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# **Responsible Supply Chains in Vehicle Parts Industry Case Studies and Challenges**

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## Foreword

Global supply chains have rapidly grown in the past few decades. They are important factors in international production, trade and investment, contributing to economic growth, job creation and poverty reduction. Japan and its multinational companies play important roles in many global supply chains spanning across regions including Asia.

Responsible Supply Chains in Asia (RSCA), a programme funded by the European Union (EU) and jointly implemented by the International Labour Organization (ILO) and the Organization for Economic Co-operation and Development (OECD), advances labour and other human rights and standards for responsible business conduct in global supply chains, in cooperation with partners in Asia. The project was launched in 2018. It will be implemented over a period of three years in partnership with six Asian nations, namely, Japan, China, Myanmar, the Philippines, Thailand and Vietnam. It aims to promote smart, sustainable and inclusive growth by supporting practices and approaches of corporate social responsibility (CSR) or responsible business conduct (RBC) adopted in global supply chains in Asia that are in line with international instruments. The RSCA programme draws upon the ILO's Tripartite declaration of principles concerning multinational enterprises and social policy (MNE Declaration) and the OECD Guidelines for Multinational Enterprises as major international instruments. Moreover, it uses The United Nations (UN) Guiding Principles on Business and Human Rights as a key reference for business and human rights. This programme is expected to ultimately help enterprises engaged in responsible business – our partners in EU and Asia – acquire better access to markets and fortify their global level playing fields.

Japan, especially, has a particularly important role in strengthening Asia's regional effort to bring human rights, labour and social environment concerns into business practices in business operations inside and outside of Japan. Japan–EU Economic Partnership Agreement (EPA) came into force on 1 February 2019. Its provision, Trade and Sustainable Development (TSD) Chapter 16.5 (e), explicitly states that the EU and Japan will

commit to the promotion of CSR/RBC, referring to international instruments on CSR/RBC. Japan–EU Strategic Partnership Agreement (SPA), signed on the same day, clearly stipulates the following in Article 17: (1) 'The Parties shall promote industrial cooperation to improve the competitiveness of their enterprises. To this end, they shall enhance the exchange of views and best practices on their respective industrial policies in areas such as innovation, climate change, energy efficiency, standardisation, corporate social responsibility and the improvement of the competitiveness of and support for the internationalisation of small- and medium-sized enterprises'; and (2) 'The Parties shall facilitate cooperation activities established by their public and private sectors with a view to improving the competitiveness and cooperation of their respective enterprises, including through dialogue between them'.

This programme aims to offer support to the Japanese government's and the private sector's engagement on CSR/RBC, in collaboration with the government, business, workers' organizations, universities and research institutions. It focuses on Japanese electronics and vehicle parts industries. Both industries are key drivers of the Japanese economy, characterised by their extensive supply chains spanning across Asia. They both employ numerous workers in Asia; Japan serves as an important transit point or final export destination for such products. Identifying and sharing best practices of Japanese and European enterprises serve as the groundwork for information sharing and proactive engagement with other nations in this programme, ultimately bringing harmony to approaches applied to supply chains.

The Institute of Developing Economies of Japan External Trade Organization (IDE-JETRO) and the ILO Office for Japan signed an agreement on a joint enterprise to promote decent work and responsible business practices in global supply chains in July 2019. This agreement sets down the parties' intention to collaborate on promoting socially responsible business practices in Asia. The parties intend to collaborate under the agreement for fair, sustainable and inclusive economic growth, to promote decent work and responsible business

practices and the labour dimension of CSR in global supply chains covering Asia, especially with Japanese businesses and their supply chains in and outside the country.

This study is a report of a survey conducted jointly by IDE-JETRO and the ILO Office for Japan under the agreement. The study's objective is to identify good practices in line with international instruments including the ILO's MNE Declaration, by researching responsible supply chains implemented by Japanese enterprises in the automotive component industry in Thailand. Thailand, one of the partner nations

of the programme, holds an important place in the Japanese industries of vehicle parts and finished automobiles. The research aims to reveal opportunities for improving labour-side CSR/RBC seen in business practices of Japanese companies in this important base. It also analyses their approaches to reduce compliance risks and fortify decent work initiatives. This report, hopefully, will help achieve decent work and inclusive and sustainable growth through responsible supply chains, which are the expected outcomes of the programme.



# Executive summary

## Background and objectives of the survey

The automotive-related industry in Japan is one of the core industries with 5.42 million workers, constituting over 8.1 per cent of the total workforce in Japan (2018)<sup>1</sup>. Among them, 686,000 workers are employed in companies supplying the automotive-related industry. The Japanese automobile manufacturing industry has been expanding globally, with production increasingly being outsourced in different countries- many of them being located in Asia. More specifically, production plants in Asia are responsible for 50 per cent of four-wheeled vehicles, and more than 70 per cent of two-wheeled vehicles on a global scale.

Among them, Thailand has the third largest number of local production plants for Japanese automobile manufacturers in Asia, after China and Indonesia. In Thailand, the automotive industry, including automotive supplier industry, accounts for approximately 12 per cent of the nation's GDP, with an estimated workforce of over 700,000 workers. From the perspective of the total labour force of 37.95 million, this accounts for approximately 2 per cent. The automotive industry has accordingly secured its place as one of the ten key industries in the national strategy, 'Thailand 4.0.' The Thai car industry is thus highly important for Thailand, and an essential business partner for Japan. This spans across various roles in the supply chains of Japanese finished car makers, including procurement, component production, assembly, sales and export.

There are increasing expectations for enterprises involved in the industry in terms of responsible business conduct, requiring Japanese vehicle parts manufacturers to fulfil their commitments in CSR (Corporate Social Responsibility) through the implementation of socially responsible labour practices.

This study is based on the outcomes of a survey run among 814 companies in ASEAN, Southwest Asia, Western Europe, and Africa.<sup>2</sup> It assesses how Japanese vehicle parts manufacturers implement their CSR policies in their respective supply chains in Thailand, with a focus on employment and labour issues, in order to analyze initiatives, challenges and good practices. Furthermore, these businesses practices are analysed within the framework of the principles of the ILO's Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration). This study aims at enhancing companies' awareness and understanding of CSR throughout the automotive supplier industry, and to promote sustainable and inclusive growth of the industry in both Thailand and Japan. This document provides a number of policy recommendations for companies, governments, workers' organizations and other relevant actors to advance CSR and RBC, which is key to maintain and enhance their competitive advantage and competitiveness in today's economy. In addition to the ILO MNE Declaration, the survey conducted under this study also followed the guidelines of the OECD Guidelines for Multinational Enterprises; and the UN Guiding Principles on Business and Human Rights, thus enhancing policy coherence on key international instruments on CSR.

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- 1 JAPIA (Japan Auto Parts Industries Association). (2020). "Automotive Parts Industry in Japan (Nihon no jidosha buhin sangyo)".
  - 2 Miwa Yamada, Naomi Inoue, "What is a 'responsible supply chain' needed for global markets?: Gap and risks seen in the survey on 800 Japanese companies throughout the world based on the survey on Japanese businesses' responsible supply chains (Global shijo de motomerareru 'sekinin aru supply chain' toha? – Sekai no nikkei kigyo 800 sha anketo kara yomitoku gap to risk – 'Nikkei kigyo no sekinin aru supply chain ni kansuru anketo chosa'yori')" by IDE-JETRO. 2019. Last viewed on 31 October 2019. [https://www.ide.go.jp/library/Japanese/Research/Project/2018/pdf/2018110007\\_06.pdf](https://www.ide.go.jp/library/Japanese/Research/Project/2018/pdf/2018110007_06.pdf)



The current state of activities conducted by the Japanese companies in terms of responsible supply chain and the challenges faced in these activities are as follows:

- the Japanese companies take a more passive rather than active role in the implementation of responsible business practices;
- there is a regional gap among the Japanese companies in terms of implementation and awareness of human-rights issue depending on where the company operates; and
- the Japanese companies do not have a comprehensive picture of the human rights issues that they may have an impact on along their respective value chains, which is in part due to the lack of full understanding of the internationally recognized human rights instruments and policy instruments.

Therefore, it can be concluded that in terms of labour CSR challenges faced by the automotive-related industries in Thailand, the Japanese companies should first ensure compliance with local labour laws, and other related legislative instruments. Additionally, there is a shared and unanimous understanding by the Thai government, employers' group, and workers' group that, although there are challenges in terms of developing workers' skills and social dialogue, tackling these challenges can indeed improve labor CSR.

## Analysis opportunities and challenges in further advancing CSR policies

This survey report shows that Japanese vehicle parts manufacturers engage with both local Thai subsidiaries and their suppliers in various initiatives to advance their CSR policies over the entire supply chains, through their procurement process. For that purpose, this study includes concrete case

studies which highlight various attempts made by Japanese vehicle parts manufacturers to implement CSR policies in their supply chain. Furthermore, it analyzes the opportunities and challenges emerging from the survey results, which further would need to be met in trying to advance initiatives recommended by the CSR and RBC policies within the Japanese vehicle parts manufacturers.

The analysis of this survey is structured around three pillars, which is introduced in the subsequent paragraphs.

