product for drivers like myself, and has made a considerable contribution to society. How should we approach a problem like this, which cannot be resolved simply? Now that we are starting to face issues that no one can simply delineate, it is essential to search for common ground through dialog.

In Europe, upper limits have been set on the number of animals that can be used in animal experiments for drug development, and these are frequently disclosed. The background to this is that while there are demands from animal welfare groups for no animal experiments at all, experimenting on humans instead is not an option. In response to a problem such as this, which cannot readily be resolved, stakeholders search for common ground through dialog and argument. In the present age of diversified social value systems, it has become impossible for conventional regulatory agencies to simply draw boundaries. Mature discussions with all the stakeholders are now needed.

People say that the key to revitalization of a town or activation of an organization is held by “outsiders, youths, and fools.” The businessmen who gather at the Morning University of Marunouchi are an interesting case as they are cooperating to revitalize an under-populated area. Although only local people are seen as being tied to the area, outsiders bring in new points of view, which in turn spurs the “fools” in the local community to start moving. The youths follow along, and this results in activation of the region.

CSR is a concept that shows the mutual relationship between companies and society. CSR involves constantly reevaluating corporate behavior based on the value system of society and a social perspective, and giving expression to and actualizing a company’s management philosophy. However, it cannot realistically be denied that a lot of CSR activities are carried out without any real thought going into them. Companies often imagine that making a donation to a well-known organization amounts to contributing to society. Rather, companies need to perform the role of first clarifying what a locality requires and what problems it faces, and then acting in a complementary way by doing what the government is unable to do. To raise corporate value,
stories or concepts centered on the management philosophy should be clearly shown.

· In the case of the Ōmi merchants, those skilled merchants from the region that is now Shiga Prefecture who created some of Japan's major companies, they had three types of “good things”: good for the seller, good for the buyer, and good for society. Nonetheless, these do not constitute CSR. The situation is different today from the days when the discussion centered on the issues of corporate scale and the role of the government sector. Now there is a need to consider what role the private sector should play on the basis of a balance between the government and the private sector. ISO was a spin-off from deregulation, functioning as private sector control of the private sector. In the same way, CSR that brings about substantial limits to competition is possible.

· As the population falls and the proportion of elderly people increases, there is a pressing need to educate innovative young people to ensure new growth for the Japanese economy. In today’s increasingly complex period of diversified social values, there is also a need for human resources with the imagination to accurately identify challenges to undertake and come up with strategies that lead to original solutions. To repeat what I said earlier, the ability to acquire a liberal arts outlook is the basis for turning out such resources. It is necessary to have the ability to consider the problems of others as if they were your own problems. A liberal arts education is related to the ability that is a prerequisite for cooperating with other specialized fields. Acquiring a liberal arts outlook in order to make better use of specialized knowledge allows a person to contribute to resolving difficult social problems through innovative concepts. It is also important to develop the awareness needed to heighten your sensitivity and mental acumen. Success or failure comes down to whether or not a person has an awareness of problems and potential solutions. The process of constantly asking yourself basic questions and coming up with your own answers is the way to refine the sensitivity needed to effect social change.

Written by the GSR Research Group Secretariat
November 26, 2012
Speaker: Masaru Arai, Chair, Social Investment Forum Japan

Presentation Summary

• In terms of total assets, socially responsible investment (SRI) in Japan peaked in October 2007, when ¥1.24 trillion was held in investment trusts. Unfortunately, however, as of June 2012 that total had fallen to ¥210 billion. This represents a major disparity with Europe and the United States. The total for Europe is ¥500 trillion, while that for the United States is about ¥230 trillion. Rather than decreasing, SRI has actually increased [in the West] since the onset of the 2008 financial crisis, due to greater public concern over corporate responsibility. Provided the stock market recovers, SRI in Japan can also be expected to mount a comeback. While environmental issues and SRI were virtually the only topics addressed by such efforts in the past, there is now a much broader range of concerns.

• New trends in Japan include growing interest in so-called impact investment funds issued by institutions with high credit ratings such as the World Bank and the Asian Development Bank. Over a three-year period these funds have attracted investments amounting to ¥500 million. Investors probably find them attractive because they are clearly linked to support for microfinance, distribution of vaccines, and other worthy social causes.

• Five or ten years from now, SRI is likely to be the norm. The Japanese Trade Union Confederation, or Rengo, has issued a set of Guidelines on Responsible Investment of Workers’ Capital, and regional banks and other financial institutions have become signatories to the Japanese Ministry of the Environment’s Principles for Financial Action for the 21st Century (subtitled “Financial Action Towards a Sustainable Society”). Both of these initiatives are likely to help propel SRI into the mainstream.

• The Rengo guidelines assert that a pension fund amounts to a workers’ capital fund and that
investment decisions should be guided by nonfinancial information relating to environmental, social, and corporate governance (ESG), and by concern for workers’ rights. Based on these considerations, shareholders should take appropriate action with respect to companies in which pension funds are invested, and fund management institutions are expected to invest the funds in a responsible manner.

• A quick review of the history of socially responsible investing reminds us that it began in the United States with an approach to investment based on Christian principles. In the 1920s there was a movement that called for refraining from investment in businesses involved with alcoholic beverages, tobacco, gambling, and firearms. Social movements also attained major prominence in the 1960s, when Dow Chemical was criticized for producing napalm, a weapon used in the Vietnam War that was widely considered inhumane. The automaker General Motors, facing public pressure to hire more employees from minority ethnic groups, appointed a clergyman to be the first black member of its board of directors. Gulf Oil (now Chevron) was criticized for its employment practices in what was then the Portuguese territory of Angola, prompting the establishment of an Investor Responsibility Research Center at Harvard University, which owned shares in Gulf Oil through its endowment fund, in response to pressure from university students.

• In 2000 a milestone was achieved when Britain revised its laws governing investment of pension funds. The new regulations require disclosure of the extent to which SRI-related considerations are taken into account in the investment of pension funds and require an explanation when no such factors are considered, thereby lending momentum to the SRI movement. The publication of the United Nations Principles for Responsible Investment has also had a major impact. As of October 2012 1,121 pension funds and financial institutions around the world have become signatories, including the California Public Employees’ Retirement System in the United States, the Dutch pension fund Stichting Pensioenfonds ABP, the American firm Goldman Sachs Asset Management, and the British firm HSBC Global Asset Management, as well as 24 institutions in Japan.

• The question is no longer why we should invest responsibly; we have moved on to the question of how to invest responsibly. The information required for decision-making is being digitized and integrated. ESG-related information on specific firms can easily be called up on a Bloomberg terminal. In 2011 alone such information was downloaded over 186 million times by more than 10,000 users. There is also a rating system that makes it easy to draw direct comparisons among
multiple firms.

