

# Guidelines on Corporate Global Conduct

## Preamble

In April 1987, the Japan Overseas Enterprises Association published the Guidelines for Overseas Direct Investment that were formulated to expand the scope of application of its predecessor released in 1973, the Guidelines for Investment in Developing Countries, and to serve as guiding principles for overseas investment by Japanese companies in all countries worldwide, including industrialized countries.

Japanese companies have subsequently undergone internationalization at a remarkable pace and have markedly increased their presence overseas, and further internationalization is inevitable.

In countries and regions in which Japanese companies conduct business and investment activities, expectations with regard to their role have risen, while there is rigid requirement for responsible behavior. Behavior that violates that requirement is not only subjected to government restrictions but may also give rise to severe social criticism by stakeholders of all kinds that may make corporate activity itself difficult. As witnessed by the United Nations Global Compact and the OECD Guidelines for Multinational Enterprises, the generally accepted principle is that global companies must not only observe the laws of the countries and regions in which they operate, but must also endeavor to respect human rights and ensure worker protection, environmental protection, corruption prevention, and other responsible behavior in accordance with internationally proclaimed standards. Companies unable to comply appropriately with such requirements of international society will face major risks.

Amid the growing worldwide importance of corporate social responsibility, Japan has for many centuries had a merchant philosophy that regards an enterprise as a public instrument that benefits society, reflected in the ancient principle of *sampo yoshi*: “Good for the seller, good for the buyer, and good for society.” Another national characteristic trait is that of not regarding nature as the antithesis of human society, but instead endeavoring to ensure coexistence with nature. These are behavioral principles that are innate in Japanese people and companies and thus can function effectively.

Therefore, in order to ensure appropriate conduct by Japanese companies in their business and investment activities overseas, these Guidelines on Corporate Global Conduct (hereinafter referred to as “the Guidelines”) have been instituted to incorporate Japan’s characteristic corporate ethics while addressing global trends.

## Fundamental Stance

1. A company is recognized as a “public instrument that benefits society” only when it has the support and approval of its customers, shareholders, and other diverse stakeholders. The roots of this principle lie in traditional Japanese merchant philosophy. In consequence, Japanese companies must, in their business and investment activities overseas, adhere to these traditional values and, by being aware

and proud of their status as public instruments, conduct management that makes it possible to achieve sustained growth.

2. A company must not restrict the behavioral principles it adopts to the level of ideals or concepts, but put them into practice tangibly and systematically. In addition, the substance and details of that practice must be explained to stakeholders in a readily comprehensible manner.
3. A company should, with reference to the Guidelines, institute its own specific code of conduct that takes into consideration matters such as the company's business activity, business conditions, scale, and localities in which it has launched operations. Companies that have already formulated a specific code of conduct should, when preparing future revisions thereto, examine and consider incorporating the principles of the Guidelines in their new code of conduct.
4. A company must, in conjunction with the institution of its specific code of conduct, endeavor to ensure the effectiveness thereof by improving its internal control systems. When doing so, attention should be paid to the following matters:
  - (1) Top management should make an explicit declaration to the effect that adherence to the code of conduct is fundamental to the company's overseas business activity.
  - (2) Internal control systems should not be considered to be uniform in character, but should rather have flexible and effective structures adapted to the actual conditions in the countries and regions in which business and investment are conducted.
  - (3) If activity in conformity with the code of conduct is prevented, with regard to the background and circumstances thereof the risk should be evaluated, and the authorized persons with responsibility therefor should make a clear determination on how to address that risk.
  - (4) Regulations for disciplinary action and sanctions for code violations should be laid down, and a clear uncompromising stance adopted. In particular, the application of disciplinary provisions should be strictly consistent, with no arbitrary application being permitted.
  - (5) When putting the code of conduct into practice, the action taken should be commensurate with the risk, and the accuracy of risk management should be enhanced by verifying the effects of action taken.
  - (6) To ensure that the meaning and intent of the code of conduct are understood and they are shared globally, systematic, structured education and training should be implemented.
  - (7) The status of procedures being applied and other aspects should be audited and verified regularly, and the code of conduct, internal regulations, internal control system, and related rules should be revised if necessary.

5. A company must not, in the course of its own business activity, violate human rights or workers' rights, and must not permit any complicity in causing environmental damage or corruption. If an improper act is identified in the course of business activity, the company must ensure that it is not ignored and tolerated. If a supply chain, etc., experiences a problem, it is essential not only to request that the problem be corrected, but also to provide support through measures such as capacity building to the greatest possible extent. Seeking to be a public instrument entails having good intentions, originality, and ingenuity, and using those attributes to exert influence in order to benefit society.

