

**Globalization and Corporate Social Responsibility:
Mainly in the Field of Labor and Human Rights**

Summary

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Research Period

Second half of fiscal 2004 to first half of fiscal 2005

Background and the Awareness of Issues

Against the backdrop of economic globalization and expansion of multinationals' global business operations, there is a growing interest in cross-border efforts for corporate self-regulation. In this context, the notion of corporate social responsibility (CSR) is gaining worldwide attention as an international, universal measure with which to assess companies.

Against this background, there are active discussions in Europe and the U.S. among corporations, investors, and shareholders as well as various other stakeholders, including employees, labor unions, NPOs, NGOs and other civic groups, governments, and international organizations, on various issues that arise from corporate activities, such as environmental issues, both local and global, labor, human rights, and corporate ethics. CSR is taking a concrete form in government policies and companies' rigorous codes of conduct.

In Japan, interest in CSR was revived around 2000. In more recent years, Keizai Doyukai (Japan Association of Corporate Executives) published *Corporate White Paper on "Market Evolution' and CSR Management: Toward Building Integrity and Creating Stakeholder Value"* in March 2003, and Nippon Keidanren (The Japan Business Federation) announced its *Position Paper on Promoting Corporate Social Responsibility* in February 2004. Nippon Keidanren also revised the Charter of Corporate Behavior¹ in May 2004 to set a new guideline incorporating the concept of the triple bottom lines of "economy, society, and environment." Discussions about CSR in Japan now encompass not only topics related to investors and shareholders, but also environmental issues, activities of social benefit, and labor-related issues such as securing better workplaces for employees.

With regard to CSR in the field of labor, the Ministry of Health, Labour and Welfare set up, in 2004, the Study Group on CSR in the Field of Labor, which published an interim report in June 2004.²

¹ Through the revision of the Charter of Corporate Behavior on May 18, 2004, Nippon Keidanren called on member companies to promote "satisfaction and confidence of consumers and customers," "fair, transparent, free competition and sound trade," "communication with members of society at large," "respect for diversity, individuality, and differences of their employees; safe and comfortable workplaces; and the mental and physical well-being of their employees," "positive involvement in environmental issues," "engagement in activities of social benefit," "rejection of all contacts with antisocial elements," "observance of laws and regulations applying to their overseas activities and respect for the culture and customs of other countries."

² The study group, headed by Professor Kanji Tanimoto of Hitotsubashi University Graduate School of Commerce and Management, was set up in April 2004. The interim report is available at <http://www.mhlw.go.jp/shingi/2004/06/s0625-8.html>.

In response to the recent growing interest in CSR in Japan in recent years, the study group discussed how CSR should be in the field of labor as the economy becomes more and more globalized. Experts in corporate systems, international law, and economics of development, employers, labor union representatives, and JILPT researchers gathered to discuss from various angles multinationals' operations and CSR from the perspective of "labor and human rights," a topic that had not yet been extensively covered in Japan. More specifically, as CSR was being incorporated as a measure with which to assess companies in the market society and becoming a central economic issue, members of the study group considered CSR in relation to their respective specialized fields, such as "companies and the market society," "international law," "cross-cultural management," "international labor movement," and "corporate management and supply chain" in order to identify the issues related to labor and human rights and gain useful implications for future discussions.

The contents of the report are as shown below. On "Business and the Market Society," we considered from both micro and macro levels the policy challenges for fully establishing CSR, based on the awareness that CSR was being incorporated into the assessment of companies and becoming a central economic issue, as corporate activities became intertwined with various stakeholders (Chapter 1). On "International Law," we asked whether CSR could serve as legal principles, and if it could within the context of the international legal system, whether it could have legal enforceability over companies and countries (Chapter 2). On "Cross-cultural Management," we identified the causes that led to different understanding of CSR between Japan on one hand and Europe and the U.S. on the other, illustrated how supply chain management became an important part of CSR activities, and considered the important role that CSR can have with regard to issues of human rights (Chapter 3). On "International Labor Movement," we focused on labor unions' perceptions about and efforts made in promoting CSR in this age of globalization, and examined within the context of international labor movement, how labor unions viewed CSR in relation to codes of corporate behavior and to international framework agreements (Chapter 4). On "Corporate Management and Supply Chain," we considered overseas multinational companies' and Japanese companies' current and future efforts in promoting CSR in the context of globalization (Chapter 5). Lastly, in view of the discussions presented in Chapters 1 to 5, we attempted to verify some of the successful cases undertaken by European and U.S. multinationals, which have a relatively long history and much experience of supply chain management (Chapter 6).

