

Feature Story: Where Should Casio Focus Its CSR Efforts to Help Build a Sustainable Global Society?

What are society's expectations today concerning corporate social responsibility, and what should Casio be doing to meet them? We invited Toshihiko Goto, Chief Executive of the Sustainability Forum Japan, for a conversation with Noriaki Kimura, Section Manager of the CSR Promotion Office, General Affairs and Personnel Department. They discussed the latest CSR developments and Casio's initiatives for the future.

Latest CSR developments relating to future management strategy (background remarks by Toshihiko Goto)



Today, companies find themselves in an environment of major change. One of the roots of these changes relates to the fact that the system of mass production, mass consumption, and mass disposal is no longer recognized as viable, long-term. This system has been flourishing based on vigorous economic activity since the start of the Industrial Revolution, but it is now reaching its limits.

Since the Industrial Revolution, the world's population has grown substantially along with the improvement in productivity. From a global population of 1.65 billion people in 1900, the number grew about four times in the 20th century, and we have already surpassed 7.3 billion people today. Meanwhile, consumption of resources and energy, especially in developed countries, continues to grow. In order to meet this growing demand, it is

estimated that the resources of 1.5 planet earths are now needed. If the world's population continues to grow, and if developing and newly emerging countries were to practice "business as usual" as developed countries have done, our global human society would certainly collapse.

This crisis situation is becoming vividly apparent in the areas of climate change and biodiversity reduction. People around the world are slowly coming to realize that human activity has now exceeded the environmental capacity (and population support capability) of the earth. Faced with this problem affecting the very survival of humankind, we need to transition to a sustainable global society.

Accordingly, people have also been looking at the role companies need to play in order to help change society. In Europe, socially responsible investment (SRI) began to take hold around 1990. SRI evaluates companies not just on their financial data, but also on their social and environmental activities. In 2006, the United Nations proposed the Principles for Responsible Investment (PRI), which calls on institutional investors to make investment decisions based on environmental, social and governance (ESG) factors—or in other words, by considering a company's social responsibility efforts. In 2013, the International Integrated Reporting Council (IIRC) issued the International Integrated Reporting Framework, which encourages reporting on long-term development with integrated financial and non-financial information.

Since the start of the 21st century, the CSR/ESG concept has been spreading globally. At the same time, we are transitioning from an era when companies were evaluated just based on their business performance (financial value), into one where companies are evaluated based on their contribution to sustainability (ESG or non-financial value). This is a major change. In other words, we are now entering an era in which non-financial information, such as how a company plans to create value over the long term, will be given more emphasis than financial information, which is nothing more than past results. Therefore, companies need to be deeply aware that they are doing business at the major threshold of a new era.

Amid this growing global momentum, the Stewardship Code and Corporate Governance Code have been introduced in Japan by the Abe administration. The Stewardship Code encourages institutional investors to accurately ascertain ESG conditions at the companies they invest in, including their governance measures and response to social and environmental problems. On the other hand, the Corporate Governance Code encourages listed companies to actively take ESG measures. These codes therefore represent a major step forward. A major feature of these new codes is the choice for companies to "comply or explain."

In order for Japan and humankind to attain sustainability, companies are being asked to pursue their own growth in a way that also helps build a sustainable society. We are at the dawn of a new era. If 2003 is considered to be the first year of the CSR era in Japan, then 2015 can be called the first year of the CSR (ESG) corporate management era. Those companies that embrace the new era will enjoy a surge of development, while those that do not will gradually ebb into decline.



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Target setting with a long-term view (the conversation)

Goto: By February 2015, 184 institutional investors in Japan expressed support for the new Stewardship Code, and they have started to move quickly in order to create fund management mechanisms for incorporating non-financial information including ESG data. However, Japanese companies have had virtually no experience with evaluating their ESG factors, and many institutions are still in the stage of first learning how to handle corporate ESG information. A dialog between companies and investors is most likely also needed, so they can all learn together. Have any of Casio's investors requested a dialog based on the Stewardship Code so far?

