# Leader's Observations on the CBCC CSR Dialogue Mission to Germany（Provisional Translation）

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Masaya Futamiya
Chairman, Council for Better Corporate Citizenship (CBCC)

***First CBCC Mission to Germany***

CBCC made its first visit to Germany from November 19 to 26, 2017, to engage in dialogue with government organizations, businesses, investors, research institutions and so on in Frankfurt, Berlin, and Munich. CBCC dispatches a mission overseas each year, but with the exception of the United States, it was general for CBCC, especially in case of visiting Europe, to travel three cities spanning several countries or only to the capitals of each country.

Partly due to the decentralization inherent in Germany's federal system, we felt it would be difficult to gain a profound understanding of the country's approach to corporate social responsibility (CSR) solely by visiting Berlin. Frankfurt is the main financial center, Berlin is the seat of government, and Munich is home to many large companies, and each of these three cities has its own distinctive characteristics. Through dialogue with diverse stakeholders in each of the three locations we visited, including federal government, companies, business groups, institutional investors, environmental, social, and governance (ESG) research and analysis firms, and research institutes, we were able to learn detailed views on German CSR and the Sustainable Development Goals (SDGs) initiatives from a wide variety of standpoints and perspectives.

As the country holding the presidency of the G7 Summit in 2015 and 2017 G20 leaders' meeting, Germany has placed responsible supply chain management at the forefront of discussion. Based on the Guiding Principles on Business and Human Rights adopted by the United Nations in 2011, Germany has developed a National Action Plan (NAP) on business and human rights and reflected SDGs in policy. Such German initiatives should provide important reference points for future CSR policy and regulation in Japan and efforts by Japanese companies to reflect SDGs in their business strategy.

In addition to gathering information from those visited, CBCC proactively outlined CSR and SDG initiatives by Japanese companies and the business community as a whole. As well as explaining specific corporate efforts, we focused especially on Keidanren's Charter of Corporate Behavior, which was revised on November 8 in 2017, and the idea of accomplishing SDGs by bringing the "Society 5.0" concept (Keidanren explains it as "Society 5.0 for SDGs") to reality, which forms a key pillar of the revisions.

Such dialogue provided opportunities to learn more about German initiatives while also reviewing our own efforts, resulting in a very worthwhile mission. The following summarizes an overview of mission outcomes and my observations as the mission leader.

### 1. *High Awareness of Human Rights in Germany: Developing NAP on Business and Human Rights*

Development of a NAP in Germany began in 2013, and the plan was released in December 2016. High awareness of business and human rights in Germany stems partly from the Rana Plaza collapse in Bangladesh in 2013. This incident focussed worldwide attention on poor working environments in global corporations' supply chains, and led to the G7 Leaders' Declaration on responsible supply chains in 2015. The mission spoke with the German Federal Ministry of Labour and Social Affairs, which played a central role in developing Germany's NAP, as well as the German Institute for Human Rights, companies, and business groups, to learn more about the process leading to development of the NAP. Overall, these discussions made us aware that issues relating to business and human rights are a core element of CSR policy in Germany.

Specifically, Germany's NAP urges all companies with operations in Germany employing 500 persons or more to voluntarily conduct and report on human rights due diligence. Since this is a voluntary initiative, it seems relatively easy for individual companies and the business community as a whole to implement, but the NAP also includes provisions for considering introduction of legislative measures for the exercise of human rights due diligence if half of the 6,000 companies subject to the initiative have not conducted and reported on due diligence by 2020.

France has already introduced mandatory human rights due diligence,[1] but when a CBCC mission visited France in 2016, the country's largest federation of employers, MEDEF, was arguing about the enactment of the law.

We were impressed by the different approach in Germany, where there was no indication of strong opposition to the possibility of mandatory provisions in the future even from the business community, and people regarded this as inevitable.

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[1] The French Corporate Duty of Vigilance Law, enacted in March 2017, obliges large French companies (of which there are 150–200) to specify and prevent adverse impacts on human rights or the environment in their supply chains, including their own companies, companies controlled by them, contracting companies, and suppliers. Companies subject to the law are required to develop implementation plans and report annually.