• FTSE, a subsidiary of the London Stock Exchange, develops and manages various investment indices. The FTSE4Good index, an SRI index whose policy committee I am a member of, has been used to rate stocks since 2011. There are six rating levels, from 0 to 5, and only stocks with a rating in the upper half of the scale are listed in the index. Japanese firms tend to be rated more highly than others for their actions in response to climate change but tend to be rated relatively low with respect to supply chains and corporate governance. Many receive low ratings because they fail to provide definitive answers to FTSE’s queries.

• The ratings are helpful for evaluating and selecting firms to manage pension funds, and they also can be used in dialogues with firms that are candidates for investment. To date, dialogues have been conducted with over 1,000 such firms. As a result, 60% of them have either retained a FTSE4Good listing or have obtained an improved evaluation and acquired a listing in the index.

• So-called integrated reporting is a new form of corporate disclosure that represents a fusion of financial reporting with information on sustainability. Coherence, continuity, and comparability are required for integrated reporting, just as they are for the disclosure of accounting data. According to a survey by the Global Reporting Initiative, 331 firms around the world have prepared integrated reports. Most of these, however, consist of little more than a traditional annual report along with a sustainability report. The process by which the ideal integrated report will take shape still seems to be underway.

• We’re often asked whether there are actually favorable returns on ESG-related investments. It’s an honest question, and to answer it we need to touch on an important principle of financial theory. One approach to finance is the efficient-market hypothesis, which holds that the value of a company’s stock, since it is formed on the basis of a broad range of information, cannot constantly exceed the market average. If this hypothesis holds true, then so-called active investment, including investment based on ESG factors, would not be expected to outperform index-based investment.

• Yet, according to an analysis by the Daiwa Institute of Research, there are definitive cases of this type of positive performance. Subsequent to the reference point December 2004, a hypothetical investment fund incorporating stocks highly rated for the companies’ efforts on climate change fairly consistently outperformed the TOPIX index, adjusted for dividends. Returns on investments in
companies with a woman or women on their boards of directors also surpassed the dividend-adjusted TOPIX. The long-term results, not yet available, will have to be evaluated, but it may be that these returns surpass TOPIX simply because these are truly outstanding, highly conscientious firms. Information we’ve received on Secom’s pension fund indicates that a portfolio of stocks selected based on ESG factors decreased in value less than index-based portfolios when the market declined and that they recovered value quickly. We’re likely to see more of this sort of analysis as more data becomes available.

• Since accountability to companies and subscribers is an issue with pension funds, investment based on ESG factors, which can yield the type of stable investment performance attained with the Secom pension fund and which enables stocks to be selected with confidence, is well-suited for pensions funds.

Written by the GSR Research Group Secretariat
December 18, 2012

Speaker: Jin Wakabayashi, Director, Private Sector Partnership Division
Advisor, Private Sector Investment Finance Division, Office for Private Sector Partnership, Japan International Cooperation Agency

Presentation Summary

• To begin, I’d like to explain the circumstances underlying the Japan International Cooperation Agency’s efforts to intensify its collaboration with the private sector. JICA underwent reorganization in 2008, and it was then that its Office for Private Sector Partnership was established. The private sector has expanded its presence in developing countries and the inflow of private-sector funds has increased. There is a limit to what can be accomplished with public-sector development assistance programs alone. We feel that collaboration with the private sector is necessary to achieve progress in developing countries.

• Private-sector trends have been changing too. Strategic activities conducted under the rubric of corporate social responsibility have been well received, as has the rise of so-called base-of-the-pyramid (BoP) businesses. JICA supports these trends. In the global arena, the United States Agency for International Development and aid organizations in other countries have come to view private firms as valued partners and are increasingly collaborating with the private sector. Private-sector firms are hoping governments will help reduce business risks.

• I also would like to offer an overview of the flow of funds to developing countries. According to data compiled by the Organization for Economic Cooperation and Development, private-sector funding is already greater in magnitude than public-sector development assistance. Although the inflow of private-sector funds has declined in the aftermath of the 2008 financial crisis, the basic trend is toward expansion. At the same time, many governments have been expanding development-assistance funding in order to meet the Millennium Development Goals established by the United Nations.
• It has been some time since Japan led the world in terms of net governmental development-assistance expenditures. The United States is the current leader, followed by three countries in Europe: Britain, France, and Germany. Japan ranks fifth. In the past, Japan actively provided loan assistance to developing countries, but because those loans are now being repaid, Japan’s net expenditures are no longer increasing. In 2010 Japan’s ratio of governmental development assistance to gross national income was 0.2%, which is low for a member of the OECD’s Development Assistance Committee. Many of the member countries have failed to achieve the DAC target of 0.7%, but Japan’s figure is lower than most.

• Japan’s Ministry of Foreign Affairs is promoting development assistance under the banner of “full cast diplomacy.” The aim is to have various public- and private-sector entities, as well as nongovernmental organizations and local governments, all contribute to international causes from their own perspectives, and to implement diplomacy with the involvement of all the concerned parties. This trend has given rise to an approach that favors public-private partnerships as a means of accelerating economic growth. The idea is to collaborate more closely with the private sector and undertake proposals from individual companies while still ensuring the basic fairness required in the provision of governmental development assistance. This is expected to spur economic growth and improve living conditions in developing countries and, in turn, lead to economic growth in Japan as well.

• In October 2012, JICA resumed full use of Private Sector Investment Finance, which had been discontinued in 1999, as a tool for the provision of assistance. This scheme has been criticized for its yen-denominated financing and long-term fixed rates, but it is intended to break through the impasse caused by a lack of tools for public-private collaboration. Aid agencies in other countries have expanded their own capacities for assisting private-sector efforts as well. The Global Development Alliance, a public-private collaboration initiative established by the USAID in 2002, has already carried out some 900 projects. The British government is pursuing public-private collaboration through the Department for International Development’s Challenge Fund, and the German government is making similar efforts through the Federal Ministry for Economic Cooperation and Development’s “develoPPP.de” program.

• The Hudson Institute in the United States has conducted research to determine how much funding
is being devoted to development assistance around the world and has made some very interesting findings. Private-sector funding, including both philanthropic activity and overseas remittances, totaled $575 billion in 2010, far greater than the $128 billion provided in governmental development assistance. Thus, private-sector funding has a more substantial presence than public-sector foreign aid. The United States ranks highest in total contributions, followed by Britain. Four countries are essentially tied for third place: Canada, France, Germany, and Japan.