Outline of the Report

Chapter 1 discusses “Sustainable Development and the Need for CSR” as a general overview of this report.

Today companies are expected to play a role and fulfill their responsibility in the sustainable development of the social and economic systems. As the negative aspects of globalization have manifested themselves (particularly in the field of labor, human rights, and environment), multinationals are increasingly called on to take socially responsible actions in the growing discussions about corporate social responsibility (CSR). The discussions also give emphasis to companies' relation with various stakeholders, including civic groups (NPOs and NGOs), governments, international organizations, and labor unions in addition to other companies and employers' organizations that are related to corporate activities. In this direction, CSR is being incorporated as a measure with which to assess companies in the market society as exemplified by moves towards socially responsible investment (SRI). In the past, CSR was considered as a socially marginal issue, but today, it is fast becoming a major economic issue. Against this background, companies cannot afford to do nothing about CSR. In examining these aspects of the market society, we consider, on both micro and macro levels, the policy challenges in fully establishing CSR.

Chapter 1 is composed of four sections. The gist of each section is shown below. In Section 1 “Background of the CSR issue,” we make an overview of the background against which CSR became a global issue. In Section 2 “Correct understanding of CSR,” we look at the three aspects of CSR and define CSR as ensuring social justice and ethics in a company's daily economic activities and as showing concern for the environment and human rights in such activities. We also categorize the issues concerned with CSR in relation to labor and human rights and identify the challenges. In Section 3 “Formation of a market that rates CSR efforts,” we consider the fact that consumers and investors now include environmental and social factors in their selection and valuation of companies, and that companies can no longer avoid addressing the issues of CSR. A wide variety of codes of corporate behavior are being proposed, socially responsible investment (SRI) and CSR procurement is spreading, and CSR is being included as a condition for transactions, procurement, loans, and investments. In Section 4 “Policy issues of CSR,” we examine the macro-level policy challenges regarding CSR. In Japan, discussions about CSR are focused on the issues of corporate management. On the other hand, we also need to establish systems from a macro-level perspective in order to encourage a large number of companies to address the issues of CSR and build sustainable social and economic systems. In addition to the

government's policy challenges, we also think about the roles of NPOs and NGOs, labor unions, and universities.

Chapter 2 discusses international labor standards and CSR from the viewpoint of international law, and is titled, "Regulation of corporate social responsibility under international law."

In this chapter, the objective is to try to find answers to the questions, "is CSR a legal norm?" is there such a norm in the international legal system, and if so, how much legal enforceability does it have in governing companies and states?" The proposition that international law is a legal system that governs the relation between states is the fundamentals in international law. Even when the rights of an individual are violated by an entity recognized by international law, international redress is basically provided based on the traditional rights of diplomatic protection. However, companies and particularly multinationals operating across national borders can no longer be submerged within states. They can no longer remain complacently in the traditional and passive status of having their rights and interests protected by the exercise of the rights of diplomatic protection while having no say as to their own rights. Legal entities that have economic power surpassing that of a state must bear similar international obligations as the state.

In 1976, the Organization for Economic Cooperation and Development (OECD) adopted the Guidelines for Multinational Enterprises. The guidelines themselves are not legally binding on companies, but it is true that governments are putting pressure on companies that clearly violate the contents of the guidelines, by cooperating with business leaders and reinforcing the oversight to ensure that the principles of the guidelines are respected. The recommendations on various issues related to corporate ethics, such as human rights, information disclosure, employment and industrial relations, environment, prevention of corruption, consumer protection, science and technology, competition, and taxation, were substantially revised in 2000 to maintain their relevance and effectiveness in the rapidly changing global economy. By the revision, economic, social, and environmental elements were strengthened as the core of sustainable development. In particular, by the addition of proposals on abolition of child labor and compulsory labor, the new guidelines cover all of the ILO's core international labor standards indicated therein. The ILO itself held a conference focusing on the aspect of labor, and adopted in 1977 an outline of action in the form of the declaration of the ILO Governing Body ("Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy"). In relation to the

declaration, a number of specific actions were reportedly taken (measures against companies violating the declaration). More recently, the U.N. Sub-Commission on the Promotion and Protection of Human Rights prepared the “Draft Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights” in 1998. Depending on the future developments, the U.N. may come to provide monitoring functions.