In conducting human rights due diligence, many companies are concerned about the extent of the supply chain. Germany's NAP does not clearly define the extent of the supply chain. However, many German companies regard the question of working environments in the supply chain as being central to business and human rights issues, whereas Japanese companies perceive their own working environments as being central.[2]

While the government took the initiative in developing the NAP, it was a multi-stakeholder process involving a diverse range of interested parties. This process was adopted at a series of government-led "National CSR Forum" beginning in 2009 and, as in other European countries, it has become an established practical approach. Stakeholders took turns to host discussions on 12 points, and the government then used the outcomes of these talks to draft the NAP.

In Japan, companies have begun voluntary efforts relating to business and human rights, as exemplified by the provision on respect for human rights added to the revised Charter of Corporate Behavior. The Japanese government has announced its intention to develop a NAP with a view to 2019[3], and the German government's efforts to canvass the views of diverse stakeholders when developing its NAP, and involve the broader community while retaining leadership of the process, are highly instructive.

### *2. ESG Investment: Investors and Markets Supporting Sustainable Corporate Growth*

Media discussion of ESG investment has recently increased in Japan. Sustainable investment, including ESG investment, amounted to just $474 billion in Japan in 2016, but this represents rapid expansion from around $7 billion in 2014.

The main drivers of this increase are Japan's Stewardship Code, produced by the Financial Services Agency (FSA) in 2014, and Japan's Corporate Governance Code, developed by FSA and the Japan Exchange Group, Inc. in 2015. The signing of the United Nations Principles for Responsible Investment by Japan's Government Pension Investment Fund (GPIF), one of the world's largest institutional investors, had a major impact on the investment industry and society as a whole.

ESG investment originally developed from socially responsible investment, an approach adopted by Christian churches not wishing to invest in companies that were incompatible with their religious principles. Thus, the sustainable investment balance is much higher in Europe than in other countries and regions, amounting to $12.04 trillion in 2016. In Frankfurt, we shared views on the state of ESG investment in Germany and current issues with organizations including Deutsche Börse AG, which owns the Frankfurt Stock

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2 From the results of CBCC survey on CSR conducted in February 2017.

3 Japan will host G20 Summit Meeting in 2019 as well as the Rugby World Cup Japan.

Exchange, a key European financial center; ESG investor Metzler Asset Management GmbH (MAM); and Oekom Research AG, an ESG ratings agency.

MAM noted that, because it mainly invests with a long horizon, ESG investment seems entirely natural when considering long-term returns. Pension funds request ESG reports on the companies they invest in when MAM is managing pension assets, so it has developed new reporting tools internally. MAM uses MSCI's ratings on ESG and Oekom Research assessments in its ESG investment methods, and conducts evaluations using sector-specific KPIs.

In answer to our questions, the ESG ratings agency Oekom Research explained how it evaluates and rates companies' ESG initiatives, and what points it focuses on. The Oekom Research rating process entails preparing a draft evaluation based on information disclosed by companies (CSR reports and annual reports) as well as NGO and media assessments, and then using this as a basis for obtaining the company's views before determining a final rating. We were particularly concerned by Oekom Research's ratings of Japanese companies: of approximately 330 companies, 66% were rated as "poor," 33% as "medium," and only 2% attained a "good" rating. As an independent body, Oekom Research places higher expectations on companies than other rating agencies, and its policy is to encourage greater efforts through stringent evaluations. In this context, Oekom Research commented that Japanese companies may not clearly and fully explain their own efforts for ESG initiatives.

Since one of the roles of Deutsche Börse is to promote vibrant capital markets, it is conscious of enhancing corporate value, and noted that the EU Directive on disclosure of non-financial and diversity information and the Task Force on Climate-related Financial Disclosures serve to enhance corporate transparency and competitiveness. In a further effort to encourage ESG investment, Deutsche Börse launched a new initiative called "Accelerating Sustainable Finance" in May 2017 and called on companies engaged in sustainability efforts such as SDGs and green finance to participate in the initiative by signing the "Frankfurt Declaration."