• JICA is working to collaborate with the private sector through its support for BoP businesses. The BoP economic sector consists of approximately 4 billion people, or 72% of the world’s population. JICA considers the people in this sector to be more than just consumers. Through engagement in business activities, we hope to help them tackle the challenges to development, such as unemployment and unequal access to public services, and emerge from poverty to join the ranks of an expanding middle class. Business activity itself offers sustainability and profitability, but even beyond that, we intend to create a positive synergistic effect on JICA projects through cooperation with businesses to resolve challenges and improve conditions. Partnership with JICA offers advantages for businesses as well, including easier access to national governments and opportunities to forge links with NGOs and related groups.

• Specifically, to support preparatory surveys for proposed BoP enterprises, JICA provides up to a maximum of ¥50 million per private-sector project. We have conducted four campaigns to solicit new projects, receiving approximately 80 applications each time. The majority of the proposals are for projects in Asia, including Indonesia and Bangladesh, and are primarily concerned with agriculture, healthcare, water and sanitation, and electricity and other energy resources. Increasing numbers of projects are concerned with waste disposal and recycling as well.

• Selecting the right local partner and securing a source of funding are essential criteria for the success of a BoP business. In this regard, attention has been drawn to a project promoted by Ajinomoto Co., devoted to manufacturing and selling food products for infants being weaned from breastfeeding. JICA has supported the project, and assistance has also been requested from and approved by the USAID. The project has expanded local networks for this effort, secured the involvement of NGOs equipped with the necessary expertise, and is now solidly underway.

• There have also been projects for which fieldwork has been completed but no funding has been
obtained. It’s not clear what the solution is, but at least one business has overcome such obstacles and succeeded in convincing potential donors of the social merits of its enterprise. In that case, an educational campaign and cooperation from media outlets during negotiations over funding with financial institutions enabled investors to appreciate the merits of the business involved. In the future JICA will be publishing guidelines for objectively evaluating the potential development-related advantages and social merits of proposed BoP business projects, with the aim of enabling private-sector firms to present persuasive arguments for the social merits of their proposals.

Written by the GSR Research Group Secretariat.
Presentation Summary

1. Current Research on and Challenges for Sustainable Supply Chain Management
Speaker: Masahiro Miyazaki, Professor, Atomi University

Today I’m going to address supply chain management from a somewhat academic viewpoint. What’s the difference between supply chain management (SCM) and “sustainable” supply chain management? How much does pursuit of the latter contribute to a firm’s business results? These are some of the issues I’d like to take up.

According to David Simchi-Levi et al., the objective of SCM is to ensure “that merchandise is produced and distributed at the right quantities, to the right locations, and at the right time, in order to minimize system-wide costs while satisfying service level requirements.” By pursuing integrated management of product distribution and raw materials and responding promptly to fluctuations in supply and demand, according to Koya Kikuchi, it is possible to reduce shortages, cut lead time, improve cash flow, and reduce distribution costs; improving profitability and securing a competitive advantage.

It is essential not merely to provide separate optimal supply chains for individual firms but, with cooperation from customers and suppliers, to optimize supply chains in general. The structure of competition in the market pits companies against one another, and this has evolved into competition among respective supply chains. If a supplier kept raw materials in stock to enable timely mass production by one’s own firm alone, it would be impossible to attain overall optimization. A crucial point is whether the advantages obtained by making supply chains more efficient overall extend to all parties within the supply chains. According to a survey of 503 firms conducted by the international audit firm PwC, firms that regard their supply chains as strategic assets are 70% more profitable than those that don’t.

This brings us to the topic of sustainable SCM, or SSCM. A variety of factors underlie the current pursuit of SSCM, including the fact that businesses are confronting the finite nature of the global environment and the fact that supply chains themselves have expanded to global dimensions. Furthermore, for the fulfillment of corporate social responsibilities, it is now essential that supply chains reflect societal and environmental concerns. In addition, the international community has imposed its own standards in the form of the United Nations Global Compact and ISO 26000.

From the standpoint of management theory, businesses that focus on the so-called triple bottom...
line—economic, environmental, and societal performance—are considered to be sustainable. A meta-analysis of the findings of previous studies by Marc Orlitzky et al. concluded that there is a direct relationship between societal and environmental performance on the one side, and economic performance on the other, and that this relationship is simultaneously bidirectional, with public reputation serving as the bridge between the two. In addition, the influence of societal performance was determined to be greater than that of environmental performance.

- Theoretically, the achievement of SSCM is expected to deliver advantages such as higher quality, lower costs, and expanded sales, through a variety of channels, including increased brand value and higher employee motivation. It’s also expected to lead to higher earnings and share prices. An evaluation index for SSCM has not yet been developed, however, and there is virtually no empirical research to determine what kind of economic results have actually been obtained.

- Here I would like to briefly discuss my own research. I have studied the relationship between SSCM efforts and business results for 32 major retail firms in developed nations. I selected major retail businesses because they have a worldwide presence and they exert a major influence on both suppliers and consumers. For example, Britain leads the rest of the developed world in sales of fair-trade products simply because major British retailers have actively pursued fair-trade sales.

- For this study I devised an SSCM rating system for major retailers based on 11 criteria, including checks on whether the firm had established targets for supply chain sustainability, whether it monitored improvements in supplier practices, and whether it made efforts to reduce its CO₂ emissions and waste volume.

- I used the average rate of sales growth for the past five years as an indicator of business results for major retail firms. When I compared this with the SSCM rating for each firm, I confirmed that there is a direct relationship (with a correlation coefficient of 0.3509). There was, however, virtually no correlation with increased business profit (the correlation coefficient is 0.0892).

- The following are my conclusions. Firms that pursue SSCM increase their sales by creating brand value and other measures. While SSCM is one factor in securing increased revenue, however, it is not clear that it is a key factor. My analysis also shows a direct relationship between the SSCM rating and sales (rather than sales growth). The higher sales a firm has, the greater the risk associated with each supply chain, which provides rationale for actively pursuing SSCM. For these reasons, we can infer a bidirectional causal relationship between SSCM efforts and sales.

- As sales increase, economies of scale emerge and costs decrease. Why, therefore, is this not reflected in business profit? We can infer that it is because the pursuit of SSCM itself generates costs. Costs are incurred through monitoring and training suppliers, for example. Businesses are pursuing SSCM only to the extent that they can reduce costs by doing so, and it may be that this is why there is no observable impact on business profit.
This analysis focused on retail supply chains, which are relatively close to the consumer level. I have not analyzed the business results for suppliers, however. The original objective of SSCM is to maximize earnings throughout the supply chain, so a careful analysis of the effect on suppliers is likely to yield useful new findings.

