

Third-Party Opinion

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Profile

After completing his master's degree from the Faculty of Engineering of Kyushu University in 1976, Mr. Kawamura joined Mitsui Ocean Development & Engineering Co., Ltd. (MODEC). In 1988, he joined NLI Research Institute, where today he belongs to the Insurance Research Department. Mr. Kawamura specializes in environmental management, CSR, and environmental business practices. He is a Vice Chairman of the Sustainable Management Forum of Japan (SMF). Mr. Kawamura has co-authored various books including *An Introduction to Environmental Management*, *SRI and New Companies/Financial Institutions*, and *Carbon Disclosure*, among others.



About the CSR Reporting: Strong Determination to Convey Key Info Felt

I found the overall composition and page layout of this year's abridged print version (digest) to be more concise and easier to read than last year's, which made me feel keenly aware of Nippon Kayaku's strong determination to convey key information to readers in the lead up to its 100th anniversary. The table of contents was structured with a focus on the company's four CSR activity domains (foundational, financial, social and environmental). Furthermore, the aims and fiscal year targets for each activity domain were organized thoughtfully at the top of the page, and major initiatives being implemented were presented in an easy-to-understand manner.

Another unique feature that stood out to me was the use of oversized font to emphasize quantitative data from the company's initiatives, such as holding 14 CSR training sessions or achieving zero major accidents. However, the meaning of this quantitative data was somewhat unclear. This is why I would like to suggest the company consider using key performance indicators (KPI), as I recommended last year. KPI relate closely to the company's new Mid-term CSR Action Plan, making it possible to implement the PDCA cycle in a qualitative manner. The current version is still focused predominantly on reporting CSR activities only.

I have also pointed out the need to expand the reporting boundary for some time and the fact that this year Nippon Kayaku changed the reporting of group company initiatives, including those overseas, from a separate column to a part of the main body of the report represents a step in the right direction. For that reason, I can also commend the fact that the CSR report has expanded its horizon to reflect the global nature of Nippon Kayaku's businesses.

I also applaud the company's use of a comparison table for ISO26000, the global standard for CSR, but I have to admit that it is still a bit superficial. This is because further exploration of the 37 issues of social responsibility is needed, in addition to the seven core subjects.

About the Content of the CSR Report: Making Progress in Global CSR Management

The second phase of the Nippon Kayaku Group's CSR management is about to start. This is because the company has drawn up the Mid-term CSR Action Plan, focusing on four domains and 24 items, that transcends single year outlooks and linked it with the three-year midterm business plan called "Challenge 100A!" I commend this approach, but there are still several issues I would like to point out.

First, the scope of this action plan is somewhat unclear. It appears from the content that the plan focuses on the company's businesses in Japan, which suggests the scope of the report covers Nippon Kayaku and its group companies in Japan. However, given the fact that the phrase "actively pursue CSR management around the world" was used in the Message from the President section in last year's report, the question of how Nippon Kayaku will roll out this plan at its overseas businesses is of greater concern.

Nippon Kayaku, which already has a multinational business footprint with a number of manufacturing sites outside Japan and employees working overseas, must recognize the significant differences between the social issues facing Japan and other countries and be aware that priorities of initiatives will differ in each country as a result. In recent years, there have been a growing number of cases where the overseas subsidiary of a Japanese company and/or its supplier/contractor was suddenly and severely criticized by NPOs and other groups for human rights violations, labor issues or pollution problems, etc..

In other words, CSR risks found in overseas supply chains have begun to emerge. The formulation of CSR procurement standards was only natural as part of the company's approach that involves transitioning from green procurement to CSR procurement, but Nippon Kayaku will need to also consider having its procurement departments conduct "CSR audits" on the ground at sites outside of Japan.

To that end, Nippon Kayaku will need to build up decision making processes and systems for its social responsibilities as part of its management strategy, instead of focusing on the narrow definition of governance as it relates to enhancing shareholder value. In this regard, I have high expectations for the entire Nippon Kayaku Group in the next stage and beyond.