Hearing views on the state of ESG investment in Germany and current issues from the three perspectives of investors, rating agencies, and stock exchanges left us with the impression that the idea of incorporating social and environmental considerations into investment is part of the country's history and permeates the entire society, and that financial markets have high expectations that German companies will consider ESG in managing their businesses. ESG investment is advancing rapidly in Japan as the proportion of foreign shareholders increases, and since similar developments are likely here, companies need to respond appropriately to such changes.

### *3. German Companies' SDG Initiatives*

The thoughts and efforts of the German government, enterprises, and NGOs in response to the SDGs adopted by the United Nations in 2015 were another key discussion theme for the mission. Our interest was due to the rapid increase in Japanese companies' understanding and awareness of the SDGs since 2016, and the revision of Keidanren's Charter of Corporate Behavior urging member companies to deliver on the SDGs through realization of Society 5.0.

The keys to realizing Society 5.0 are innovating to make economic growth consistent with solutions to global and local challenges, and cooperating with diverse stakeholders. Werner & Mertz GmbH, a chemical company visited by the mission, is engaged in precisely these kinds of initiatives. The company has used state-of-the-art packaging technology to develop a complete recycling system for its flagship cleaning products brand "Frosch", and considers environmental concerns throughout its entire value chain. It also encourages its competitors to take part in such efforts, demonstrating a commitment to resolving issues by society as a whole.

Werner & Mertz's status as an unlisted, family-owned company might be a major factor behind its ability to take a long-term perspective in the conduct of its business. However, other enterprises can make similar efforts, as Siemens AG demonstrates. The slogan "We make real what matters" has long defined Siemens' mission. Positioning achievement of the SDGs as part of "what matters," Siemens' management team believes that its business policies provide solutions to issues society is facing. Moreover, a sustainability perspective permeates its organizational structure and half of its directors sit on a Sustainability Board that reports to the Board of Directors. Siemens and Munich Re, both of which were visited by the mission, exercise high-level leadership in industry, for example through becoming membership of the German Council for Sustainable Development, which advises the Chancellor. Following rigorous assessment by Oekom Research, both companies have proved themselves worthy of its highest "Prime" rating.

Japanese enterprises have much to learn from leading German companies' integration of sustainability strategy into their businesses and the high standard of their public communications.

On the other hand, as in Japan, there are many small and medium-sized enterprises (SMEs) in Germany, and not all companies have linked their business strategy to the SDGs. ECONSENSE, a business forum established by BDI (The Federation of German Industries) to promote CSR, noted in the discussion that many German companies simply map their business activities onto the SDGs. As this indicates, apart from some leading corporations, most companies do not yet appear to have successfully integrated the SDGs into their business strategies.

The entities we visited were generally impressed when we explained the concept of realizing what we call "Society 5.0 for SDGs". We were particularly gratified by experts' comments that Society 5.0 has a comprehensive framework from broader perspectives, and that important lessons could be learned from clear branding of an action plan guided by national strategy.

***Miscellaneous impressions***

This was the second time I had taken part as a leader in a CBCC mission, but having now been involved in compiling the results of the CBCC's Survey on CSR and committing revision of Keidanren's Charter of Corporate Behavior, I felt that compared to the previous year I was able to engage in more in-depth and lively exchanges of opinion. This year's mission also included company directors and corporate planning staff in addition to CSR staff. As Mission leader, I was delighted by this indication that Japanese enterprises are taking greater interest in CSR and the SDGs. Moreover, members of the mission displayed sound awareness of issues and voiced so many thought-provoking views and questions that we were rarely able to deal with them all in the available time. This prompted intensive and productive dialogue. Everyone at the entities we visited had spared time in their busy schedules to make detailed preparations. I would like to take this opportunity to once again thank the mission members and all those at the entities that extended such a warm welcome to us.

CBCC will continue to dispatch annual CSR Dialogue Missions to identify overseas trends in CSR and gather up-to-date information for sharing with the member companies. Through the networks we have built up with overseas organizations, we will also proactively publicize Japanese companies' CSR efforts and promote greater understanding. I would like to conclude this report by asking our member companies for their further understanding and proactive participation in CBCC's activities in the future.

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