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## Assessment on Human Rights Initiatives of Japanese Companies

### - Issues to Address Human Rights throughout the Value Chain -

Stewardship Group, Investment Div., Asset Management One  
Analyst, Ryusei Takahashi, CFA

- In this survey, we assessed corporate efforts to address human rights risk based on company disclosure of 72 Japanese companies that are considered to be related to the procurement of commodities and business activities with high human rights risks. The assessment was conducted by using the European Sustainability Reporting Standards (ESRS), which is scheduled to be the standard for disclosure of sustainability information in Europe published by the European Financial Reporting Advisory Group (EFRAG) in November 2022 as a benchmark.
- The results showed that disclosures of human rights policies and supply chain management have progressed relatively well. However, there have been few disclosures of human rights initiatives regarding stakeholders other than supplier companies, such as management of human rights of indigenous people, consumers, and end users, is behind, and it can be said that making human rights initiatives visible throughout the value chain is an area to improve for Japanese companies.

### Notable Human Rights Risks in Companies

In recent years, awareness of human rights issues has been increasing among companies. Looking at recent global trends, human rights campaign and controversies have included the umbrella movement in Hong Kong, forced labor in Xinjiang Uyghur Autonomous Region, the crackdown of civilians by the military in Myanmar, and the Black Lives Matter movement in the United States. In Japan, in addition to the labor issue of foreign technical intern trainees and long-term institutionalization in immigration facilities, recently sexual abuse by the founder of an

entertainment agency is gaining attention. Under these circumstances, it can be said that companies are increasingly urged to address human rights issues in the value chain.

However, in the area of Japanese capital markets and sustainability, it must be said that the discussion on human rights issues in the value chain has been delayed. This can be attributed to the lack of enforceable policies on human rights initiatives, as seen in European countries, and the lack of a clear framework for information disclosure on topics such as climate change.

However, from the perspective of risk management to prevent damage to corporate

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value, it is essential to improve human rights initiatives in the value chain.

With the globalization of corporate activities and the expansion of supply chains, if human rights violations are discovered by stakeholders, including the company itself or its suppliers, they can be rapidly exposed through media and social media, leading to a significant deterioration of the brand image and a boycott by consumers. In addition, as human rights regulations and requirements become stricter in Europe and the United States, companies operating globally are at risk of losing business opportunities if they remain negligent.

## Method of Assessing Companies' Human Rights Initiatives

To define the assessment scope, 72 companies were selected as targets of this assessment from the constituents of the MSCI Japan Index, falling within the scope based on the 25 high-risk commodities (Figure 1) and related sectors specified by the US Bureau of International Labor Affairs<sup>1</sup> and the Global Slavery Index<sup>2</sup>.

Disclosed information on corporate human rights was mainly confirmed in integrated reports, sustainability reports, and websites.

Based on Asset Management One's materiality research, we have positioned "human rights, health, and well-being" as one of the focus areas for global environmental and social issues that we should address as an asset management company. We have assessed human rights topics based on the information disclosed including the actual implementation of human rights due diligence efforts to identify human rights risks and prevent, mitigate, and corrective actions, targeting relevant Japanese companies, with a focus on the procurement of high-risk commodities, which are considered to be prone to serious human rights violations from this perspective.

Figure 1. 25 High-risk Commodities

Gold	Coal	Cocoa	Rice	Cotton
Diamonds	Pornography	Sugarcane	Shrimp	Fibers
Bricks	Electronic equipment	Coffee	Tea	Decorative fibers
Stone materials	Rubber	Beef	Nuts	Clothing
Wood	Palm oil	Fish	Cigarettes	Carpets

Source: Created by our company based on the "List of Goods Produced by Child Labor or Forced Labor" of the US Bureau of International Labor Affairs and Global Slavery Index data

In addition, 16 items were selected in this survey, as shown in Figure 2, using the draft European Sustainability Reporting Standards

<sup>1</sup> In the List of Goods Produced by Child Labor or Forced Labor, the US Bureau of International Labor Affairs has published a list of commodities identified as being produced by child labor and forced labor.