2. Global Trends in Supply Chain Management: Timber SCM through Due Diligence
Speaker: Mari Momii, Representative, deepgreen consulting
Lecturer, Atomi University

Presentation Summary

- Every two seconds a section of forest the size of a soccer field disappears from the planet. To put a halt to this, we need to quickly resolve the problem of the availability of illegally harvested timber.
- Countermeasures against illegally harvested timber include cooperation by developed countries to ensure that governments procure only legally (sustainably) harvested timber. In addition, over the past several years Australia, the European Union, and the United States have enacted laws governing private-sector procurement as well (private-sector procurement in Japan is self-regulating). I would like to discuss the new regulations in Europe and the United States as well as some private-sector efforts.
- The process for affirming that timber has been legally harvested differs somewhat between the European Union and the United States. Basically, businesses are obliged to undertake risk management efforts described as either “due diligence” or “due care.” Under the European Union Timber Regulation, which takes effect in March 2013, due diligence requires that a firm first obtain information on the species of tree, the country of origin, the importer, and the supplier, as well as certification documents, including certification by third parties. After that comes risk assessment: the firm must ascertain whether there are legal assurances, how frequently the species and area in question are subjected to illegal harvesting, whether the country of origin has been sanctioned by an international body, and whether there are complications in the supply chain. One criterion for this assessment is whether the country of origin is known as a site of frequent corruption. Finally, if the assessment determines that there is a high level of risk, the firm is required to obtain further information and explore other means of reducing the risk.
- Under the US law known as the Lacey Act, the process of ensuring legality is based on the traditional American legal concept of due care. Due care is defined as “that degree of care at which a reasonably prudent person would exercise under the same or similar circumstances. As a result, it is applied differently to different categories of persons with varying degrees of knowledge and
Japanese businesses may get the worrisome impression that the standard varies from case to case and there are no detailed rules. Business interests are not without sources of support, however. In the United States, a campaign has arisen to assist private firms with compliance through channels such as the network known as the Forest Legality Alliance, which was established through cooperation between the private sector and federal agencies.

- A variety of efforts by individual firms have been made. According to an official from the aforementioned Forest Legality Alliance who appeared at a seminar sponsored by my organization, Ikea China, whose parent corporation is in Sweden, is rationalizing its data acquisition practices and making use of nation-specific risk assessments, in order to identify countries where illegal activity occurs frequently and mitigate any related risk. The American guitar maker Taylor addresses risk management by purchasing directly from a forest cooperative in Honduras that deals in legally harvested timber. In addition, it employs a DNA barcode system to ensure traceability.

- Let me sum up the impact on Japanese businesses. Japanese firms that export products incorporating wood materials to Europe or the United States must clearly understand that the new regulations will be applied to their own products and the firms importing them. Firms that import foreign materials must assume that supplier countries might export high-risk materials to Japan. If new laws governing private-sector procurement are established in Japan as well, businesses that deal in domestic timber might be spared from having to compete with unfairly underpriced illegal foreign timber. Smaller businesses, for whom SCM is a major burden, may be able to achieve lower costs through legal procurement.

*Written by the GSR Research Group Secretariat.*
February 4, 2013

Speaker: Yūzaburō Mogi, Honorary CEO and Chairman of the Board,
Kikkoman Corporation

Presentation Summary

• A business should keep in mind that it is a member of society, it must obey the law, and it should contribute to society. This crucially important attitude has clearly been around for a long time. It is hard to pinpoint just when it first appeared. As I recall, at the Columbia University Business School in the United States, which I attended, this way of thinking first arose in 1960 or earlier. At that time a course called Foundations of Business Enterprise became a required course.

• At the time I was living in the United States as a student, and I often heard people arguing about whether liberalism or socialism was better. In those days the Soviet economy was booming, and the Soviet Union was threatening to catch up with the United States. The Soviet Union was recording very high rates of economic growth—as high as 9.6% in 1956 and 9.5% in 1960. The gross domestic product of the United States had been 3.5 times that of the Soviet Union in 1947, but by 1961 it was only 2.3 times as large. The Soviets were the first to put a manmade satellite into orbit and the first to launch a manned spacecraft. On my way back to Japan I stopped in London, where a parade was being held for Colonel Yuri Gagarin, the world’s first astronaut. I remember how he was cheered even by the citizens of a country that was hostile to his own.

• Because of this, a climate developed in the West in which people felt compelled to demonstrate the superiority of the free-market economic system. People at business schools were particularly desperate to do so. Business schools had been known as venues for scholarship devoted to the pursuit of wealth and as training centers for the Wall Street elite, but that changed in the 1960s.

• Kikkoman began considering the relationship between the company and society back in the mid 1920s. This was occasioned by the Great Noda Strike, one of the largest strikes to occur in prewar
Japan, which lasted for 218 days. The Noda Shōyu Company, the forerunner of Kikkoman, was formed in 1917 through a merger among members of a longtime soy-sauce-brewing family that had built up a business in the seventeenth and eighteenth century. The new company revamped its facilities with the aim of embarking upon a new era of production, but it remained saddled with an outdated employment system. This helped lay the groundwork for the strike.

- The foreman would bring all the workers together in one place, provide them with housing, and dispatch them to the factory. A single day’s workload was determined in advance, and when that was finished, work ended for the day. This employment arrangement continued after the merger. At one point, a starting time and closing time was introduced at a new factory. In principle, work ended at closing time, but in some cases longer hours were unavoidable. Employees complained that this had the effect of lowering their wages, and opposition spread.

- The company won in the end. Reflecting on this period, management later developed the concept of “the spirit of industry.” According to this concept, a business is not merely a venue for earning profits or earning wages; a company is a public institution.

- Artwork can generally be bought or sold at the discretion of the individual, but a truly magnificent work of art cannot simply be discarded. This is because a true work of art belongs to society as well. The same applies to companies. Once a company attains a certain scale, it is regarded as a public institution. Management must attend to the interests of not only its shareholders but a whole range of concerned parties.

- Kikkoman had to reconsider its relationship with society when we built our first factory in the United States. We encountered local opposition when we filed an application to convert agricultural land to industrial use. This was honest opposition from people who were wary of harm to the environment and did not want to part with the farmland. For two months we made our case, explaining that manufacturing soy sauce does not create pollution, that we would be procuring raw materials—soybeans and wheat—locally, and that we were striving for coexistence and mutual prosperity with the farmers. That plant began operating in 1973. We were among the very first Japanese manufacturing groups to set up operations in the United States. As the one who had the job of convincing the local people to accept us, I was painfully aware of the need to be a good corporate
• Bringing local personnel into management is an important part of corporate citizenship. As long as the terms are the same as they would be elsewhere, we rely on American companies and local businesses for materials and the like. We use local labor as much as possible, and those workers get promoted. It is also very important to become integrated into the local community. We arrange for employees who come from Japan to live in disparate locations, rather than all in one place, and we encourage them to get involved in local activities. I myself served on an economic development committee in Wisconsin.