### 1. How to effectively implement CSR policies developed at Japanese company headquarters throughout Thai subsidiaries

The first opportunity emerging from the case studies is the fact that those companies focus on what is most important in the labour CSR – occupational health and safety for the local companies' factories – in promoting CSR policies, and that their initiatives in that respect are quite advanced. The second opportunity is that processes and trust between employees and the management built to enhance occupational health and safety will prove its usefulness when extending the CSR initiatives to other areas.

The challenges for which further progress can be expected are, first, in the limited scope of the initiatives for promoting the headquarters' CSR policies. On broadening the scope of initiatives, it is important for companies to consider other labour issues, particularly those that are captured in "core labor standards."<sup>3</sup> The second challenge lies in further identifying adverse impacts occurring in factories of the local subsidiaries. The diversity of employees, particularly in Thailand, may not be incorporated in the headquarters' CSR policies; thus, it is desirable for the local subsidiaries to take into account such diversity and take appropriate measures accordingly on-site.

3 The "core labor standards" consists of the following eight conventions: (1) Freedom of Association and Protection of the Right to Organize, 1948 (No. 87); (2) Right to Organize and Collective Bargaining, 1949 (No. 98); (3) Forced Labor, 1930 (No. 29); (4) Abolition of Forced Labor, 1959 (No. 105); (5) Minimum Age, 1973 (No. 138); (6) Worst Forms of Child Labor, 1999 (No. 182); (7) Equal Remuneration, 1951 (No. 100); and (8) Discrimination, 1958 (No. 111).

## 2. How to engage with the suppliers/ business partners to promote implementation of headquarters' CSR policies

The first opportunity presented by the case studies is that the trust relationship and close communication between a Japanese vehicle parts manufacturer and its suppliers, fostered through Quality, Cost, and Delivery (QCD) efforts help them achieve CSR at the suppliers' factories. Indeed, it can be said that improving QCD engagements can lead to improved CSR implementation. The second opportunity lies in the fact that the trust built between the vehicle parts manufacturers and their suppliers forms the basis of the cooperative relationship necessary for the former to work on the human rights due diligence at the latter. Strengthening the suppliers' capacity in production, and improving their working environment via QCD promotion makes it easier for suppliers to identify the benefits, and furthermore, may generate an incentive and ownership of initiatives. In other words, an opportunity is created for mechanisms that generate better labour practices to spread to second and third tiers, and even beyond, of the supply chain.

Going forward, the challenge in intensifying programmes to promote CSR policies lies in how companies further exert their influence to business partners across their supply chains .

## 3. How to engage with employees

The first opportunity demonstrated by these cases can be found where enterprises build on dialogue with the most important stakeholders in promoting the CSR policies — their employees and the trade unions. The second opportunity can be found where locally-led initiatives select the methods of communication, which makes it easier for local workers to understand.

On the other hand, the challenge of expanding the engagement with employees is in, first, how to maintain close communication with them in the changing business climate. The second challenge is that though the initiatives may be led locally, it is important that the headquarters be sufficiently involved.

## Policy recommendations to relevant stakeholders

**First**, this study proposes that the Japanese government provide a framework where companies can achieve responsible business practices. More specifically, the government should:

1. send out a clear message and ensure respect of human rights;
2. provide detailed guidance on human rights due diligence;
3. interact with governments of other countries involved in the supply chains; and
4. form a level playing field (fair competitive conditions) through international cooperation.

**Second**, this study recommends that Japanese companies perform human rights due diligence at home, and throughout their supply chains to achieve decent work. In particular, the Japanese companies should

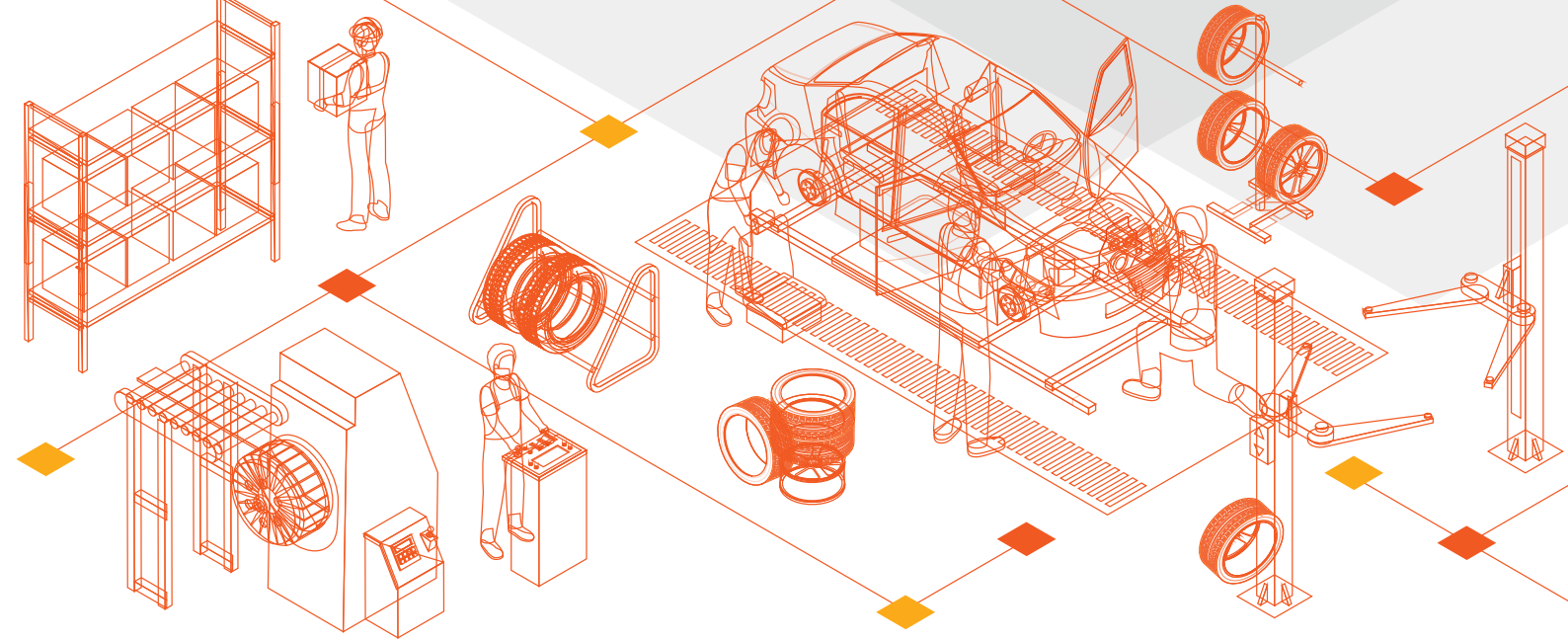
1. adopt systematic methods to make CSR policies operative;
2. bolster the implementation of responsible business in their supply chains through their relationships and engagement with business partners; and
3. disclose information related to CSR and RBC initiatives voluntarily.

**Third**, this study recommends that the automotive industry raise awareness of labour CSR standards throughout the sector through sharing and collaboration.

**Fourth**, this study proposes that trade unions cooperate amongst each other to build constructive and mature industrial relations throughout the supply chain.

**Fifth**, this study proposes that the Thai government partner with Japanese companies to realize the objectives of Thailand's NAP.

**Finally**, this study recommends the provision of ILO support in labour and management initiatives to realize the principles and objectives of the MNE Declaration.



# 1. Background and objectives of survey on Japanese companies' responsible supply chains in Thailand's automotive supplier industry

## 1.1 Background

Japan Automobile Manufacturers Association (JAMA) defines 'automotive industry' as 'a wide-ranging industry encompassing comprehensive related industries in various fields, including procurement, manufacturing, sales, maintenance and logistics'.<sup>4</sup> This includes automotive supplier industry. Vehicle parts industry refers to those within the automotive industry related to development, manufacturing and other automotive component businesses. End-product manufacturers procure parts from those suppliers, assemble them and sell the finished products. Vehicle parts makers are vital to the business of finished car manufacturers, forming extensive supply chains—the meat and potatoes of car production.