Kimura: Although the numbers are still very small, some financial institutions have requested interviews and the start of a trend can be seen. It seems that the way we handle the move towards ESG investment will have a large impact on our future success. Now that the Corporate Governance Code has also been issued, we must address it fully, as well.

Goto: I think we are at the point where companies are being assessed by how seriously they will address the Corporate Governance Code. As stated in Principle 2.3.1 of the Code, if a company wants to seriously consider sustainability issues, then it has to do more than just prepare short-term sales plans. As an example of the environmental aspects, the Abe administration has decided that Japan should reduce greenhouse gas emissions by 80% or more by 2050. Moreover, the Intergovernmental Panel on Climate Change (IPCC) has stated that in order to keep the average global temperature increase below 2°C, GHG emissions must drop to zero or below by 2100. With such a variety of prerequisites, companies need to clarify their own paths forward. Those that have undertaken initiatives based on definite policies and plans with a long-term view are on the way to sustainable growth. However, companies that have just tried to perform superficial greenwashing will certainly no longer be able to keep up with the changes.

Kimura: Traditionally, Japanese companies have tended to only set targets they can confidently achieve. However, instead of setting these easily achievable targets, they should announce robust policies that indicate the methods by which they will create and promote their plans.

Goto: That's right. Listed companies now must comply or explain. By December 31, 2015, the first year the Code is in effect, companies are asked to submit a Corporate Governance Report under the new system (in the case of companies whose fiscal year ends in March). However, they should avoid making any hasty policies just for the sake of meeting the tight deadline. For companies without much awareness of long-term planning until now, it will be difficult to work out a direction that can be shared by all employees within a few months. Rather than drawing up makeshift policies, it would be more substantive and important for them to explain their current situation. For example, a company could indicate an intention to spend the coming year developing a long-term plan to be achieved by 2050, and to carry it out through a series of three-year plans. It could also indicate how it has started the process.

Turning increased pressure for reform from within and outside companies into opportunity

Kimura: Here at Casio, we are in the middle of the development of long-term goals that will enable us to our entire group of companies forward in a single direction. For example, we are now at the stage of thinking hard about what kind of business portfolio we should be aiming for, and what kind of business domains to expand into, in order for Casio to maintain our presence as a trusted company. Our sights are set on the next ten years until 2025, and then even further out to 2050. However, the difficult thing is to predict what the future will be like in 2050, or even a decade from now in 2025. This includes climate change, population issues, as well as cultural trends. Everyone has a different view of the future.



Goto: As you say, a variety of different assumptions can be made about what the world will be like in several decades. If it is known that things are progressing in a dire direction, then the actual future will always deviate from the prediction, since human beings strive to avoid bad outcomes. Once you set targets, then there will always be people who are fastidious about numbers. But the setting of numerical targets can then almost become meaningless. For example, even for the use of alternative energy to reduce greenhouse gas emissions, an optimal power source is not something that a company can determine on its own, and it is largely influenced by the overall situation in Japan.

However, even though predicting the future is difficult, it is possible to determine a broad direction, such as reducing net CO2 emissions to as close to zero as possible. On top of that, while monitoring its own environment, a company can continue to anticipate the needs of society. That is not only using ESG as a risk factor, but it will also become a source of competitiveness as a return factor.

Kimura: With the recent appointment of the first new Casio president in 27 years, a new era has begun at our company. The new president is also deeply aware of the importance of long-term initiatives. Therefore, I think it is important to create a solid system, and for all employees to join forces and take on the challenge of change.

Goto: The arrival of a fresh top executive is a good time for internally driven change. You could say that Casio is now at an optimal point for change thanks to the internal and external momentum. Given this situation, it is fantastic that your new president is aware of the need to buckle down and formulate plans.

Specifying material issues with an awareness of future vision

Kimura: Until now, Casio has pursued CSR activities based on ISO 26000, and has prepared information disclosure based on the 4th edition of the GRI Guidelines. In the future, however, we must further emphasize proactive CSR with an awareness of the need to create shared value (CSV*). If we can set up a broad direction for future strategy based on the new system, milestone goals can also be considered. As part of this, we will also work to specify the CSR issues that have the most materiality for our business.