• It is essential for a company, especially one undergoing global expansion, to obey the law and exhibit strong moral character. The law varies from one country to the next, and if a company is not careful—even one that obeys the law, as is customary with Japanese companies—it might be regarded as acting illegally. You have to obey the law, hire capable local lawyers, and avoid getting drawn into disputes. There are areas in which adequate legal frameworks do not yet exist; in such cases, you have to rely on moral principles. Personally I would prefer a society in which laws are kept to the minimum and moral principles cover the rest. Things get too rigid when everything is bound up in laws.

• I would like to talk briefly about the United Nations Global Compact. When then Secretary-General Kofi Annan announced this initiative at the 1999 World Economic Forum in Davos, Switzerland, I would guess it was prompted by the sight of demonstrators in Davos protesting against economic globalization. The Global Compact is an attempt to lessen the shadow cast by globalization.

• The Compact imposes four obligations on participant businesses: protecting human rights, eliminating unfair labor practices, caring for the environment, and preventing corruption. They are also required to report once a year on their efforts to uphold these obligations in their respective business activities. Japan’s UN ambassador at that time, Yukio Satō, and a professor at Columbia University who is a friend of then Secretary-General Annan both invited me to have our company participate, and, since I feel the aims of the Compact are admirable, I immediately announced that we would. Later on I was surprised to learn that Kikkoman was the first Japanese company to sign
the agreement. Not many Japanese businesses signed on thereafter, but the total has now grown to more than 150.

• How should a company make a positive contribution to society? I think the basic point is for each company to contribute through its own business activities, because each company’s existence is meaningful to society in its own way. If the company contributes in other ways as well, insofar as that’s possible, so much the better.

• Kikkoman makes food products. Our objective is to steadily provide safe, high-quality products at reasonable prices. We refuse to make concessions on product quality. During World War II, Kikkoman had to rely on soy beans from Manchuria, and it was a real struggle to procure them, but the company never resorted to selling an inferior product. Fortunately, Kikkoman acquired a reputation as a company that does not compromise on quality, so its market share increased in the postwar era.

• There are two methods for making soy sauce: brewing and chemical processing. Brewing produces a high-quality product, but chemical processing, in which hydrochloric acid is used to break down the raw materials, is less costly and produces a higher yield. Following World War II, the US occupation authorities promptly declared that brewing was wasteful and tried to encourage the chemical processing method instead. After a great deal of effort, engineers at Kikkoman devised a brewing method that provided a much higher yield and informed other companies in the field about this method, free of charge. In this way they secured the occupation authorities’ approval for brewing soy sauce.

• Recently we have been emphasizing dietary education and focusing on the development of healthier recipes. With public concern rising over metabolic syndrome and other such conditions, we are trying to present healthy solutions.

• To make the world a better place, cultural interaction is crucial. Food culture is one of the things people feel closest to, and I believe that our business, which helps to popularize soy sauce throughout the world, contributes to cultural interaction. Kikkoman currently sells its product in more than 100 countries and has production facilities in seven locations. Overseas sales, including our Asian food product wholesale business, now accounts for 45% of our total sales. By making soy
sauce increasingly available, we seek to promote its use not only as a flavoring in Japanese cuisine but as an ingredient in Western cuisine as well, thereby proceeding beyond cultural interaction to cultural fusion.

- We are striving to contribute to society by means other than our business activities as well. In 1993, the twentieth anniversary of the opening of our Wisconsin plant, we established a foundation that has enabled us to carry out philanthropic activities in earnest, with preferential consideration given to local causes and recipients. Since soy sauce is created through a form of biotechnology, biotech-related causes also receive preferential consideration. In 2003, our thirtieth year in Wisconsin, we donated funds to the University of Wisconsin in Madison for the creation of the Kikkoman Laboratory of Microbial Fermentation. In Singapore Kikkoman has helped establish an orchestra and supported a water-purification business project. We have also provided continuing support for the Rembrandt House Museum in the Netherlands.

- A company, however, is not a social welfare institution. Our job is to seek out new business opportunities, develop new products, and embrace the future with a sense of creativity. We will try to remain true to this.

*Written by the GSR Research Group Secretariat.*
The 3rd GSR Idea Contest for Students

The 3rd GSR Idea Contest for Students was held at the Dentsu Hall in Higashi-Shimbashi, Tokyo, on September 22, 2012. In this contest, teams of students put forward business plans for major companies to implement, aiming to tackle global social issues such as the environment and poverty.

Eight companies participated in the contest: Itochu Corp.; Shiseido Co., Ltd.; Daiichi Sankyo Co., Ltd.; Takeda Pharmaceutical Co., Ltd.; Chiyoda Corp.; Toshiba Corp.; Fuji Xerox Co., Ltd.; and Benesse Holdings, Inc. There were eight competing teams: the GSR Research Team from Kwansei Gakuin University, Keio University’s Shonan Fujisawa Campus Team, the University of Tokyo GSR Team, the Kenichi Takayasu Seminars of Dokkyo University, the Masaru Karube Seminars of Hitotsubashi University, the Fumiy Nagaoka Seminars of Hosei University, the GSR Research Team from Meiji Gakuin University, and the Kiyoshi Kasahara Seminars of Rikkyo University. Students in each competing team drew up a business plan involving collaboration between two of the eight participating companies.

The proposed business plans were judged based on how well they matched the resources of their two chosen companies, their innovation, feasibility, social impact, and the skill of the presenters. The business plans were graded by representatives of the companies, and were judged impartially by a panel of judges headed by Japan Center for Economic Research Chairman and GSR Research Group Representative Junichi Arai. The Top Prize was awarded to the GSR Research Team from Meiji Gakuin University for their proposal, “Empowering Women in Rural China,” which combined the resources of Itochu Corp. and Shiseido Co., Ltd. Awards for Excellence went to the Masaru Karube Seminars of Hitotsubashi University for their proposal, “Sleeping Sickness Is Still Awake—Saving People from African Sleeping Sickness through Early Detection,” which combined the resources of Itochu Corp. and Takeda Pharmaceutical Co., Ltd., and to the Kiyoshi Kasahara Seminars of Rikkyo University for their proposal, “Spreading Public Health and Improving Academic Ability in Myanmar Through Support for the Temple Schools,” which combined the resources of Shiseido Co., Ltd. and Benesse Holdings, Inc. The Award for Originality went to the Kenichi Takayasu Seminars of Dokkyo University, for their proposal, “India’s Medical Revolution—Building a Post-MDGs World,” which combined the resources of Daiichi Sankyo Co., Ltd. and Fuji Xerox Co., Ltd.
China is the only country in the world where the suicide rate is higher among women than men, and the number of suicides in rural areas is three or four times greater than in cities. One likely reason for this is the government’s one-child policy, with its mindset that puts young men in a superior position. Another reason is the increase in people leaving home to find work due to China’s economic development, which means that women in rural areas have to take on farm work, caring for aged relatives, and bringing up children single-handedly.