Thailand is an important country for the Japanese car industry including finished products and vehicle parts manufacturers, as it serves as a base for procurement, production, assembly and sales and export within the framework of the supply chains. Thailand Board of Investment (BOI) points out that the automotive industry has grown into one of the major industries in Thailand, thanks to its heightened importance as production and export base for car manufacturers and to the booming domestic demand since Toyota and Nissan first established factories in this country in 1962.<sup>5</sup> It has secured its place as one of the key industries in the national strategy, 'Thailand 4.0', accounting for approximately 12% of the nation's GDP, with estimated workforce of over 700,000 workers (BOI, 2015).<sup>6</sup>

4 Japan Automobile Manufacturers Association, Inc. (JAMA). "Car industry, related industries and working population (Jidosha sangyo, kanren sangyo, shugyo jinko)". Last viewed on 24 August 2019. <http://www.jama.or.jp/industry/industry/index.html>

5 Thailand Board of Investment (BOI). "Thailand's Automotive Industry: The Next-Generation". 2015. Last viewed on 1 July, 2019. [https://www.boi.go.th/upload/content/BOI-brochure%202015-automotive-20150325\\_70298.pdf](https://www.boi.go.th/upload/content/BOI-brochure%202015-automotive-20150325_70298.pdf)

6 BOI. 2015. Id.

Thailand has 18 finished vehicle manufacturers and car-assembly companies, 2,410 component suppliers from Tier 1 to Tier 3 according to BOI,<sup>7</sup> about 30% of which are Japanese (RIETI, 2016).<sup>8</sup> These figures imply the industry's importance to both nations. Japanese finished automotive makers have a very significant market share in Thailand: approximately 84% of automobiles sold in the country. Thailand is the second largest exporting country of finished cars in Asia (BOI, 2015)<sup>9</sup>; Japan is its fourth largest importer, following Australia, the Philippines and Indonesia. As for vehicle parts Thailand exports, Japan was the second largest importer after the US in 2018 (Bangkok Post, 2019).<sup>10</sup>

The Thai car industry is thus highly important for Thailand and an essential business partner for Japan, playing various roles in procurement, component production, assembly and sales and export in the supply chains of Japanese finished car makers. This means that much is expected from enterprises involved in the industry in terms of responsible business conduct. The component industry, in particular, holds a substantial number of workers in its employment; Japanese vehicle parts manufacturers operating in Thailand may greatly impact the nation and society through its business practices and corporate conduct. They are therefore required to fulfil their CSR. The ILO defines CSR as companies proactively engaging in efforts, taking into account their business activities' impact on society, not just to comply with laws.<sup>11</sup> Japanese automotive suppliers are requested to engage with CSR in similar manners. Going forward, it is essential to understand the relationships between ongoing efforts and international standards and approaches, and to identify perspectives that can be added, in order for Japanese automotive component manufacturers to advance CSR significant to Thai society, thereby contributing to its sustainable development.

## 1.2 Objectives

This study is the first of its kind to understand Japanese car component manufacturers' efforts to promote CSR in relation to international standards and approaches: (1) how they are implementing CSR in their production bases in Thailand; (2) who they collaborate with in order to judge the impact of their business activities; (3) what they do to address the matter; and (4) whether or not their efforts are in line with CSR activities required by the international community. The study surveys how Japanese vehicle parts makers implement their CSR policies in their supply chains in Thailand and reports on the current state, challenges and good practices. Based on the findings, this study will propose how they can learn new perspectives to further strengthen CSR efforts. It will also suggest policies and measures that should help companies advance CSR and RBC to maintain and enhance competitive advantage. The research aims to enhance companies' awareness and understanding of CSR throughout the car supplier industry and to promote sustainable and inclusive growth of Thai and Japanese society.

## 1.3 Principles and guidelines

This project is implemented based on the internationally accepted principles and guidelines related to CSR/RBC. It refers to the ILO's Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration), the OECD Guidelines for Multinational Enterprises and The UN Guiding Principles on Business and Human Rights as major instruments.

## 1.4 Structure of the report

The structure of this report is as follows. Chapter II outlines the challenges Japanese enterprises

7 BOI. 2015. Id.

8 Research Institute of Economy, Trade and Industry (RIETI). "On Thailand's approaches for analysis of and response to macroeconomic and industrial policies for highly developed industrial structure (Tai no sangyo kozo kodoka ni muketa macro keizai sangyo seisaku bunseki to taio no hokosei ni tsuite)". RIETI Policy Discussion Paper Series 16-P-013. Last viewed on 24 June 2019. <https://www.rieti.go.jp/jp/publications/pdp/16p013.pdf>

9 RIETI. 2016. Id.

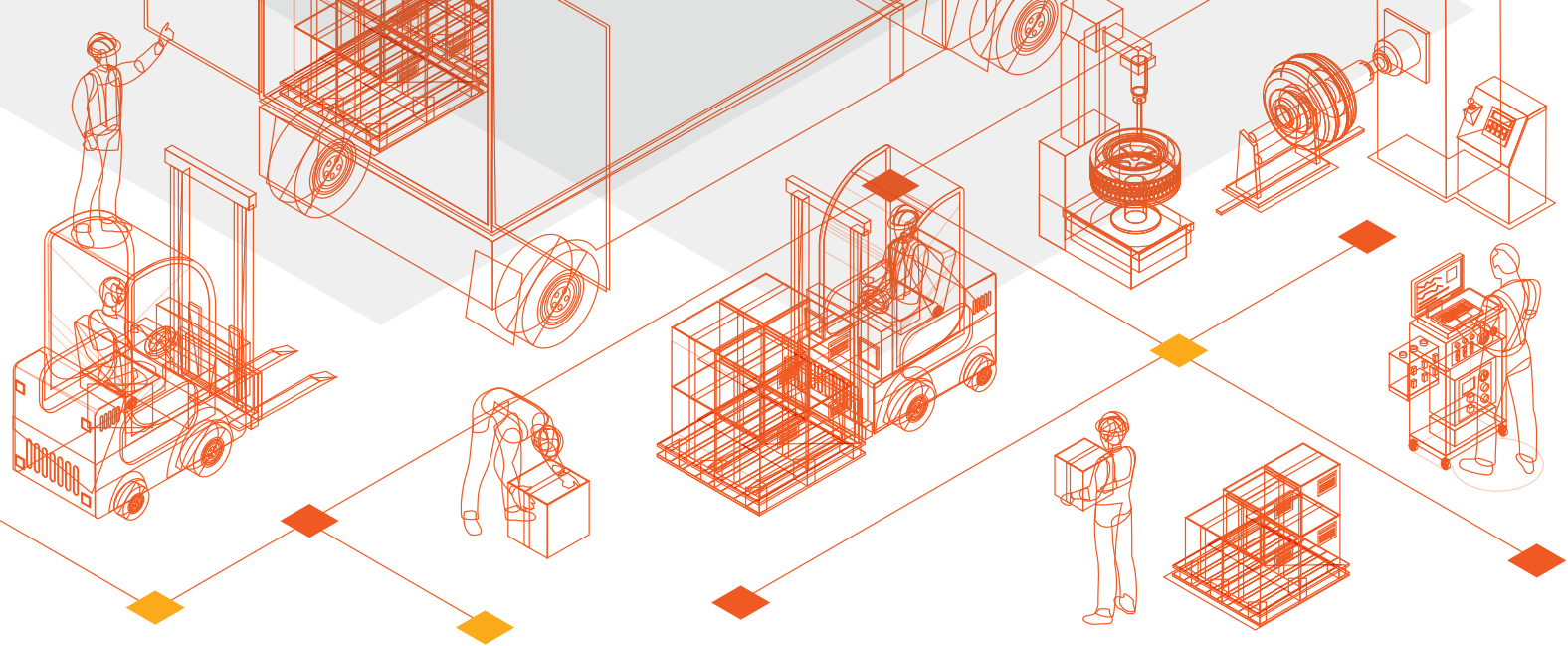
10 Bangkok Post. "Automotive industry at a turning point". 7 January 2019. Last viewed on 26 July 2019. <https://www.bangkokpost.com/business/1606570/automotive-industry-at-a-turning-point>

11 ILO. "Business to CSR (Business and CSR)". 4 January 2018. Last viewed on 26 July 2019. [https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-tokyo/documents/publication/wcms\\_614728.pdf](https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-tokyo/documents/publication/wcms_614728.pdf)

in general face in relation to CSR/RBC, referring to the 2018 IDE-JETRO survey to present the current situation of their responsible supply chain initiatives in overseas bases. Chapter III explains the study's methods, which focus on the automotive parts industry. Chapter IV discusses how CSR policies are devised and advanced in the Japanese car supplier industry. Chapter V presents the overview of the supply chains and Japanese

businesses' significance in Thailand, which is a vital production base and market for the industry. Chapter VI presents good practices of four Japanese companies in Thailand as case studies. Chapter VII summarises the challenges of and opportunities for Japanese companies' initiatives. Finally, Chapter VIII makes suggestions to enterprises, governments and other stakeholders.





## 2. Current state and challenges of Japanese enterprises' responsible supply chain initiatives

Using the 2018 IDE-JETRO survey, this report first outlines the current situations that Japanese companies face in their efforts overseas, especially in terms of CSR/RBC, in examining how car component manufacturers implement responsible supply chains.

### 2.1 Gap and risks emerging from the survey of 800 Japanese companies worldwide

How do Japanese businesses in global markets implement responsible supply chains globally? IDE-JETRO conducted a survey in ASEAN, Southwest Asia, Western Europe and Africa about the enterprises' efforts for responsible supply chains in December 2017. The questionnaire was answered by 814 companies, and the survey result was analysed using the human rights due diligence framework set down in the UN's Guiding Principles on Business and Human Rights.<sup>12</sup>

IDE-JETRO asked companies in the ASEAN region, Southwest Asia, Western Europe and Africa about their CSR efforts and their policies on labour, health and safety and the environment for the supply chains. Moreover, companies were asked about their understanding of human rights issues with supplier relationships within the supply chains, country-specific challenges, stakeholder engagement and request for public support. A total of 814 companies responded to the survey, with the ASEAN region representing the largest region of 557 companies at 68.4% and 'automobile/automobile components/other vehicles' representing the largest group among manufacturers (132 companies, 16.2%).

In the following ten findings in this report, the gap will be revealed between the human rights due diligence that enterprises are expected to perform in implementing responsible supply chains and the actual situations that Japanese companies face. This chapter makes two major points based on the findings: Japanese companies are passive, rather than proactive, in implementing responsible supply chains and regional gaps exist in terms of implementation and awareness.