## **I. Human Rights**

### *The Guidelines*

1. Companies must engage in business activity that respects internationally proclaimed human rights.
2. Companies must endeavor to ensure that their own business activities do not lead to complicity in, or the aiding of, human-rights abuses.

### *Commentary on the Guidelines*

1. By having a sense of respect for the people of the host country, and engaging in business activity that respects human rights, a company can facilitate the protection of human rights in the host country. The protection of human rights is an essential duty of any nation, but there are some countries that arguably do not do enough to protect them. In countries such as those, it is incumbent on companies to contribute to the amelioration and evolution of the societal conditions for human rights, giving this a more distinct status as their social responsibility. Of particular note is that, if there are conflicts between local laws and international norms, companies are expected to give priority to internationally proclaimed norms and standards on respect for and protection of human rights.
2. Companies should recognize that fostering the protection of human rights in host countries enhances the business environment, and that gaining the trust of consumers and other stakeholders by doing so will assist them to achieve their own sustained corporate growth.
3. Companies must set out explicitly their basic principles of respect for and protection of human rights as well as specific codes of conduct they will use to realize these principles. Furthermore, companies must make their own clear commitment towards those basic principles and codes of conduct.
4. Companies must pay close attention not only to their own business activities, but also their entire supply chains, to ensure that, either directly or indirectly, or by action or inaction, no instances of complicity in, or aiding of, human rights abuses arise.
5. Companies must create procedures and mechanisms to verify the impact on human rights of their own business activity and the appropriateness of their actions to ensure that human rights are respected and protected. It is essential that this also involves action to acquire an adequate assessment of the risk of human rights abuses, including at suppliers and other business partners; the implementation of appropriate remedial measures to address any such risk; active dialogue with stakeholders; and the reporting of details of the status of the action taken to address these matters.

## II. Labor

### *The Guideline*

1. Companies must endeavor to ensure worker protection.

### *Commentary on the Guideline*

1. If companies perceive workers merely as expedients and cost-components of business management, that attitude can lead to the condoning of exploitation, thereby entrenching poverty in the society of host countries and hindering their growth. In view of this, companies should recognize workers as being individuals vested with the right to the pursuit of happiness, and as having the status of vital partners in corporate activity.
2. Companies must be aware that only by seeking to coexist and enjoy shared prosperity with their workers will they be recognized as important corporate citizens of the host countries, and be able to achieve sustained growth. Above all, by keeping in mind the fundamental principles that growth will enable people to feel joy, and that the growth of individual people is the foundation of national prosperity, companies should help workers to achieve self-fulfillment.
3. In order to ensure occupational health and safety, companies must regularly, and whenever deemed necessary, evaluate health and safety risks, and take action in a timely and appropriate manner.
4. Companies must not subject workers to discrimination on unreasonable grounds such as race, skin color, gender, religion, political opinion, national extraction, social origin, age, disability, HIV/AIDS status, trade union membership, or sexual orientation.
5. Companies are prohibited from engaging in any form of child labor or forced labor, and if there is any suspicion that it is occurring anywhere in their supply chains, the companies concerned must exert their influence to help eliminate it. For that purpose, it is essential to conduct regular checks of working conditions in the host country and at business partners, and prepare rational preventive or improvement measures based on the actual circumstances. With reference to best practices used by other entities such as those in the same industry, if any, companies must then each formulate and implement its own more effective program.
6. Companies must endeavor to take opportunities of various kinds that occur from day to day to communicate adequately with workers, in order to stimulate their understanding about what the companies are doing, and to listen to their opinions, suggestions, and concerns. It is particularly vital to exchange opinions with employees, such as trade union representatives, who have a good understanding of conditions in the workplace. Companies shall be expected to make efforts to eliminate factors that are harmful to communication and to build good labor-management relations.

### **III. The Environment**

#### *The Guidelines*

1. Companies must devise and implement precautionary measures to prevent environmental damage.
2. Companies must endeavor to develop and diffuse environmentally friendly technologies.