Cosmetics help make women look more beautiful and feel more beautiful, which can help restore self-confidence. Shiseido will establish community salons in rural areas of China, and will use these to provide low-price cosmetic products and disseminate knowledge about beauty. Itochu will use its existing distribution networks in China to send toiletries and baby products to these salons. The salons will be run with the cooperation of Rural Women, a local non-governmental organization.

If women can regain their self-confidence through conversation and other activities at these salons, the number of suicides is likely to fall. There are currently difficulties with relations between China and Japan, but a civil project will help bridge the gap between the two countries.

Comments from reviewers

Itochu Corp.
We are very pleased that the plan draws attention to our distribution network, which covers almost all regions of China. It is wonderful to see a polished business plan that puts forward specific figures.

Shiseido Co., Ltd.
While it may be hard for men to understand, cosmetics give a boost to women’s strength. We have been developing the market in China for 30 years, and the proposal to link expansion in this area with GSR is extremely useful.

Chair of the Panel of Judges
This was an impressive presentation, which brought out the entire strength of cosmetics. Mentioning
specific plans to reduce costs was good, but more than anything the skill of the presenters was outstanding, and earned full points for most of the areas of evaluation.

**Presentation Title**
Sleeping Sickness Is Still Awake—Saving People from African Sleeping Sickness through Early Detection

Sleeping sickness is one of the eight major tropical diseases, and yet it is hardly being addressed. Within a few months or years of infection, both humans and animals fall into a state of extreme lethargy, and the disease is ultimately fatal. Sleeping sickness is caused by a parasitic flagellate called *Trypanosoma*, which is carried by the tsetse fly and lives in the blood. There are an estimated 55 million people in danger of infection in 36 countries of sub-Saharan Africa. Livestock can also be infected, causing tremendous damage to agriculture.

The drug suramin, which the World Health Organization provides free of charge, is effective in the early stage of the disease but the disease is often overlooked because the initial subjective symptoms are not severe. The only drugs available lose their effectiveness in the later stage, so early-stage detection is vital. Takeda Pharmaceutical will develop a detection kit using official development assistance funds, and kits and medical supplies will be delivered via the distribution network of Itochu Corp.

The NGOs Médecins Sans Frontières (Doctors Without Borders) and Vets Beyond Borders will be called upon to provide the actual detection and treatment. The plan will start in Angola, which has a relatively high income level, and will then be expanded to the Democratic Republic of the Congo, which has many infected people.

**Comments from reviewers**

**Itochu Corp.**
The focus on sleeping sickness, a tropical disease that is not generally known, was a very positive point. The proposal touched those of our staff who have lived in Africa, and it gave us some pointers for business.

**Takeda Pharmaceutical Co., Ltd.**
Our aim is to be a global medical supplies corporation, so this was an inspiring plan for us. While there are questions about many parts of the plan, such as the region for implementation, the types of disease, and collaboration with NGOs, we intend to examine it further.

Chair of the Panel of Judges

Sleeping sickness is not generally known, and the awareness that the disease needs to be addressed at a much earlier stage came over very vividly. The revenue from the plan was carefully calculated.

Kiyoshi Kasahara Seminars of Rikkyō University  Shiseido Co., Ltd. & Benesse Holdings, Inc.

Presentation Title

Spreading Public Health and Improving Academic Ability in Myanmar Through Support for the Temple Schools

Elementary education in Myanmar is entrusted to public elementary schools, which are under the jurisdiction of the Ministry of Education, and to temple schools attached to Buddhist temples, which come under the jurisdiction of the Ministry of Religious Affairs. Temple elementary schools receive no government funding, and rely instead on monks and donations from the local community. These schools are attended by the children of low-income groups, but because the wages are low the teachers tend to be women who have only graduated secondary school, and who only work there for a few years. The level of academic achievement is low, and many of the students that go on to junior high school are unable to keep up and consequently drop out of school.

Benesse Holdings will make use of the English-teaching expertise of Berlitz to train teachers, and will provide students with distance learning materials. To secure the funds for this, Benesse will develop and market English language learning materials aimed at the wealthier classes.

The temple schoolteachers will also be responsible for teaching health and beauty. To tackle the prevention of malaria, which has a high mortality rate, Shiseido will develop and market soap containing scents that mosquitoes dislike and creams that effectively prevent sunburn and repel insects. The raw materials for these products will be plants such as neem and thanaka, which the temple schools will cultivate.

Comments from reviewers

Shiseido Co., Ltd.
This proposal considers both the business benefits and the social impact, and in particular the focus on the power of women is encouraging. In the future, women are very likely to become the key actors that shape the world.

**Benesse Holdings, Inc.**

The points we checked were why this proposal is aimed at Myanmar, what sort of profitability it has, and how we would collaborate with Shiseido. The parts concerning collaboration with Shiseido were a little weak, but the proposal mostly satisfied these points.

**Chair of the Panel of Judges**

The highly original idea that combines temple schools, which have an important place in Japanese history, and the utilization of women is very interesting. The revenue has been calculated, and this appears to be a highly feasible proposal.

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Kenichi Takayasu Seminars of Dokkyō University  Daiichi Sankyo Co., Ltd & Fuji Xerox Co., Ltd

**Presentation Title**

India’s Medical Revolution—Building a Post-MDGs World

The Millennium Development Goals are supposed to be completed by 2015, but the level of medical services in the developing world remains low. This proposal aims for a medical revolution for the post-MDG era in India, where the mortality rate among expectant and nursing mothers, the child mortality rate, and the number of underweight children are the highest in the world.

The proposal has three pillars. First, a system to provide medical services to at least 90% of the people will be built, utilizing elementary schools as community medical centers. To cover the shortage in health care professionals, Fuji Xerox will develop the Medi-PAD, a tablet computer for medical use. By spreading the use of the Medi-PAD across India, the company will construct a comprehensive system for understanding the medical information and needs of remote regions.

Generic medicines and nutritional supplements manufactured by the Daiichi Sankyo subsidiary Ranbaxy Laboratories will be made available to children via elementary schools. Stable revenue can be obtained because the Indian government allocates the necessary budget for free distribution of generic medicines.
Comments from reviewers
Daiichi Sankyo Co., Ltd.
This is an extremely feasible proposal. We intend to use this as a starting point for considering future business development.