<sup>12</sup> Miwa Yamada, Naomi Inoue, "What is a 'responsible supply chain' needed for global markets?: Gap and risks seen in the survey on 800 Japanese companies throughout the world based on the survey on Japanese businesses' responsible supply chains (Global shijo de motomerareru 'sekinin aru supply chain' toha? – Sekai no nikkei kigyō 800 sha ankeito kara yomitoku gap to risk – 'Nikkei kigyō no sekinin aru supply chain ni kansuru ankeito chosa'yori')" by IDE-JETRO. 2019. Last viewed on 31 October 2019. [https://www.ide.go.jp/library/Japanese/Research/Project/2018/pdf/2018110007\\_06.pdf](https://www.ide.go.jp/library/Japanese/Research/Project/2018/pdf/2018110007_06.pdf)

## Japanese companies are passive, rather than proactive, in implementing responsible supply chains

A little less than 30% of the respondents replied in the affirmative to the question, 'Do you have policies in place related to labour, health and safety and environmental initiatives of factories and offices of your suppliers, and demand their compliance?'<sup>13</sup> Over 20% of them do have policies in place but do not ask their suppliers to comply with them. About half do not have policies. In the meantime, more than 50% of the respondents answered in the affirmative to the question, 'Have you ever been asked to comply with customers' policies on labour, health and safety and environmental initiatives at your factories and offices?'<sup>14</sup> More respondents were asked to conform to their customers' policies than those which demanded their suppliers' compliance. This shows that Japanese companies are responding to responsible supply chain efforts, instead of taking the initiative.

A little lower than 30% of the total respondents have their own policies and ask for suppliers' compliance. This suggests that many Japanese companies do not recognise their capacity to build responsible supply chains by doing so or they do not see the need for it. Another factor that should be noted is that half of them do not have policies in place, which may indicate that they cannot identify risks. Companies can recognise potential risks of giving adverse impact on human rights by establishing policies and implementing them in their business practice. Hence, it is difficult for them to grasp the human rights risks among suppliers when they do not have policies and do not insist on their compliance. It also implies existence of certain risks of their becoming indirectly complicit in human rights violations depending on their relationships with the suppliers.

## Regional gaps exist in terms of implementation and awareness

In terms of regions where the respondents operate business in, the survey revealed that gaps exist between regions in their efforts for and understanding of human rights issues. About

60% of the total respondents answered in the affirmative to the question about the existence of CSR policies. The regional breakdown is as follows: Japanese companies based in Western Europe (just below 80%), those in Africa (a little above 70%), those in Southwest Asia (a little higher than 60%) and those in the ASEAN region (55%), with a gap of over 20% between the highest (Western Europe) and the lowest (ASEAN) (Figure 1). Roughly 30% of the total respondents require their suppliers to comply with their policies; the highest region is Western Europe at over 40%, followed by Africa at just below 40% and finally ASEAN at a little above 20% (Figure 2). Meanwhile, the region with most respondents required to comply with customers' policies is ASEAN at 56.9%, followed by Africa at a little above 40% and then Southwest Asia at 45% (Figure 3).

It can be surmised that companies understand the importance of having policies on labour, health and safety and the environment for suppliers. Moreover, insisting on the suppliers' compliance with them is also important in Europe, where society and markets strongly demand responsible supply chains, and in Africa, where it has become general knowledge that potential human rights risks are high because of insufficient governance as local laws are not fully developed. That is to say, those companies seem to understand the impact their suppliers' human rights risks may have on their supply chains. By contrast, the ASEAN region, where many Japanese businesses operate, tends to have high rates of companies having to conform to customers' policies. Another question about international frameworks and guidelines that respondents are aware of showed that Japanese companies care more about local labour act and other related laws than about international instruments. This was particularly true in the ASEAN region; the survey result shows that Japanese companies in this region engage with the issue to meet the local demand, rather than addressing it as a global framework that is increasingly requested by society. On the other hand, those in Western Europe are highly aware of the UK Modern Slavery Act and guiding principles related to business and human rights, which indicates that their efforts are in response to the demand in the European market.<sup>15</sup>

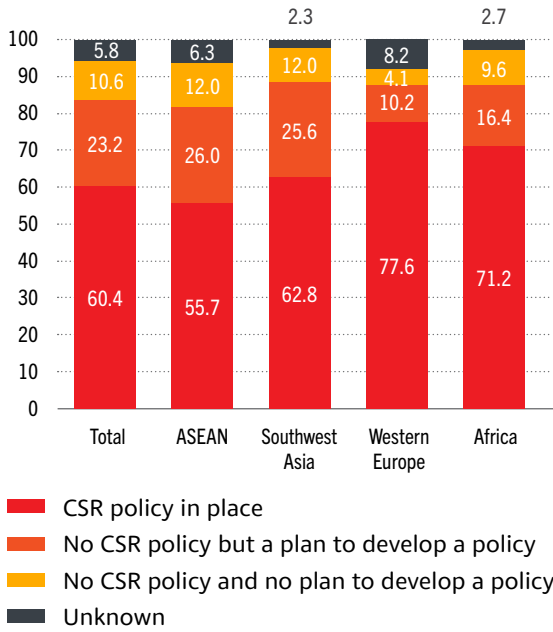
13 Yamada and Inoue. IDE-JETRO. 2019. Figure 9. P.22.

14 Yamada and Inoue. IDE-JETRO. 2019. Figure 10. P.22.

15 Yamada and Inoue. IDE-JETRO. 2019. Figure 4. P.16.

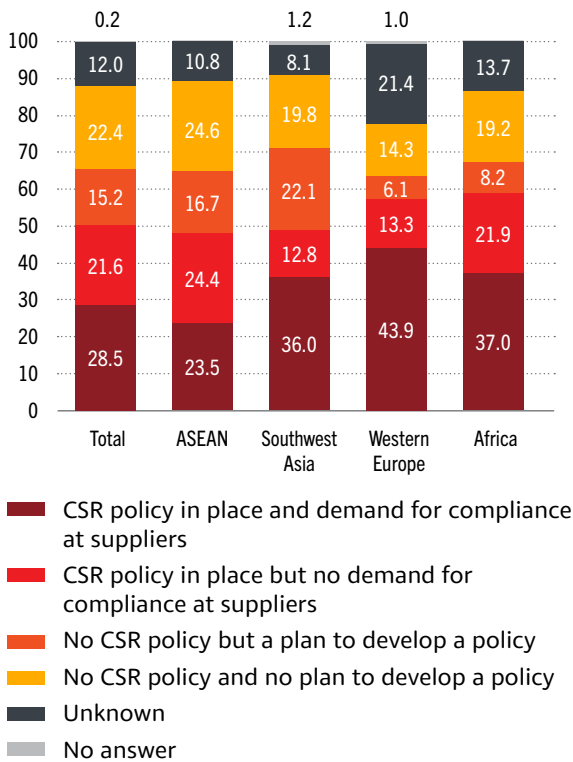


**Figure 1. Presence of original CSR policies (by region)**



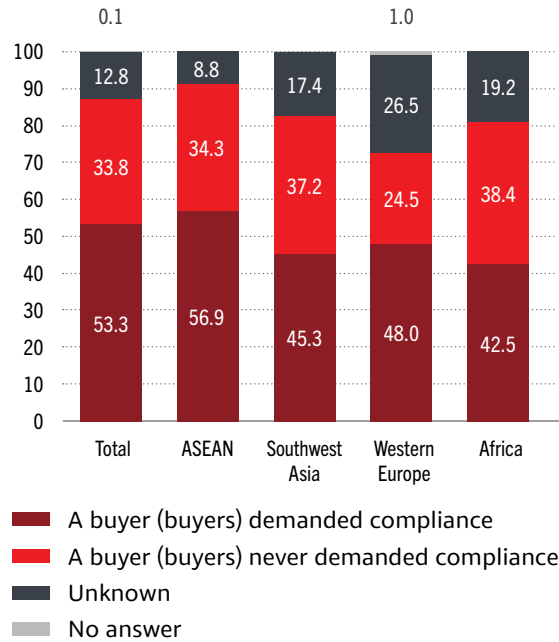
Yamada and Inoue. IDE-JETRO. 2019. Figure 14. P.25

**Figure 2. Presence of policies on labour, health and safety and environment for suppliers (by region)**



Yamada and Inoue. IDE-JETRO. 2019. Figure 15. P.26

**Figure 3. Compliance with customers' policies on labour, health and safety and environment (by region)**



Yamada and Inoue. IDE-JETRO. 2019. Figure 16. P.26

## 2.2 Challenges and opportunities in the area of labour

The major issues in the labour field are as follows: wages and benefits, occupational health and safety, working hours, child labour, forced labour, equal opportunities and treatment, harassment, freedom of association and the right to collective bargaining and grievances according to Labour Standards in Global Supply Chains by ILO (2019).

The aforementioned survey asked respondents about items clearly laid in their CSR policies, or to be included once they have CSR policies; most respondents answered 'ensuring appropriate labour practice and occupational health and safety' (83.4%). This is followed by 'environmental conservation and protection' (81.2%) and 'consideration for and engagement with local communities' (74.6%). When grouping the respondents by size, similar rates of large and small-to-medium companies have incorporated 'ensuring appropriate labour practice and occupational health and safety' in their CSR policies (84.7% and 82.9%, respectively); this shows the importance they place on the labour

dimension of CSR.<sup>16</sup> Many companies chose human rights issues related to ‘labour’ to the question, ‘Which of those areas that enterprises may have impact on —labour, safety and health and the environment— would have bearings on your supply chains, those of your suppliers, or those of your customers?’ This clearly shows that they consider ‘labour’ as the top-priority issue in supply chains.