Neither the OECD Guidelines for Multinational Enterprises nor the ILO’s Tripartite Declaration are international treaties. They are merely resolutions of international organizations. Therefore, even though they provide for CSR, they do not have legal enforceability under international law. However, if appropriate follow-up (monitoring) could be provided, it is probable that they would come to hold substantial weight. They cannot be ignored simply because they are not legally binding under international law. As the decisions of the OECD Committee on International Investment and Multinational Enterprises and ILO Governing Body (and perhaps the U.N. Sub-Commission on the Promotion and Protection of Human Rights) accumulate, these guidelines may come to practically define CSR under international law.

Chapter 3 is titled “Human rights and CSR and supply chain management in China,” It clarifies what caused the difference in understanding between Japan and Europe and the U.S. and how supply chain management (SCM) became an important part of CSR activities.

It also contains the results of a survey conducted on Hydro Magnesium Xian (HMX) in China, a subsidiary of Norway’s Hydro Magnesium, which addresses human rights issues in its CSR activities, to find out the current state of SCM.

The year 2003 was an epochal year for CSR, and CSR activities were actively promoted in Japan, Europe, and the U.S. Whereas in Japan the year is considered epochal in terms of quantity as CSR activities began to be undertaken in greater volume, in Europe and the U.S., it was a year of qualitative change in CSR as “new efforts were made in addressing human rights, labor, and social issues based on universal values.” And this qualitative change led to setting off a major move towards supply chain management.

In Europe and the U.S., the association between CSR and universal values and particularly with human rights was made against the backdrop of the spread of the concept of “sustainable development,” growing poverty and widening gap between the rich and poor as a result of globalization of the markets, the proposition of the concept of “human security” as a solution to the issue of poverty and activities of human-rights

NGOs, and promotion of “globalization with a human face” by the U.N. To address environmental issues and realize “sustainable development,” it is believed that there is a need to address social issues, strike a balance between society and economic growth, and build partnership among civil society, companies, and governments. However, the development of market rules brought about by globalization aggravated poverty and became a major impediment to the realization of “sustainable development.” To address this problem, the concept of “human security” was proposed to guarantee the minimum necessary rights for human survival by protecting human rights, ensuring civil rights and political liberty, guaranteeing rights to subsistence, and protecting workers. And based on this concept, human-rights NGOs began to severely denounce corporate violations of human rights. In response to these moves of the civil society, the U.N. proposed “globalization with a human face,” recognized CSR activities as promoting the human aspects of the market, and launched an initiative called the “Global Compact” to promote CSR activities. By recognizing existing international treaties of the Universal Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the Rio Declaration on Environment and Development as universal principles shared by all humanity and requesting companies to work towards respect for human rights, compliance with labor standards, and environmental protection through their CSR activities, the U.N. set a new direction based on universal values. Today these standards and principles are starting to be recognized under international law, and there are active discussions about multinational companies’ indirect responsibility for human rights violations that occur within their “sphere of influence.” As a result, SCM has become an important part of companies’ CSR activities. Discussions have also started on the rights of international peace, environment, development, and for introducing a legal means for internationally determining these rights.

Multinational companies that moved into China, which has serious problems regarding human rights and a widening gap between the affluent and the poor, are facing major difficulties in their SCM activities. At present, SCM in China is not a reality but merely a goal. There are few local suppliers that take SCM seriously, and progress in SCM has been made only with a very few suppliers. Moreover, such progress has been made only in markets where the buyers have the advantage. In markets where the suppliers enjoy the advantage, rigorous demands for compliance with CSR have also led to termination of business with suppliers who had responded positively in introducing SCM. In this environment, Hydro Magnesium Xian (HMX) built a long-term relation with suppliers, similar to the Japanese model, and is

exploring ways to introduce SCM that will set in a win-win situation for both buyers and suppliers.