* A process by which a company makes and executes policies to increase its own competitiveness, while helping to improve the economic and social conditions in the communities in which it operates.

Goto: The specification of issues with materiality, including measures to address social and environmental issues, is also required by the Corporate Governance Code. The larger a company becomes, the more pressure it receives from various quarters, and diverse initiatives become essential. Even so, in order to be aware of important issues from a medium and long-term perspective and prioritize them, the company will be asked about the connection to its corporate story or vision for moving forward. It is essential that vision awareness be shared throughout the company.

Kimura: I think corporate storytelling is very important. To be an outstanding storyteller, the top management tells a corporate story that instills a dream in employees and gives them motivation.

Goto: That's right. Investors are also looking for those kinds of inspiring stories. Companies that have a corporate story relating to ESG factors tend to be held in higher esteem, and it is essential to provide accurate information.

Kimura: With the new Stewardship Code, it is clear that there will be more and more opportunities for dialog with investors, and it will probably be necessary to appoint someone responsible for engaging in this dialog. In addition, that person will need to expertly promote dialog not only with investors but also with consumers and other stakeholders such as suppliers, in order to convey the company's message.

Goto: The Corporate Governance Code defines a principle for constructive dialog with shareholders. It also requires the appointment of executives or directors to ensure that the constructive dialog is realized. The nomination of persons responsible for shareholder engagement shows an intention to fully comply with this. Therefore, it is important to firmly decide a company policy that conveys the same message to various stakeholders in addition to shareholders and financial institutions.

Making CSR an individual concern for employees

Goto: When preparing a company-wide long-term vision, it is important to promote it horizontally across the company. When a company becomes larger, it tends to become divided into separate vertical organizations. Therefore, it is necessary to foster a shared awareness created by an organization such as a CSR committee.



Kimura: For the company's long-term goals, unless the strategies of various departments such as CSR, sales, human resources and finance are organically bound together, they don't have much meaning. The importance of going horizontally across the company seems to be becoming better understood internally. Casio has a CSR Committee, and we are now also considering the selection of CSR Leaders. This involves the selection of about 100 employees from all the departments, and giving them priority CSR training. This would allow them to discuss future directions for the company, and then they would help spread CSR awareness in their own departments.

Goto: When you implement that measure, be sure to sufficiently incorporate the perspectives of younger employees. At least half of the activity leaders should be under 40. This will greatly enhance the sense of ownership when thinking about the future of the company in 2050, as that generation will still be active in the company at that time.

Kimura: I agree that a sense of ownership is very important. It seems that currently, many employees have trouble linking CSR issues to their own jobs, compared with more immediate profit and development targets. However, all employees have some connection to someone in the value chain, somewhere from upstream to downstream. They need to consider how they can contribute to their own stakeholders—the people they are engaged with—and incorporate CSR issues into their own operational targets. To that end, I think we need to also revise the human resources evaluation system. As long as there is no mechanism for superiors to properly evaluate their subordinates' contributions to CSR, employees will not be able to see CSR as part of their own work.

Aiming for further growth by involving the entire company

Goto: As one idea, it might be good to have an internal essay contest on the topic of what kind of company Casio should be by 2050 and what should be done to achieve that goal. The contest can be held after explaining the latest trends concerning CSR and the business environment. This would provide the two benefits of getting employees to think about the future, and finding out what younger employees are thinking in particular.

Kimura: That's a very interesting idea. It would be a valuable opportunity for employees to participate in management decision-making, and might also help to motivate employees. It would be great if it could further energize the company.

Goto: That is a very important perspective, as activities cannot last if employees do not find them motivating. Employees do not feel any satisfaction if they are just told what and how to do something, without any reasons why. By studying on their own and learning why CSR and ESG are important to the company and their own jobs, employees can truly consider what needs to be done and how to do it. Until now many companies have not explained to outside stakeholders why they are focusing on CSR efforts, and they have tended to just list up their initiatives and implementation methods. However, that is no longer sufficient today. Casio has an advantage because you have been seriously thinking about your long-term vision for over a year prior to the enactment of the Corporate Governance Code. By involving the whole company, I hope you will sail forward and ride the large wave of change that is emerging right before our very eyes.