Certain gaps exist in companies’ attitude towards several issues related to labour, however. For instance, the largest number of respondents (87.6%) answered workers’ health has bearings on supply chains. Other responses include discrimination (76.7%), harassment (74.2%) and forced labour and human trafficking (68.2%). On the other hand, 49.8% recognise that allowing freedom of association and the right to collective bargaining has bearings on supply chains. For migrant workers (foreign workers from other countries), 35.3% of the respondents answered in the affirmative, whereas 42.5% thought they did not have bearings on supply chains, and 22% did not know.<sup>17</sup>

Most companies (27.6% of the respondents) were not sure about the bearings of the ILO core labour standards on supply chains, although 54.2% admitted they had bearings on them. The ILO core labour standards refer to the four categories of rights: (1) freedom of association and the effective recognition of the right to collective bargaining; (2) the elimination of forced labour; (3) the abolition of child labour; and (4) the elimination of discrimination. They are considered to be fundamental global standards in the areas of labour and employment. Differences exist, however, in the respondents’ actual understanding of the four categories. As for the question if these categories have bearings on their supply chains, those of their suppliers or of their customers, 76.7% of the respondents thought discrimination did, and 68.2% thought forced labour and human trafficking did. Moreover, 51.8% thought children’s rights had bearings, whereas 34.3% did not. As

for the freedom of association and the right to collective bargaining, 49.8% answered in the affirmative, 29.7% answered in the negative, and 20.3% did not know.<sup>18</sup>

For a company to relate its operations to human rights issues, it is necessary to understand the relationship of the entire value chain. It can be seen, however, that many Japanese enterprises have not attained an accurate picture of that relationship. In this analysis, findings reveal that Japanese enterprises do not have a comprehensive picture of the human rights issues that they may have impact on in relation to their entire value chains, because they do not fully understand the internationally recognised human rights.

### 2.3 CSR challenges faced by the automotive-related industries in Thailand

Out of the 814 respondents of the IDE-JETRO survey, the largest group was companies operating in Thailand (181 respondents, 22.9%); by sector, ‘automobile/automobile components/other vehicles’ was the most numerous with 132 companies, accounting for 16.2% of the total respondents. The findings obtained from the whole respondents may not precisely reflect the actual situation of the Japanese vehicle parts industry in Thailand; however, they may reflect the trends.

To the question, ‘What do you most refer to, among international frameworks, guidelines and domestic laws on CSR, labour, health and safety and the environment?’, the top-most answer was ‘relevant local laws such as the labour act’: 47.3% of the entire respondents chose this, and 50.8% of the Japanese companies in the ASEAN region did so. This response was followed by ‘the ILO core labour standards’ (24.8% of the whole and 25.3% of those in the ASEAN region), ‘UN Guiding Principles on Business and Human Rights’ (16.1% of the entire respondents and 15.8% of those in the ASEAN region), ‘OECD Guidelines for Multinational

16 IDE-JETRO. “Report on the survey on Japanese Companies’ Responsible Supply Chains - full version (Nikkeikigyo no sekinin aru supply chain ni kansuru anketo chosa - zentaiban hokokusho)”. IDE-JETRO. 2018. Last viewed on 31 October 2019. [https://www.ide.go.jp/library/Japanese/Research/Project/2018/pdf/2018110007\\_01.pdf](https://www.ide.go.jp/library/Japanese/Research/Project/2018/pdf/2018110007_01.pdf)

17 Yamada and Inoue. IDE-JETRO. 2019. Figure 3. P.14.

18 IDE-JETRO. 2018. Id.

Enterprises' (10.1% of the whole and 9% of those in the ASEAN region) and 'Tripartite declaration of principles concerning multinational enterprises and social policy (MNE Declaration)' (9.6% of the whole and 8.3% of those in the ASEAN region).

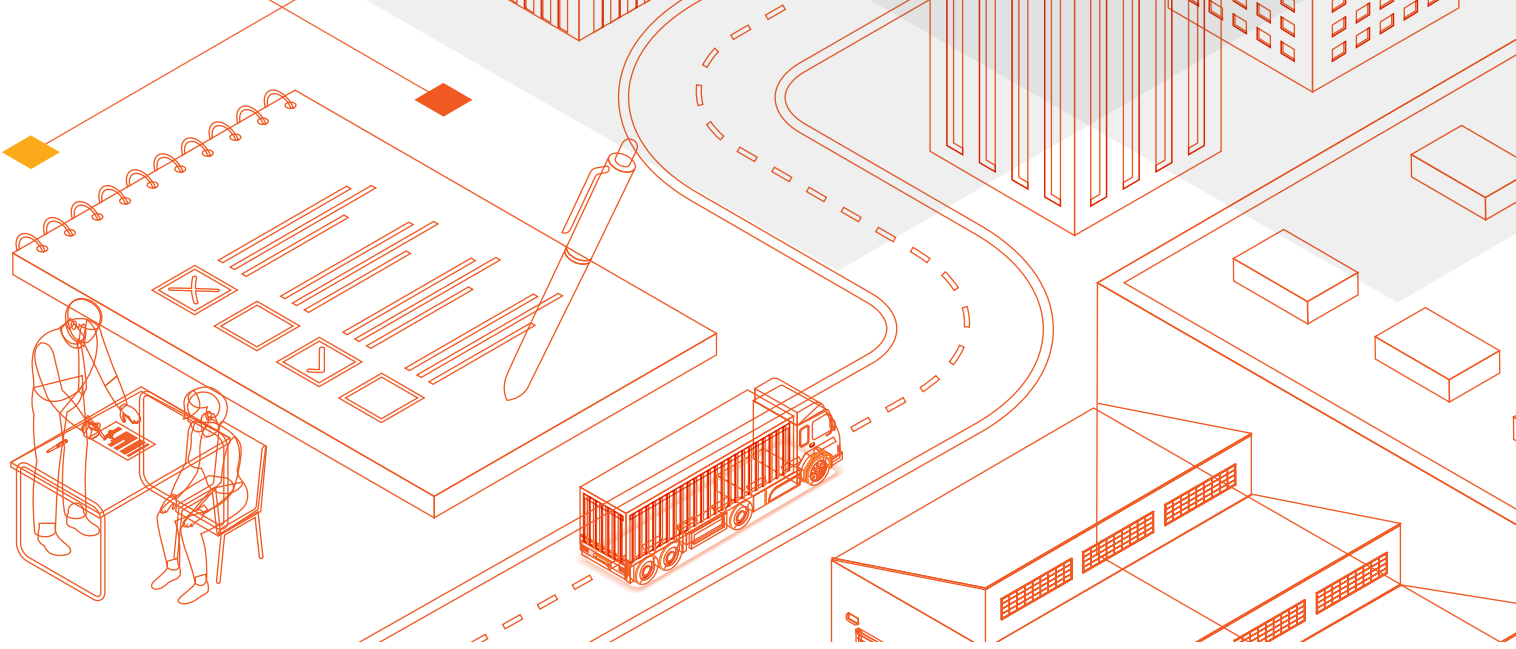
The first step of Japanese companies' labour CSR is to ensure compliance with local labour act and other related laws. The Japanese law does not obligate parent companies to warn their subsidiaries about their impact on human rights, wherever their subsidiaries are located in.<sup>19</sup> It does not impose reporting obligation on companies as a domestic measure to clearly demonstrate that they are expected to respect human rights in businesses they conduct overseas.<sup>20</sup>

In this situation, Japanese enterprises should take the initiative voluntarily and proactively, if they are to achieve responsible supply chains. On the whole, as mentioned previously, they are more passive than proactive in their efforts in this regard. When looking closely at the efforts of the industry and individual companies, however, not a few cases of dedicated efforts by Japanese companies can be found. In the following chapters, how the Japanese vehicle parts industry is advancing CSR/RBC policies in its supply chains covering Thailand will be investigated. Moreover, the current situation, good practices and challenges will be examined and analysed.

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19 Ministry of Foreign Affairs of Japan. "The Report on the Baseline Study on Business and Human Rights (Business to jinken ni kansuru baseline study hokokusho)". Guiding principles 2-1-3. P.40. Ministry of Foreign Affairs of Japan. 2018. Last viewed on 31 October 2019. <https://www.mofa.go.jp/mofaj/files/000433657.pdf>

20 Ministry of Foreign Affairs of Japan. 2018. Guiding principles 2-1-4. P.40. Id.



## 3. Survey method

### 3.1 Overview of the survey method

#### 3.1.1 Overall

This survey was conducted through case studies of individual enterprises in Japan and Thailand, desk study of information available on websites, interviews on industry associations in Japan and interviews on relevant organizations in Japan and Thailand.