<sup>2</sup> The Global Slavery Index examines whether companies and governments in G20 countries import products that are at risk of modern slavery, such as child labor, forced labor, and human trafficking.

<sup>3</sup> The European Financial Reporting Advisory Group (EFRAG) formulated the European Sustainability Reporting Standards (ESRS), which are reporting standards for sustainability information disclosure by the EU, based on the Corporate Sustainability Reporting Directive (CSRD), which was adopted by the EU. Furthermore, on July 31, 2023, the European Commission adopted the final delegated act for the "European Sustainability Reporting Standard," and if approved after two months of deliberations by the European Parliament and the Council of the EU, the delegated act will apply from January 1, 2024.

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that were formulated by the European Financial Reporting Advisory Group (EFRAG) as benchmarks, based on the European Corporate Sustainability Reporting Directive

(CSRD)<sup>3</sup>, which expects many Japanese companies operating globally to be requested to disclose in the future.

Figure 2. 16 Human Rights Evaluation Items

Assessment Category	Assessment Item	Assessment Category	Assessment Item
Human Rights Policy	① Disclosure of human rights policies in accordance with international standards (UN Guiding Principles on Business and Human Rights, International Bill of Human Rights, OECD Guidelines for Multinational Enterprises, ILO Core Labour Standards)	Supplier Code of Conduct	Formation of a Supplier Code of Conduct and disclosure of information on the elimination of discrimination, the prohibition of child labor and forced labor, and freedom of association and collective bargaining
	② Disclosure on prohibition on child labor, forced labor, and human trafficking	Supplier Evaluation and Procurement	① Disclosure of supplier evaluations based on standards on human rights, labor, and other items
	③ Disclosure on the elimination of discrimination and harassment, the pursuit of equal opportunities, the promotion of D&I, and other items		② Disclosure of supplier audits (internal audits or external audits) in respect of standards of human rights, labor, and more
	④ Disclosure on the freedom of association and the right of collective bargaining		③ Disclosure of responsible procurement policies or guidelines (e.g., palm oil/cotton/leather/seafood/wood/conflict minerals)
Whistleblowing System	Disclosure on the internal whistleblowing system	④ Disclosure on the acquisition of sustainable certification systems (e.g., palm oil/cotton/leather/seafood/wood/conflict minerals)	
Human Rights Due Diligence	① Disclosure on the human rights DD process	Grievance Mechanism	Disclosure on external grievance mechanisms
	② Disclosure of the results of human rights DD	Indigenous Peoples' Rights	Disclosures on respect for human rights of indigenous peoples
	③ Disclosure of risk reduction plans according to the number and content of responses and the necessity regarding corrective and remedy measures	Consumer and End User Rights	Disclosure on respect for the human rights of consumers and end users

Source: Created by our company based on the drafts of, "ESRS S1 Own workforce," "ESRS S2 Workers in the value chain," "ESRS S3 Affected communities," and "ESRS S4 Consumers and end users" of the European Financial Reporting Advisory Group (EFRAG)

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Figure 2 shows the evaluations of all 16 items used in this survey. In items regarding "society" in the draft European Sustainability Reporting Standards, companies are required to disclose information from four aspects: "Their own workers," "workers in the value chain," "affected communities," and "consumers and end users." For the 16 items, we selected items that we are paying attention to as an investor at this stage regarding human rights initiatives in the value chain based on the draft disclosure standards. The key aspects of

the evaluation are: (1) whether a human rights policy is formulated, (2) whether there is a whistleblower contact, (3) whether human rights due diligence is implemented, (4) whether a supplier code of conduct is presented, (5) whether suppliers are assessed and audited, (6) whether there are whistleblowing and corrective actions in the supply chain, (7) whether the rights of indigenous peoples are respected, and (8) whether the rights of consumers and end users are respected.