Chapter 4 discusses “Labor Unions’ Involvement in CSR” in the advancing of globalization from the viewpoints shown below.

- (1) Generally speaking, companies see and claim that CSR activities are voluntary. On the other hand, labor unions do not see CSR as voluntary. CSR encompasses both legal requirements and voluntary best practices. On matters of the environment, labor and human rights, there are minimum standards set by the law. There is a need to properly recognize this relation and the differences.
- (2) The Japanese labor and management have addressed the issues of human resource development, workers’ health and safety at the workplace, and employment stability, and with respect to these issues, they have attained a high level of success even by international standards. However, there are few Japanese companies that have expressly indicated that they will protect human rights and the basic labor rights in overseas as well as in Japan. From the international perspective, they will need to incorporate such elements.
- (3) Social dialogue is considered as an important tool in the practice of CSR. Labor unions are of the view that since working conditions, human resource management, and industrial safety are mostly determined through negotiations and consultations with labor unions, such negotiations and consultations should not be treated in the same rank as dialogue with other stakeholders.
- (4) In Europe and the U.S., many companies prepare and publish their “codes of conduct,” and Japanese companies are beginning to follow suit. The minimum requirement of such codes of conducts with respect to labor and human rights is that they must meet the eight ILO fundamental Conventions. In addition, they need to satisfy the requirements of consultation with workers’ representatives, subsistence wages, and industrial safety.
- (5) Companies monitor compliance with their codes of conducts through internal audit. In addition, some companies have introduced external audit as well. The International Confederation of Free Trade Unions (ICFTU) has asserted that private inspection system cannot replace the role played by labor unions or the organized public labor inspection system that has the appropriate funding, and there are also no internationally recognized standards for evaluating the capacity of private auditors. Nonetheless, there are views that recognize the significance of private certification and inspection systems. To promote CSR in countries like

China, for example, external monitoring by NGOs should be considered in a positive light.

- (6) On the Global Compact, the ICFTU's view is as follows: "Global Compact should not be regarded as a code of conduct. For labor union movement, it can contribute to realizing social dialogue on a global scale. However, much of the Global Compact encourages the unilateral approach to be taken by the management, and there are not enough activities that will lead to genuine dialogue for addressing issues and conflicts." For Japanese companies, nevertheless, their participation in the Global Compact will allow them to take basic steps in comprehensively addressing the issues of human rights, labor, and the environment. As companies can publicize such undertakings on their websites, it will serve as an incentive for companies to take actions to promote CSR.
- (7) Labor unions are actively promoting the Global Union Federations (GUF)'s framework agreements to enhance the effectiveness of CSR activities. To advance CSR beyond the voluntary activities of companies and to involve labor unions in CSR activities, there is a need to promote the global framework agreements. In Japan, however, no such agreement has yet been concluded. There is a need to introduce such agreements even if they are limited to the Asia-Pacific region.
- (8) There were major discussions between the labor and management on whether to introduce a process involving the International Organization for Standardization (ISO) on setting technical standards on CSR. If effective new standards can be created, it would have considerable significance. On the new ISO standards, the Japanese Trade Union Confederation (JTUC-RENGO) has insisted that "they should contribute to internationally establishing CSR through the use of ISO's know-how, but they should not be set at levels below the existing international standards."

Governments can exercise their initiative regarding CSR through various approaches, which may include (i) legally obligate companies to submit reports on companies' actions on social responsibility, (ii) incorporate the viewpoint of CSR and SRI in government and public-sector procurement, (iii) include provisions on CSR in inter-governmental trade agreements, (iv) take actions to encourage participation in the U.N. Global Compact, (v) provide opportunities and financial assistance for cooperation among companies, NGOs, and labor unions, (vi) set up a consortium for promoting small- and medium-sized enterprises' CSR activities, and (vii) make an effort towards building a consensus on standardization of CSR. The Japanese Government needs to exercise initiative in setting the direction of involvement in CSR.