Fuji Xerox Co., Ltd.
Tablet computers for medical use are an area we need to address, and we fully realized the need for this during the recent earthquake disaster. Utilizing elementary schools, which are close by, is a fresh, exciting idea.

Chair of the Panel of Judges
Using elementary schools as bases is a unique conception. However, some judges were doubtful about whether elementary schools in India carry out the same role within the local community as they do in Japan.

GSR Research Team from Kwansei Gakuin University

Presentation Title
A Warm Future for Mothers and Children

China is currently achieving astonishing economic development, but it has the fifth highest child mortality rate in the world. In rural areas in particular, information from public organizations about vaccinations and other topics is not reaching mothers. The proposal is to develop a maternity health record book—something whose origins lie in Japan—as a smartphone app.

The app, which will be named Yurikago (“cradle”), will be developed by Fuji Xerox under the supervision of Takeda Pharmaceutical. The proposal will call on Hunan Provincial People's Government, one of China’s provincial governments that has actively worked to improve maternal and child health, to introduce the app. The spread of smartphones is increasing rapidly, and this app will let expectant and nursing mothers record health information and also gather medical information from public organizations, so that they can respond appropriately.

Vaccinations against Hib, which causes meningitis, will be promoted through appeals to the government and other activities. Takeda Pharmaceutical will increase their revenue through the sale
of vaccines, and Fuji Xerox will increase their revenue through the development and sale of a security system to protect personal data. If this is successful in Hunan Province, it could be spread across all of China and even expanded to the whole world.

Comments from reviewers

Takeda Pharmaceutical Co., Ltd.
The presentation was very easy to understand, and the maternity health record book is a solid axis for the proposal. We are presently looking to expand our vaccine business worldwide, and we intend to use this proposal as an example.

Fuji Xerox Co., Ltd.
There are three points that make this proposal highly feasible: it utilizes the Chinese trait of movement under government leadership and ensures a source of funds, it uses present-day technology for the familiar maternity health record book, and it is introduced as a type of pilot project.

Chair of the Panel of Judges
This proposal seeks to spread the system of maternity health record books, which has been cultivated in Japan, to the whole world. Making Hunan Province a model gives the proposal excellent feasibility.

Keio University's Shōnan Fujisawa Campus Team & Toshiba Corp. & Benesse Holdings, Inc.

Presentation Title

Second Life Spent at the Silver Resort Asia

Many people from the Philippines are keen to work as care providers in Japan. However, even after continuous training both at home and in Japan some 62% of applicants eventually fail the national examinations, which are held in Japanese, and are forced to return home. At the same time, many Japanese residents of homes for the elderly would like to have a holiday abroad.

To resolve this problem, a facility called the Silver Resort will be built in the Philippines for elderly Japanese people to stay for medium-length periods. The facility will provide elderly people with treatment and recuperation lasting from one week to three months, while giving Philippine staff the chance for training in care aimed at Japanese people.
The Silver Resort will comprise care facilities, a clinic, and a vocational school for care providers. Benesse Holdings, which operates 200 facilities within Japan, will use their expertise in this field to train care providers. Toshiba will provide the clinic with a clinical package that will include various types of diagnostic equipment, computerized medical records, and a computerized accounting system to ensure efficient medical treatment even with a small number of doctors.

**Comments from reviewers**

**Toshiba Corp.**

This is a good concept that creates job opportunities and supports the independence of local people. As well as a clinical package, a distance medicine system could also be used.

**Benesse Holdings**

While Japan has a shortage of human resources in the field of care provision, with 290,000 people studying to be care providers in the Philippines it is easy to see that there are few job opportunities. However, we wonder who would actually build this facility.

**Chair of the Panel of Judges**

The idea that if Philippine care provision human resources do not become established in Japan they should train locally is an interesting reversal. A commendable point is that the proposal is based on the experiences of a long-stay overseas resort that was unsuccessful.

![University of Tokyo GSR Team](Image)

**Smart Residence That Converts the Energy Expenditure of Exercise into Electric Power for Personal Use**

Japan has the highest proportion of elderly people of any country in the world, and this is particularly striking in the large cities. The proposal is to build a smart residence that will convert the energy of elderly people’s fitness exercises into electric power. A single person exercising for an hour or so can generate enough electric power to cover around 1% of daily power usage. By making power generation an incentive to exercise, this smart residence will prevent lifestyle diseases.

A health school and gym will be opened inside the residence using the Healthy Life Academy website set up by Daiichi Sankyo to improve lifestyles and provide health information. Chiyoda is
currently developing its smart grid business, which makes efficient use of electric power, and will manage data on exercise and electricity generation and consumption.

An apartment block in Yokohama, which is one of the model cities for the government’s “Future City” Initiative, will be restructured to create smart residences. We intend to accumulate expertise and spread the project to other cities.

Comments from reviewers

Daiichi Sankyo Co., Ltd.

We were impressed that the contestants started by exploring projects for people with incurable diseases, but then changed the concept halfway through and brought it to a good conclusion. We would like to expand our Healthy Life Academy.

Chiyoda Corp.

We are building up our new smart grid business, and we are pleased that this proposal focuses on this area of business. Elderly people differ in the condition of their health, but this is certainly a unique proposal.

Chair of the Panel of Judges

Building a smart residence in Yokohama is perfectly possible. However, doubts remain over the cost and whether the concept would develop throughout the world.

Fumiyō Nagaoka Seminars of Hōsei University & Chiyoda Corp. & Toshiba Corp.

Presentation Title

Arrival of New Energy—First Step Toward a Hydrogen Society

Carbon dioxide emissions are increasing worldwide, particularly in developing countries, and will reach three times the level of 1990 by 2050. The use of hydrogen energy will be essential in curtailing CO₂ emissions, but hydrogen energy will be meaningless if fossil fuels are used to produce it, as at present. We propose a hydrogen business with zero CO₂ emissions.

This proposal is aimed at Indonesia, which has the world’s greatest geothermal electric power generation resources and is also positive toward nuclear power generation. Toshiba, which has a 25% share of the world market in geothermal electric power generation equipment, will build a
geothermal power plant. By using this in conjunction with electricity produced by its 4S compact fast nuclear reactor, Toshiba will break down water to produce hydrogen. Any excess electricity will be provided to the local community.

Hydrogen can be transported safely by adding toluene to it to make methylcyclohexanol. Chiyoda has the technology to do this, and will use this technology not just domestically but also for exporting hydrogen. If automobile and domestic use of fuel cells spreads through developing countries, demand for hydrogen will increase. It is very likely to become an important export.