## Human Rights Initiatives Assessment Results

Figure 3 shows the assessment results. Disclosure of human rights policies has progressed relatively well, with the majority of companies showing their views on such issues as prohibition of child labor and forced labor, prevention of harassment, and freedom of association, referring to the "UN Guiding Principles on Business and Human Rights"<sup>4</sup> and the "International Bill of Human Rights"<sup>5</sup>. However, we were unable to confirm the formation of fundamental policies in addressing human rights for some companies.

In addition, it was found that the efforts to deal with human rights in supplier companies have progressed relatively well. As for internal and external whistleblowing and consultation contacts, the majority of companies disclose their efforts. On the other hand, less than half of companies disclosed their human rights initiatives regarding stakeholders other than supplier companies, such as indigenous peoples, consumers, and end users.

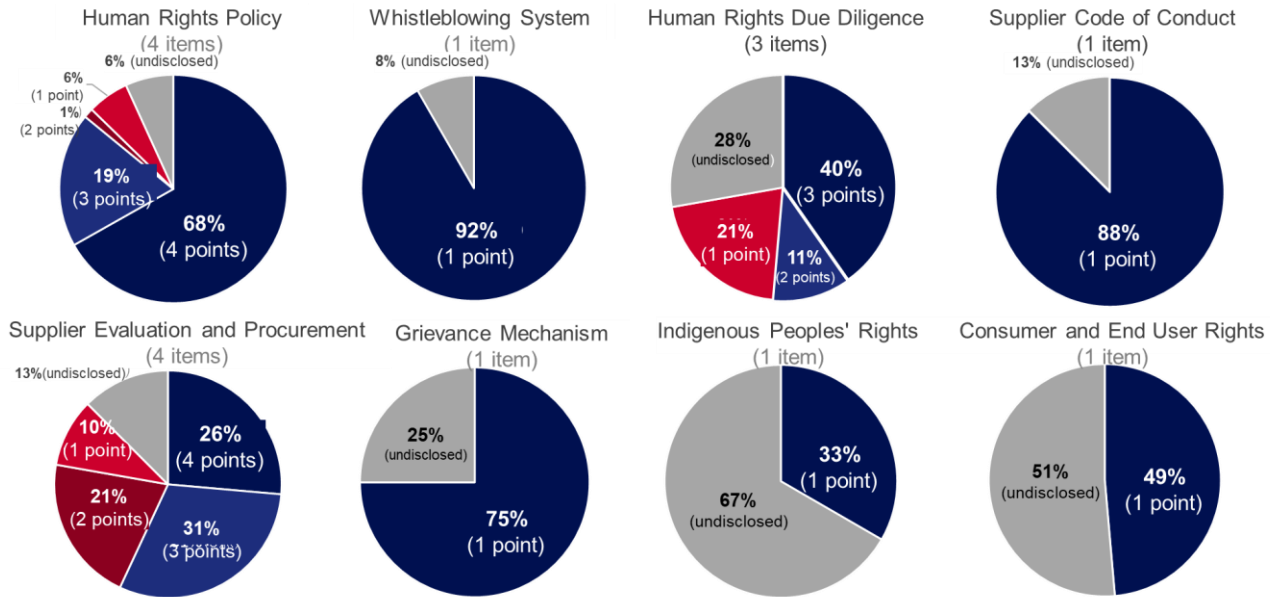
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<sup>4</sup> The UN Guiding Principles on Business and Human Rights are one of the internationally recognized guidelines that provides a framework for companies to respect human rights, and they were approved by the UN Human Rights Council in 2011. The Guiding Principles were proposed by John Ruggie and aim to clarify corporate responsibility for human rights.