Chapter 5 discusses the efforts made by foreign multinationals and Japanese companies as regards CSR within the context of globalization and the future developments, which is titled “The current state of supply chain management in CSR management and the future.”

Interest in CSR is growing around the world against the backdrop of globalization and the “negative” aspects of globalization, namely, the issues of human rights and labor, most notably in developing countries, and environmental destruction, among others. As nongovernmental organizations (NGOs) working to address these issues are monitoring and putting more pressure on European and U.S. multinationals, these companies are making efforts to improve the situation. For multinationals in the apparel and electronics industries that outsource manufacturing of their products, steps taken solely within their companies are usually not enough to improve on the situation, and such companies are urging suppliers and contractors in their supply chain to engage in CSR activities. Many Japanese electronics companies are also part of these supply chains of European and U.S. multinationals, and as such, are required to fulfill their CSR. An important point is that since the problem has to do with human rights and labor situation in developing countries, the Japanese companies are required to implement CSR measures in their affiliates as well as their own supply chains in developing countries. Since it has traditionally been recognized in Japan that the authority over personnel in matters of workers’ human rights and industrial safety does not go beyond one’s own company, a reasonable explanation is usually required when trying to control or correct the actions of partner companies. Moreover, to enhance the effectiveness of CSR measures, it is necessary to provide education and training to the partner companies’ employees and implement a management system at the partner companies. As partner companies in developing countries do not have the necessary resources or funds for these purposes, they will have to depend on the assistance of the Japanese companies that the partner companies supply their products to. This in turn will become a burden on the Japanese companies in terms of costs and personnel and a major challenge in the development of a CSR supply chain. To address this issue, it will probably be effective for companies in the same industry to set a common platform for improving suppliers’ and business partners’ CSR, to jointly undertake and share information on CSR inspection on suppliers and partners, and to cooperate in implementing educational programs and management systems. Such a system of joint assistance will be a plus for both the suppliers and the Japanese companies that buy their products.

Based on the above discussions and with the objective of finding how European and U.S. companies operating in Asia are tackling the issue of CSR, particularly in their relation with suppliers, and what challenges they have, Chapter 6, titled, “Cases of CSR in the supply chains of European and U.S. companies,” reports and considers the results of an interview survey conducted on European and U.S. companies that have successfully implemented CSR in Singapore and China (Guangzhou).

In conducting overseas on-site survey, we selected highly rated European and U.S. companies through Internet search based on the five criteria of (1) high scores on the British SRI consulting firm EIRIS’s “employee” and “social” indicators, (2) participation in the Global Compact, (3) adherence to the Global Sullivan Principles and other private codes of conduct on labor and human rights, (4) adoption of the GRI Guideline, and (5) being selected among the 100 best workplaces in the EU. Moreover, the companies had to have a CSR headquarters in the Asia-Pacific region and be willing to cooperate in the survey. As a result, five companies were selected, namely, GE, GE Supply, Cisco Systems, GlaxoSmithKline, and Nike. During the period from June 5 to 11, 2005, we visited GE, GE Supply, Cisco Systems, and GlaxoSmithKline in Singapore, and Nike in Guangzhou, China. We also had an interview with an expert from Business for Social Responsibility (BSR), a nonprofit organization for promoting CSR. In the interviews with the selected companies, we investigated on (1) specific actions taken by the companies to promote CSR in relation to their corporate philosophy and course of action and the advantages gained in promoting CSR, (2) the head office’s policies and the specific actions actually taken by their locally incorporated branches, (3) suppliers’ CSR and how suppliers were monitored with respect to their CSR, and (4) future challenges as regards CSR.

At the European and U.S. companies we visited, the head offices in Europe and the U.S. generally controlled matters related to CSR, and the organizational structures were designed and information technology systems implemented to instill the companies’ values in all employees. At companies like Cisco Systems operating in Australia and Singapore, with whom we held interviews using the video conferencing system, the countries’ labor system and policies were sufficiently advanced so that the companies did not have any problem that might arise from the local standard of working conditions and respect for human rights being at levels lower than the standard set by the companies. Since the employees were well-educated and informed about the issues, the companies had few problems in ensuring compliance with the companies’ course of action and rules. The businesses recognized the importance of CSR activities as public relations activities and were actively making their social

contributions to the regional communities as well as enhance their corporate value and brand image in the regions.