#### 3.1.2 Case studies of individual companies

Semi-structured interviews were conducted in person on cooperative companies. Interviewees included executives, site managers, trade union leaders and other labour representatives. Plant tours were conducted during field study in Thailand. Incidentally, qualitative information was gathered from a limited number of companies for this survey, as it was necessary to conduct in-person interviews on workers and top management of Japanese companies, Thai subsidiaries and their suppliers and trade unions about the specifics of their initiatives, as well as site inspection, both in Japan and Thailand.

### 3.2 Research subject

#### 3.2.1 Target industry

Vehicle parts industry

#### 3.2.2 Target countries

Japan (parent companies) and Thailand (local subsidiaries and suppliers)

#### 3.2.3 Subjects of case studies

Tier-1 companies in the supply chains of Japanese finished car manufacturers and their Thai subsidiaries, and Tier-2 suppliers that directly deal with them and own plants in Thailand, which accepted the request for cooperation with the survey sent in beforehand via Japan Auto Parts Industries Association (JAPIA)

#### 3.2.4 The number of companies that helped with case studies

The total number of companies that participated in the survey is 15. As shown in Table 1, four are Japanese vehicle parts manufacturers that are Tier-1 suppliers of finished car makers, eight are Thai subsidiaries of Tier-1 Japanese vehicle parts manufacturers and four are Tier-2 suppliers that are Thai subsidiaries' suppliers and own plants in Thailand.

**Table 1. The number of companies that helped with case studies**

Japanese which parts companies (Tier 1 suppliers of Japanese automobile manufacturers)	Japanese Tier 1 vehicle parts companies' subsidiaries in Thailand	Tier 2 suppliers (suppliers of the Japanese Tier 1 subsidiaries operating in Thailand)
4	8	4 (2 Japanese suppliers and 2 local suppliers)

**3.2.5 The overview of companies that helped with case studies**

The companies that participated in the survey are outlined in Table 2. Incidentally, the names

of Tier-2 suppliers that are the suppliers of the Thai subsidiaries and own plants in Thailand are mentioned in this report, where permissions were granted.

**Table 2. List of companies that helped with case studies (Japanese alphabetical order)**

Name of Japanese vehicle parts companies (Tier 1 suppliers of Japanese automobile manufacturers)	Name of the Japanese Tier 1 vehicle parts companies' subsidiary (subsidiaries) in Thailand	Establishment year of the subsidiary in Thailand	Major products of the subsidiary in Thailand
<b>NOK</b>	THAI NOK CO., LTD.	1988	Oil seals, O-rings, rubber products, etc.
<b>DENSO</b>	DENSO (THAILAND) CO., LTD. (DNTH)	1972 (DNTH)	Air-conditioning systems, electrical and thermal automotive components, power-train systems, etc.
	SIAM DENSO MANUFACTURING CO., LTD. (SDM)	2002 (SDM)	
	DENSO INTERNATIONAL ASIA CO., LTD. (DIAT)	2007 (DIAT)	
<b>NGK</b>	SIAM NGK SPARK PLUG CO., LTD.	1974 (Siam NGK)	Spark plugs, glow plugs, etc.
	NGK SPARK PLUG (ASIA) CO., LTD.	2013 (Asia NGK)	
<b>YAZAKI</b>	THAI ARROW PRODUCTS CO., LTD.	1967 (THAI ARROW PRODUCTS)	Wire harnesses, etc.
	THAI YAZAKI CORPORATION, LTD.	1967 (THAI YAZAKI)	

Note: Created by the authors, based on information available in their websites and leaflets

### 3.3 Duration of the survey

June–October 2019: Visits to vehicle parts companies in Thailand were conducted on 19 July, and between 30 July and 2 August.

### 3.4 Items surveyed in case studies

The following items were included in the questionnaire during the corporate interviews:

1. Company profiles, main products and basic information on the state of their supply chains in Thailand. Relationships with Tier-1, Tier-2 and other suppliers in the supply chain, and suppliers' significance determined by trading conditions of their main products
2. Their efforts and challenges to advance CSR and RBC in their supply chains
3. Challenges they face on the frontline
4. How they identify and deal with local problems
5. How they promote communications with workers
6. Examples of actions in promoting CSR policies of Tier-1 companies to Tier-2 suppliers and below



## 4. Advancement of CSR policies in Japanese vehicle parts industry

### 4.1 The industry's CSR policies and initiatives

This section explains Japan Auto Parts Industries Association (JAPIA), an industry association that advances CSR in Japan's automotive component industry, as well as its initiatives. According to their website,<sup>21</sup> 'The Japan Auto Parts Industries Association (JAPIA) was founded in August 1969 as a "public interest incorporated association" aimed at working to promote the auto parts industry of Japan.' The association holds a significant place in the car industry globally, not just domestically, with its member companies' annual production value reaching roughly US\$ 200 billion. The objective of the association, JAPIA further says, is 'contributing to the development of the Japanese economy and to more improvements in the quality of Japanese life by addressing various issues concerning auto parts and promoting Japan's auto parts industry'. As of September 2019, the number of JAPIA member companies that manufacture and sell vehicle parts in Japan is approximately 440,<sup>22</sup> and as of 2017, the number of member subsidiaries locally producing components in Thailand is 252.<sup>23</sup>

JAPIA states its position on CSR in an article titled 'On Corporate Social Responsibility (CSR) efforts',<sup>24</sup> published on its website:

'Recent trends surrounding CSR are summarised as follows: OECD Guidelines for Multinational Enterprises was revised in May 2010, with a chapter on human rights newly added, calling on companies to respect human rights, and advise them to devise measures to prevent and mitigate human rights violations caused not just by their own activities but also in relation to their suppliers' operations, products and services, and to perform due diligence commensurate with corporate size, business operations and human rights risks. ISO26000 Guidance on social responsibility was released in November 2010, which provided global companies with a common understanding of their challenges. In Japan, too, Japan Business Federation (Keidanren) revised the Charter of Corporate Behaviour in September 2010.'

'Thus, it is required of companies to, more than ever, strive to meet the expectations and gain trust of shareholders, investors, consumers, customers and suppliers, employees and a wide range of stakeholders surrounding companies such as local communities through having dialogues with them,

21 JAPIA website. "About us". Last viewed on 26 July 2019. <https://www.japia.or.jp/en/whoweare/aboutus/>

22 Source: interview with JAPIA (conducted on 12 September 2019).

23 Id.

24 JAPIA's website. "On Corporate Social Responsibility (CSR) efforts (CSR (kigyō no shakaiteki sekinin) no torikumi ni tsuite)". Last viewed on 1 July 2019. <https://www.japia.or.jp/work/csrbcp/csr/>



and to encourage the entire supply chains, not just their group companies, to take actions to achieve corporate social responsibility. Furthermore, it has become vital that companies should have global perspectives in addressing these challenges, as people take a greater interest in human rights and poverty issues' (originally in Japanese).

JAPIA gave a concrete form to its positions on CSR and recommended initiatives in 'CSR Guide Book'<sup>25</sup> and 'CSR Check Sheet',<sup>26</sup> released in May 2008 and revised in April 2010. The association refers to the two leaflets in an article on its website: 'As part of its support for its member companies' CSR activities, JAPIA released "CSR Guidebook" and "CSR Check Sheet" in May 2008 and revised them in April 2010 for the member companies to make use of them in their efforts to grapple with challenges such as safety and quality, the environmental issues, human rights issues, labour issues and reduction of disparities. This, we hope, will help promote companies' voluntary actions and raise the standard throughout the vehicle parts industry' (originally in Japanese).<sup>27</sup>

JAPIA defines CSR as 'companies' spontaneous activities to maintain their growth and to enable society's sustainable growth, based on mutual understanding and trust with stakeholders', and as 'activities to make existing activities systematic and transparent across functions and departments, and to fortify what is insufficient, rather than to

start something completely new' (originally in Japanese).<sup>28</sup> The guidebook lists the following reasons for JAPIA's compilation: 'the auto parts companies' social influence has grown, as they become global'; 'The International Organization for Standardization (ISO) is expected to publish and enact a new standard (scheduled at the end of 2010)'; 'requests from stakeholders, for example, increasing cases of automotive manufacturers demanding CSR efforts on the part of component makers as part of their supply chain management' (originally in Japanese).<sup>29</sup> It also mentions JAPIA's objective in publishing the leaflet: 'for member companies to clearly identify their problems as they advance CSR by fostering mutual understanding of CSR so that they can deal with them' and 'to use this leaflet as a tool to promote CSR throughout their supply chains' (translated from Japanese).<sup>30</sup>

JAPIA's guidebook on CSR 'selects 30 items in eight areas, which are expected to help companies clarify and improve problems, in light of both domestic and global trends in advancing CSR' (translated from Japanese).<sup>31</sup> It refers to 'Keidanren's Charter of Corporate Behaviour',<sup>32</sup> METI's Guidelines for Fair Trade in the Automotive Industry,<sup>33</sup> guidelines<sup>34</sup> of the electronics industry, including the EICC (US),<sup>35</sup> JEITA,<sup>36</sup> and Japan Automobile Manufacturers Association's Suppliers CSR Guidelines', 'taking into account factors that JAPIA believes to be the characteristics of the auto parts industries'

25 JAPIA's website. "CSR Guide Book". 2010. Last viewed on 26 June 2019. [https://www.japia.or.jp/files/user/japia/work/csrbcpr/csr/CSR\\_H22guidebook.pdf](https://www.japia.or.jp/files/user/japia/work/csrbcpr/csr/CSR_H22guidebook.pdf)