<sup>5</sup> The International Bill of Human Rights is a collection of the Universal Declaration of Human Rights, the International Covenant on Economic, Social and Cultural Rights, and the International Covenant on Civil and Political Rights that covers political, economic, social, and cultural rights and establishes common norms for human rights and freedoms.

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Figure 3. Summary of Human Rights Assessment Results for 72 companies



\*Each item was rated as one point if disclosed based on the number of evaluation items for each theme. \*Rounded off to the nearest whole number. Source: Created by Asset Management One

Figure 4 shows the results of the assessment by sector. It is necessary to note the small number of sample companies, but looking at the trends, disclosures for the sectors "Daily Necessities," "Trading Company," and "Food/Beverage/Cigarettes" have generally increased than average. On the other hand, disclosures for "Leisure Goods and Equipment" and "Information Technology Equipment" are relatively lagging.

Figure 4. Results of the Survey by Sector

Sector Classification	Number of Companies (72)	4		3		4		1	
		Human Rights Policy	Whistleblowing System	Human Rights Due Diligence	Supplier Code of Conduct	Supplier Evaluation and Procurement	Grievance Mechanism	Indigenous Peoples' Rights	Consumer and End User Rights
Daily Necessities	5	3.6	0.8	2.8	1.0	4.0	0.8	0.8	0.8
Trading Company	6	4.0	1.0	1.8	1.0	3.5	0.8	0.8	0.3
Food/Beverage/Cigarettes	10	3.6	0.8	2.4	0.9	3.3	0.8	0.4	0.8
Materials	4	3.3	1.0	2.0	1.0	2.5	1.0	0.3	0.8
Electronic Equipment	5	3.8	1.0	1.8	0.8	2.8	0.6	0.0	0.4
Automobiles and Related Parts	13	3.5	1.0	1.5	0.9	2.2	0.8	0.2	0.4
Apparel and Retail	5	3.0	0.8	1.8	0.8	2.2	0.6	0.4	0.6
Metals and Mining	3	3.7	1.0	1.0	0.7	1.0	1.0	0.7	0.0
Information Technology Equipment	18	3.3	0.9	1.1	0.8	2.1	0.7	0.1	0.4
Leisure goods and equipment	3	1.3	0.7	0.3	0.7	0.7	0.3	0.3	0.3
Average value		3.4	0.9	1.6	0.9	2.5	0.8	0.3	0.5

\*Above average values are shaded in blue, and below average values are shaded in red.

\*Regarding sector classification, we have integrated some sectors in consideration of industrial characteristics based on the GICS classification. Source: Created by our company

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## Summary

We assessed 72 companies with business activities that are related to commodities with high human rights risks in the procurement process, and their efforts to address human rights in their value chains. From the results, it was confirmed that some companies are making overall progress in disclosing information, while some companies do not even have a policy. In addition, the disclosure of human rights initiatives regarding stakeholders other than suppliers was limited overall, highlighting an issue faced by Japanese companies.

Sincerely addressing human rights issues both within the company and throughout the value chain is considered the basis of sustainability management aimed at increasing corporate value over the medium to long term, from the perspective of increasing the resilience of the supply chain. For

example, if a supplier company is found to have a human rights violation, suspension of business should be considered as the last option in the event that no improvement has been seen by the efforts, and it should be taken responsibly to rectify the problem.

Important factors for thinking about the medium- and long-term corporate value of companies that we invest in are how those companies fulfill their social responsibility, such as addressing human rights, regarding their stakeholders that have an impact on their business development and their initiatives' policies and responses status.

Companies that are still inadequate in addressing human rights across their value chain are expected to make more sophisticated efforts after forming policies and systems for initiatives in line with their goals and business models.

### Author profile



Ryusei Takahashi, CFA

Analyst, Stewardship Group, Investment Div.

Ryusei Takahashi joined Asset Management One in November 2022 and was taking a role of engagement activities and proxy voting. Before joining Asset Management One, he had been with Nikko Research Center, conducting ESG research at the firm for three years.

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