#### *Commentary on the Guidelines*

1. Earth's environment is fragile, and environmental damage may inflict irremediable harm on humankind. Even when it is possible to restore the environment after it has been damaged, massive expenditure of money and time is required to do so, imposing a huge burden on companies, nations, municipalities, regions, and the international community, and serious damage is done to corporate images if companies are responsible. Furthermore, once environmental damage has occurred, the expense required for the recovery is far in excess of the expense that would have been required for prevention. In view of this, companies should address environmental issues with a precautionary approach.
2. Companies should make commitments that proclaim the use of precautionary measures, establish codes of conduct and guidelines to underpin them, and develop structures to ensure their effectiveness.
3. Environmental problems affect large numbers of stakeholders. Therefore, companies should establish lines of transparent mutual communication with their stakeholders, take steps to gather information required for a precautionary approach, and foster understanding about their environmental policies.
4. Environmentally friendly technologies, which reduce environmental load, use resources by means of sustainable methods, and encourage recycling, not only prevent environmental damage but also create new business opportunities, enhance corporate competitiveness, and contribute to their sustained growth. Accordingly, companies should endeavor to undertake the development and diffusion of environmentally friendly technologies.
5. If there is any suspicion that environmental damage is being caused anywhere in their supply chains, the companies concerned must exert their influence to help eliminate it. For that purpose, it is essential to conduct regular checks of the environmental conditions at business partners, and to prepare rational preventive or improvement measures based on the actual circumstances.

## **IV. Anticorruption**

### *The Guideline*

1. Companies shall not permit corruption in any of its forms, including bribery, by their employees or agents.

### *Commentary on the Guideline*

1. Irrespective of the amount of money involved, if companies offer illicit gains to government officials in a foreign country, that would inadvertently make the country's government into a master that exploits its citizens rather than a servant that serves its citizens. Producing large numbers of public officials who say "I won't do the work unless I receive a bribe" would destroy the rule of law and be an obstacle to that country's sustained development.
2. Companies that comply with improper demands by foreign countries' public officials become attractive targets thereafter, being requested to pay ever-higher amounts. To avoid being trapped in this kind of vicious cycle, companies must engage thoroughly in effective risk-based approaches aimed at preventing corruption.
3. In preventing corruption, companies must formulate not only general codes of conduct, but also more specific internal rules concerning matters such as the provision of benefits, the bearing of expenses, and the implementation of contributions and assistance. When formulating these, they must set out clear criteria for what is prohibited and what is permitted that also indicate specifically whether or not there is dishonest intent.
4. Managers themselves must show a clear commitment to fighting corruption to ensure that formulated internal rules become well-established and that they function. The managers' level of commitment must be communicated to all employees and staff, not only verbally but also by practical action, including by assessing the bribery risk for each operating division and project, and conducting education and training on the basis of that.
5. If companies employ agents (intermediaries) in relation to their business activity, risk appraisal prior to conclusion of contracts must of course be undertaken, and the monitoring of the agents must be continued after the contracts are concluded. In addition, when an M&A takes place the bribery risk at the acquired company must be analyzed systematically, and it is essential to formulate a plan relating to the creation of internal controls for implementation after the acquisition.

## V. Anticompetitive Acts

### *The Guideline*

1. Companies must not be complicit in any acts that impede fair competition or in any collusive acts, particularly those that influence market prices.

### *Commentary on the Guideline*

1. By stimulating free competition among companies, markets benefit the society and nation. That is because companies can better utilize their management resources with more imaginative thinking under free competition and thus provide better goods and services to business partners and consumers. However, if influential companies tend to engage in price-fixing and other anticompetitive acts (hard-core cartels in particular), the benefits that markets are expected to create will be lost, and it may even be that the rightful distribution of wealth and income will be distorted.
2. Companies are able to grow because of the benefit of being able to conduct business freely, and to enjoy that benefit it is necessary to observe and act in accordance with the fundamental principle of fair competition demanded by markets. Collusive acts committed by companies may benefit those companies in the short term, but in the long term they bring about intervention in markets by the government, with the result that companies lose places in which they can conduct business freely.
3. In order to prevent anticompetitive acts, companies must formulate not only general codes of conduct, but also more specific rules and manuals. Particularly, globally operating companies must remain fully aware that commercial practices in certain countries and industries may have a negative influence on consumers and stakeholders in other countries, and may attract multilayered penalties, both criminal and civil, in multiple countries. It is therefore imperative that such companies clearly identify the policies and procedures to be complied with.
4. Managers themselves must show leadership in ensuring that formulated manuals become well-established and functional, and it is particularly essential for them to show all officers and employees that they have an absolutely uncompromising stance with regard to the prevention of hard-core cartels. If there are units, businesses, related companies, or regions where the risk of violations is high owing to the nature of their business activities, then education, training, and audits must be conducted more frequently there, and personnel reassignments must be made regularly.
5. With regard to anticompetitive acts it is necessary for in-house procedures to be defined clearly: both ex ante protection and ex post handling. If an improper act is confirmed as a result of internal auditing and inspections, or marketing staff, a related company, overseas base, etc., identifies a matter of concern (particularly a hard-core cartel), that information must be transmitted promptly to the head-office department in charge. Scrupulously collating all information on the issue at head office, and building and setting in motion a mechanism to make that possible, will determine the quality of the ex post handling of the issue in the company concerned.

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