26 JAPIA's website. "CSR Check Sheet". 2010. Last viewed on 26 June 2019. [https://www.japia.or.jp/files/user/japia/work/csrbcpr/csr/CSR\\_H22check.pdf](https://www.japia.or.jp/files/user/japia/work/csrbcpr/csr/CSR_H22check.pdf)

27 JAPIA's website. "On Corporate Social Responsibility (CSR) efforts (CSR (kigyo no shakaiteki sekinin) no torikumi ni tsuite)". Last viewed on 1 July 2019. <https://www.japia.or.jp/work/csrbcpr/csr/>

28 JAPIA's website. "CSR Guide Book". 2010. Last viewed on 26 June 2019. [https://www.japia.or.jp/files/user/japia/work/csrbcpr/csr/CSR\\_H22guidebook.pdf](https://www.japia.or.jp/files/user/japia/work/csrbcpr/csr/CSR_H22guidebook.pdf)

29 JAPIA's website. "CSR Guide Book". 2010. Last viewed on 26 June 2019. [https://www.japia.or.jp/files/user/japia/work/csrbcpr/csr/CSR\\_H22guidebook.pdf](https://www.japia.or.jp/files/user/japia/work/csrbcpr/csr/CSR_H22guidebook.pdf)

30 JAPIA's website. "CSR Guide Book". 2010. Last viewed on 26 June 2019. [https://www.japia.or.jp/files/user/japia/work/csrbcpr/csr/CSR\\_H22guidebook.pdf](https://www.japia.or.jp/files/user/japia/work/csrbcpr/csr/CSR_H22guidebook.pdf)

31 JAPIA's website. "CSR Guide Book". 2010. Last viewed on 26 June 2019. [https://www.japia.or.jp/files/user/japia/work/csrbcpr/csr/CSR\\_H22guidebook.pdf](https://www.japia.or.jp/files/user/japia/work/csrbcpr/csr/CSR_H22guidebook.pdf)

32 Japan Business Federation (Keidanren) website. "Keidanren's Charter of Corporate Behaviour (Keidanren kigyokodo kensho)". Last viewed on 1 July 2019. <https://www.keidanren.or.jp/policy/cgcb/charter2017.pdf>

33 METI website. "METI Guidelines' for Fair Trade in Automotive Industry (Keisansho jidosha sangyo tekisei torihiki guideline)". Last viewed on 1 July 2019. <https://www.chusho.meti.go.jp/keiei/torihiki/2014/141211sitaue.pdf>

34 JEITA's website. "On releasing 'Guidebook for promoting CSR in supply chains' ('Supply Chain CSR suishin guidebook' no kokai ni tsuite)". Last viewed on 1 July 2019. <https://home.jeita.or.jp/ecb/csr/>

35 EICC: Electronic Industry Code of Conduct (renamed as Responsible Business Alliance (RBA)) <https://home.jeita.or.jp/ecb/csr/>

36 JEITA: Japan Electronics and Information Technology Industries Association

(originally in Japanese).<sup>37</sup> In the 2010 revision, a chapter on advancing CSR to suppliers was added, as well as an item to each area of human rights, labour and the environment.

The revised CSR Guidebook (2010) has 30 items in the following eight areas: safety and quality, human rights and labour, the environment, compliance, information disclosure, risk management, social contribution and implementation of CSR throughout the company and business partners (Table 3). The revised guidebook mentions ‘valuing individual employees, while respecting their human rights’ (originally in Japanese) as what companies should aim for in the area of human rights and labour. There are a total of nine detailed items, namely, elimination of discriminations, respecting human rights, elimination of child labour, abolition of forced labour, wages, working hours, dialogue and consultation with employees, safe and healthy working conditions and personnel development. Detailed explanations are given for each item. For instance, ‘elimination of discriminations’ is the state where ‘no discrimination on account of

race, ethnicity, nationality, religion, sex, or other factors is practised in all aspects of employment’, including ‘recruitment, selection, promotion, wage, dismissal, allocation of tasks, disciplinary actions and so on’ (originally in Japanese).

JAPIA created its CSR checksheet along with the guidebook in 2008. According to the association, the member companies informed them that ‘The CSR Check Sheet’ gave them insight into the current situation of CSR efforts of individual companies and of the whole industry, and the feedbacks on the challenges helped them improve their activities.<sup>38</sup> The checksheet helped JAPIA grasp the progress that the member companies were making with their CSR initiatives. This enabled them to analyse industry average and individual companies’ data, based on which they promoted CSR activities among the member companies.<sup>39</sup> As of August 2019, it is left to the discretion of the member companies whether or not to continue with supplier survey using JAPIA’s CSR checksheet, because their CSR initiatives made considerable progress since then.<sup>40</sup>

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37 JAPIA’s website. “CSR Guide Book”. 2010. Last viewed on 26 June 2019. [https://www.japia.or.jp/files/user/japia/work/csrbcp/csr/CSR\\_H22guidebook.pdf](https://www.japia.or.jp/files/user/japia/work/csrbcp/csr/CSR_H22guidebook.pdf)

38 JAPIA’s website. “On Corporate Social Responsibility (CSR) efforts (CSR (kigyo no shakaiteki sekinin) no torikumi ni tsuite)”. Last viewed on 1 July 2019. <https://www.japia.or.jp/work/csrbcp/csr/>

39 Source: interview with JAPIA (conducted on 20 August 2019).

40 Id.

Table 3. Eight Areas and 30 Items in JAPIA's CSR Guidebook

Area	Items
<b>Safety and Quality</b>	<ul style="list-style-type: none"> <li>■ Providing products that meet the needs of customers and consumers</li> <li>■ Providing accurate information on products</li> <li>■ Ensuring product safety</li> <li>■ Ensuring product quality</li> </ul>
<b>Human Rights and Labour</b>	<ul style="list-style-type: none"> <li>■ Elimination of discrimination</li> <li>■ Respecting human rights</li> <li>■ Elimination of child labour</li> <li>■ Abolition of forced labour</li> <li>■ Wages</li> <li>■ Working hours</li> <li>■ Dialogue and consultation with employees</li> <li>■ Safe and healthy working conditions</li> <li>■ Personnel development</li> </ul>
<b>Environment</b>	<ul style="list-style-type: none"> <li>■ Environmental management</li> <li>■ Reducing carbon footprint</li> <li>■ Preventing pollution of air, water and soil</li> <li>■ Saving resources and reducing waste</li> <li>■ Managing chemical substances</li> </ul>
<b>Compliance</b>	<ul style="list-style-type: none"> <li>■ Compliance with laws</li> <li>■ Compliance with competition laws</li> <li>■ Preventing corruption</li> <li>■ Managing and protecting confidential information</li> <li>■ Controlling export transactions</li> <li>■ Protecting intellectual property rights</li> </ul>
<b>Information Disclosure</b>	<ul style="list-style-type: none"> <li>■ Disclosing information to stakeholders</li> </ul>
<b>Risk Management</b>	<ul style="list-style-type: none"> <li>■ Mechanism of risk management</li> <li>■ Devising business continuity plan</li> </ul>
<b>Social Contribution</b>	<ul style="list-style-type: none"> <li>■ Giving back to local community</li> </ul>
<b>Implementation of CSR throughout the company and business partners</b>	<ul style="list-style-type: none"> <li>■ Implementation of CSR initiatives throughout the company</li> <li>■ Implementation of CSR initiatives on business partners</li> </ul>

Source: Created by the authors, based on JAPIA's CSR Guidebook

## 4.2 Global CSR frameworks and standards adopted by companies

Using the information made public by industry groups and individual companies, this section summarises the frameworks and standards that Japanese automotive suppliers employ in advancing CSR on the shop floor in Table 4. The frameworks and standards are classified into seven categories:

international frameworks and guidelines, national regulations, internationally recognised social assessment standards, international standards on reporting, Japanese industrial standards, international industrial standards and safety and health management systems. Many industrial organizations and auto component manufacturers explicitly state their recognition of and intention to comply with international instruments, such

as the ILO core labour standards, the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises in their websites and CSR reports. Their CSR policies and guidelines also declare that they conduct

business operations in accordance with national regulations and industrial standards of the countries that are closely connected to their businesses, in addition to those of international nature.