In China, on the other hand, the country's legal system was not sufficiently advanced, and the rules and standards set by the companies were at levels higher than the national standards. For the nation as a whole, there were still a number of problems related to working conditions, workers' rights, and working environment. As regards subcontracted local plants and suppliers, because of lack of awareness of both management and workers about labor and human rights issues, it was very difficult to enforce codes of conduct and rules and improve the working conditions and work environment. In the case of Nike, for instance, there were few problems with enforcing codes of conduct and standards on the employees of Nike, Inc. and local plants that are exclusively contracted to Nike, partly because the costs for such enforcement were borne by Nike, and it was relatively easy to ensure a favorable working environment. However, when forming a network of suppliers further down the line who subcontract with the plants that have exclusive contract with Nike, the company had difficulties convincing the suppliers' management of the need to improve workers' working conditions and working environment, which might result in raising the suppliers' costs, and of the importance of complying with the codes of conduct and rules. Our survey showed that the company was having difficulties ensuring the suppliers to fulfill CSR.

In Singapore, Australia, and China, companies were conducting workshops for each class of employees and providing intranet e-learning programs to enforce codes of conduct and rules. They also had a monitoring system in place to conduct monitoring and review in an effort to improve the situation on a daily basis. In many cases, the development of information technology allowed the primary responsibility for monitoring of daily operations—including internal alerts about violations, reports from regular employees, and checking of the reports—to rest with the local department manager. Serious cases were to be reported to regional CSR/compliance departments and to the board of the head office, where necessary.

To enforce codes of conduct and rules on suppliers, the companies were also conducting periodic inspections to check suppliers' compliance. Many companies had a staff dedicated to such inspections and provided training aimed at the staff. The inspections were also kept separate from the monitoring of compliance in the company's daily operations. At Nike, which was one of the first companies to inspect suppliers' compliance, local plants were ranked depending on the contents of the contract and further on their level of compliance, and inspections were carried out to improve the level of compliance. At plants that had many problems, the inspections were conducted

every week.

The above survey focused on some successful cases of companies that had good organization, systems, infrastructure, and training programs for promoting CSR activities. Even among those companies, some future challenges were identified, as follows:

- Relation between a country's labor policy and CSR: In countries like China where labor-related laws and regulations have not been adequately laid down, a large number of companies have problems with working conditions and industrial safety provided to workers. While many companies do not abide by government rules, it can be said that corporate codes of conduct and policies for action have a role to play in ensuring sufficient levels of working conditions and industrial safety for workers in lieu of the law. It is significant and at the same time a major challenge to gain understanding of such local companies on the standards and values of Europe and the U.S.
- Relation with politics: When the head office's political policies and supplier's requests conflict, how should the local firm deal with the situation in the interest of business?
- Strengthening ties with governments and NGOs: as business operations become increasingly global, there is a need to increase the scope of contribution to society and promote cooperation with governments and NGOs.
- Localized CSR: It may not necessarily be best to introduce the head office's advanced CSR programs, for example, in Asia. In order to promote CSR activities that match with the region's legal systems, policies, and cultures, development in accordance with each region's unique characteristics is necessary.
- Sharing of the same values among different departments within a company and building a relation of cooperation: A company's inspection officer may make a disclosure, through CSR inspection, of a supplier's violation of rules, but some suppliers will neglect to act on the instructions made by the inspection officer for rectification. On the other hand, suppliers tend to be obedient to a company's buyers because of the need to win contracts. To make CSR supply chain more effective, an emphasis should be given to coordination between departments. The procurement and inspection departments need to share values and work in concert in their response to suppliers.
- Implementation of head office's policies by employees: As companies expand through M & A and as their business operations become increasingly global, their employees around the world should be able to share common values and understanding of CSR.

When inspection items are too many and complex, suppliers will soon give up trying to meet each and every item. Inspection items should be kept simple and easy to understand.

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