Comments from reviewers

Chiyoda Corp.
We have included the technology for mass transportation of hydrogen in our CSR Report, and this is a field we are keen to concentrate on. We are pleased that this proposal puts a spotlight on our endeavors.

Toshiba Corp.
It is commendable that this proposal addresses head-on the problem of CO₂ emissions reduction, which is the greatest global environmental issue. This is a challenging proposal in the wake of the accident at the TEPCO Fukushima Daiichi nuclear reactor.

Chair of the Panel of Judges

The proposal is right to point to the importance of hydrogen energy. However, it is not completely clear whether there is too much focus on this from the companies’ point of view.
Award Ceremony and Party

After all the presentations were completed, a combined award ceremony and party was held. This started with an address by Professor Heizō Takenaka of Keiō University, who is Chair of the GSR Research Group and Senior Research Fellow of the Japan Center for Economic Research. This was followed by the presentation of awards by Junichi Arai, Chair of the Panel of Judges, and comments from the other judges.

Opening Address and Toast

Take on the Sharp World

Heizō Takenaka, Chair, GSR Research Group; Senior Research Fellow, Japan Center for Economic Research; Professor, Keiō University

At the Summer Davos Forum held in China, the argument was put forward that multi-stakeholder collaboration is essential for addressing issues on a global scale. In addition to governments, international organizations, corporations, and nonprofit organizations (NPOs), students are also important stakeholders. There were many splendid proposals in this contest, which I hope will encourage further innovation from corporations. The economist Joseph Schumpeter advocated innovation, describing it as a “new combination.”

In his best-selling book The World Is Flat, journalist Thomas Friedman sees the world growing progressively flatter. This can be seen, for example, in the shrinking wage differential between Japan and developing countries. However, Professor Richard Florida of the University of Toronto argues the complete opposite. He notes that when Earth is seen from a satellite, there are 20–40 regions that shine at night. He calls these “mega-regions,” which are areas of continuing high economic growth.

Where is the top mega-region? Let me tell you—it is Tokyo and its surrounding area. Next comes the region of the eastern United States comprising Washington, New York, and Boston. These are sharp, edgy worlds where creative corporations and people flourish. My wish is that young students like you will
not be buried in a flat world, but will take on the challenge of a world that may be tough, but is nonetheless sharp.

Comments from the Panel of Judges

Chair of the Panel of Judges
Junichi Arai, Representative, GSR Research Group; Senior Research Fellow, Japan Center for Economic Research

This was the third Nikkei GSR Project Idea Contest for Students. I have served as Chair of the Panel of Judges for every contest, and each time the contest is held the level of the proposals is higher. At this contest, there were many splendid proposals. There was very little to choose between the Top Prize and the Awards for Excellence, and the level of the proposals that were not fortunate enough to receive an award was by no means low.

I was struck by how the proposals pay careful attention to both business profitability and social impact; by how they consider the use of government, local government, and NGOs; by how they emphasize the strength of women; and more than anything, by the improvement in presentation skill.

The Japan Center for Economic Research was established with the aim of bringing together industry, government, and the academic world to contribute to Japan’s economic growth. The academic world is represented not just by the professors, but also by you, the students. The presentations are over, but this is not the end; I hope very much that you will continue to take an interest in the Japan Center for Economic Research.

Takeshi Miyamoto, Vice Chair, GSR Research Group; Secretary General, Global Compact Japan Network

It is a contest, so winning is important. And to win, you need the strength of a team that makes use of various different human resources. In this contest the power of women was noticeable, but I would also like to see men show their determination. If the team is from a comprehensive university, a mixture of science and arts students is best.

I hope that the representatives of the corporations will not simply listen to the ideas that were
proposed without taking them any further, but will examine ways to implement them in some form or other. There are many problems that cannot be resolved just through collaboration between corporations and students. In the next contest, I hope the contestants will consider adding NPOs to their proposals.

Keiko Kiyama, Trustee and Secretary General, Authorized NPO JEN

Through work to assist areas struck by natural disasters I have come into contact with many students, and I am full of admiration for them. Young people today are fantastic! Hearing the presentations at this contest, though, I felt this even more strongly. There is a limit to what one person can do alone, and killing two birds with one stone is not enough. I want contestants to think up big proposals with knock-on effects that will kill about four birds with one stone. The presentations included at this contest some proposals that had given consideration to knock-on effects.

This is an idea contest, but an idea put into practice, even if it is a bit weak, is worth infinitely more than an excellent idea that cannot be implemented. An idea put into practice can actually change our society. I hope you will all put your ideas into practice again and again, and by so doing, change the world.

Written by the GSR Research Group Secretariat
Epilogue
Global Social Responsibility (GSR) Vision Statement

GSR Research Group
March 1, 2012

In April 2009 we established the GSR Research Group to study new approaches to corporate social responsibility (CSR) in order to address pressing global issues and help build a better society. This process has confirmed the following points:

1. The world confronts a variety of global challenges, including poverty, hunger, disease, natural disasters, environmental degradation, and human rights violations. These issues have been addressed by international organizations, national governments, nongovernmental and nonprofit organizations, and private citizens, but to date these efforts have not produced satisfactory results. Businesses, therefore, are being called upon to play a bigger role in addressing these challenges by contributing their human resources, technologies, capital, and information, as well as the management capacity to carry out large-scale projects.

2. Global social responsibility (GSR) comprises CSR activities aimed at resolving these global issues. Legal compliance and risk management constitute “defensive CSR,” while donations and philanthropic activities are aspects of “goodwill CSR.” GSR, on the other hand, can be positioned as “proactive CSR.” As responsible members of the global community, companies must show sympathy for and solidarity with society in promoting GSR initiatives that contribute to sustainable development.

3. The social returns from the resolution of global challenges do not always match the economic returns for companies involved in solving them. GSR can be described as an amalgamation of effort and ingenuity that can help to reconcile such differences. Global challenges pose major threats to businesses as well, and in the long run GSR will become essential to the very survival of companies.

4. GSR activities need to be sustained to be effective, so mechanisms will have to be put in place to encourage long-term projects, rather than one-off initiatives. Also, it would be desirable to create multi-stakeholder frameworks in which companies coordinate their activities broadly with other businesses, international organizations, governments, NGOs and NPOs, and private citizens.

5. The content of GSR varies widely depending on industry, company size, and region of operation. Incorporating members of poorer communities into the value chain as workers or consumers under an inclusive business model is one approach to alleviating poverty, but there are many other GSR options. Businesses should learn from the innovative best practices of other companies, formulate their own unique initiatives that make use of their particular corporate resources, and actively disseminate and share the results with others.