**Table 4. CSR frameworks, regulations and standards that Japanese vehicle parts industry refers to**

<p><b>International framework and guidelines</b></p>	<ul style="list-style-type: none"> <li>■ ILO core labour standards</li> <li>■ ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (MNE Declaration)</li> <li>■ UN Guiding Principles on Business and Human Rights</li> <li>■ OECD Guidelines for Multinational Enterprises</li> <li>■ OECD Checklist for Implementing the Integrity Principles and Anti-Corruption Ethics and Compliance Handbook for Business</li> </ul>
<p><b>National regulations</b></p>	<ul style="list-style-type: none"> <li>■ US Victims of Trafficking and Violence Protection Act of 2000</li> <li>■ US Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act)</li> <li>■ UK Modern Slavery Act 2015</li> <li>■ EU General Data Protection Regulation (Data Protection Directive 95/46/EC)</li> <li>■ US Foreign Corrupt Practices Act of 1977</li> <li>■ UK Bribery Act 2010</li> <li>■ Regulation (EU) 2017/821 of the European Parliament and of the Council of 17 May 2017 on conflict minerals</li> <li>■ Relevant local laws and regulations including labour laws</li> </ul>
<p><b>Internationally recognized standards for social assessment</b></p>	<ul style="list-style-type: none"> <li>■ SA 8000:2014 (Social Accountability 8000)</li> <li>■ RBA: Responsible Business Alliance (formerly known as Electronic Industry Citizenship Coalition (EICC))</li> <li>■ RMI: Responsible Minerals Initiative</li> <li>■ SEDEX: Supplier Ethical Data Exchange Members Ethical Trade Audit (SMETA)</li> <li>■ amfori BSCI</li> </ul>
<p><b>International reporting standards</b></p>	<ul style="list-style-type: none"> <li>■ UN Global Compact</li> <li>■ GRI Sustainability Reporting Guidelines (G4)</li> <li>■ ISO26000</li> <li>■ IFC Performance Standards</li> <li>■ RMI Conflict Minerals Reporting Template</li> </ul>
<p><b>Standards by industrial bodies in Japan</b></p>	<ul style="list-style-type: none"> <li>■ Keidanren (Japan Business Federation) Charter of Corporate Behavior</li> <li>■ Japan Auto Parts Industries Association (JAPIA) CSR Guidebook</li> <li>■ Japan Electronics and Information Technology Industries Association (JEITA) Supply Chain CSR Deployment Guidebook</li> </ul>
<p><b>International industrial bodies and standards</b></p>	<ul style="list-style-type: none"> <li>■ A Partnership in the European Automotive Sector “Drive Sustainability: a partnership to improve sustainability”</li> <li>■ AIAG: Automotive Industry Action Group</li> <li>■ BSI (The British Standards Institution) PAS 7000:2014 “Supply chain risk management. Supplier prequalification”</li> </ul>
<p><b>Occupational Safety and Health Management Systems</b></p>	<ul style="list-style-type: none"> <li>■ Guidelines on Occupational Safety and Health Management Systems, ILO-OSH 2001</li> <li>■ OHSAS 18001 Occupational Health and Safety Assessment</li> <li>■ ISO 45001 Occupational health and safety</li> </ul>

Source: Created by authors, based on information made available by auto parts industrial organizations and individual companies

### 4.3 CSR policies and supplier initiatives of four vehicle parts makers

Four auto component companies that cooperated with this project, namely, NOK Corporation, Denso Corporation, NGK Spark Plug Co., Ltd. and Yazaki Corporation, all have CSR policies in place, as well as guidelines to have the policies implemented by their suppliers. This section summarises findings from the interviews and website survey. The four companies are JAPIA members, as well as members of the working group for JAPIA's 'CSR Guide Book'.<sup>41</sup> They all have CSR policies published on their websites. Their policies may be principles or declarations of business conduct serving as CSR policies, or separately devised as CSR policies based on their principles or charters of corporate behaviour. Their CSR policies may differ in classifications or designations, but they all cover the eight areas listed in JAPIA's 'CSR Guide Book'. Table 5 catalogues document names in which the guidebook's items are contained and the corresponding designations, comparing the contents of their CSR policies and those of JAPIA's guidebook. The CSR policies of the four companies will be explained one by one.

NOK Corporation declares in the Charter of Corporate Behaviour that their group works to promote business management, which not only contributes to economic and social growth of this country but also makes every stakeholder proud of being part of the business, pursuing the same goals. This can be found in the section titled 'NOK Group's take on CSR'<sup>42</sup> of the CSR Management Report page on its website. In the same page, NOK clearly notes that all business operations are conducted in accordance with the Charter of Corporate Behaviour (Management Philosophy, Management Policy and Principles of Corporate

Behaviour), and that performing corporate social responsibility in every aspect of the environment, society and corporate governance is integral part of business continuance.<sup>43</sup> Its CSR policies comprise the entire NOK Charter of Corporate Behaviour, and specific actions are laid in NOK Principles of Corporate Behaviour.<sup>44</sup> The Principles contains 11 items: providing socially useful products, fair and proper trade, adequate information disclosure and management, thorough implementation of crisis management and severing any relations with antisocial forces, environmental preservation, practising social contribution, harmony with international community, respecting human rights, ensuring safe and comfortable working conditions, responsibilities of officers and emergency responses (Figure 4). NOK implements its Principles of Corporate Behaviour company-wide and encourages its suppliers to do so too.

Denso Corporation has set down its CSR policies in 'Denso Group Sustainability Policy' (hereafter called 'Sustainability Policy').<sup>45</sup> Sustainability Policy starts with the following: 'our management philosophy reads, "Creating value together with a vision for the future." To achieve that mission, we adopted the DENSO Group Sustainability Policy, which outlines expectations for all employees in our global group companies. DENSO and its Group Companies will actively contribute to the sustainable development of society through honest business activities in each country and region.' The group's previous CSR policy, 'Denso Group Declaration of Corporate Behaviour', was revised in light of recent changes in society and the environment in December 2018, into 'Denso Group Sustainability Policy'. Denso declares that sustainability management means seeking to enhance its corporate value by embedding the perspective of social sustainability into its management strategies—that is to say, 'striving to contribute to the resolution of social issues through its businesses while at the same time

41 Source: Interview with JAPIA (conducted on 20 August 2019).

42 NOK Corporation. "CSR Management Report (CSR management hokoku)". Last viewed on 1 August 2019. <http://www.nok.co.jp/csr/management.html>

43 Id.

44 NOK Corporation. "Message from the CEO". Last viewed on 10 December 2019. <http://www.nok.co.jp/en/company/index.html>

45 Denso Corporation. "DENSO Group Sustainability Policy" Last viewed on 10 December 2019. [https://www.denso.com/global/en/csr/pdf/sustainability\\_policy\\_en.pdf](https://www.denso.com/global/en/csr/pdf/sustainability_policy_en.pdf)

generating profits.<sup>46</sup> As shown in Figures 5 and 6, Denso's Sustainability Policy contains 11 policies on the following items: 'contributing to the sustainable development of society through [its] operations', 'legal compliance and ethical conduct', 'trustworthy relationships with customers', 'open and fair business practices and responsible procurement activities', 'respect for human rights', 'working environment and corporate culture to respect employees', 'environmental management', 'social participation and social development', 'information disclosure and dialogue with stakeholders', 'risk management' and 'role of executive management'.

Meanwhile, GK Spark Plug states on their website, particularly, in their page titled 'Our CSR',<sup>47</sup> the following: 'We view CSR ... as an opportunity to be accountable through review of the NGK SPARK PLUG's [sic] GROUP's economic, environmental and social activities from a global perspective, to enhance corporate value, and to contribute to the sustainable development of society in accordance with our Corporate Philosophy.' The company aims to act with social decency, in accordance with its Corporate Code of Conduct and CSR Policy, to live out its slogan, 'With established trust and confidence inside and outside the company, we aim to contribute to the peoples of the world by creating and putting at their proposal new values for the future' (Figure 6). It has set down CSR policies in 'CSR Policy of NGK SPARK PLUG GROUP'<sup>48</sup> that consists of 10 policies on the following items:

compliance, information security, information disclosure, risk management, procurement, corporate quality, human resources, occupational safety and health, the environment and social contribution. It offers detailed explanations for each policy, with further explanation of specific actions to take as guidelines.

Yazaki Corporation has CSR policy,<sup>49</sup> which aims at contributing to sustainable growth of society by implementing this policy throughout the group and its suppliers. The foreword to the policy states, 'The Yazaki Group Corporate Policy of "A Corporation in Step with the World" and "A Corporation Needed by Society" will only be realized by responding to the trust and needs of our global society. In implementing our Fundamental Management Policy, we will listen to the voices of our stakeholders and reflect them in our business activities. Our goal is to contribute to the sustainable development of the earth and society'. As shown in Figure 7, the Yazaki Group CSR Policy consists of five policies for customers, local and global communities, global environment, business partners and employees. The Yazaki Group explains its CSR policy in its 'CSR Report' (2018) thus: 'The CSR Policy, the core activities of the Yazaki Group, clarifies our responsibilities to stakeholders through the reorganization and embodiment of our Fundamental Management Policy from the viewpoint of CSR.'<sup>50</sup>

46 Denso Corporation. "Sustainability Management". Last viewed on 10 December 2019. <https://www.denso.com/global/en/csr/csr-policy/policy/>

47 GK Spark Plug Co., Ltd. "Our CSR". Last viewed on 1 July 2019. [https://www.ngkntk.co.jp/english/csr/our\\_csr/](https://www.ngkntk.co.jp/english/csr/our_csr/)

48 GK Spark Plug Co., Ltd. "CSR Policy of NGK SPARK PLUG GROUP". Last viewed on 1 July 2019. [https://www.ngkntk.co.jp/csr/pdf/csr\\_policy\\_en.pdf](https://www.ngkntk.co.jp/csr/pdf/csr_policy_en.pdf)

49 Yazaki Corporation. "CSR Policy". Last viewed on 1 July 2019. <https://www.yazaki-group.com/global/csr/csr.html>

50 Yazaki Corporation. "CSR REPORT 2018". P.9. Last viewed on 1 July 2019. <https://www.yazaki-group.com/global/pdf/ser2018.pdf>



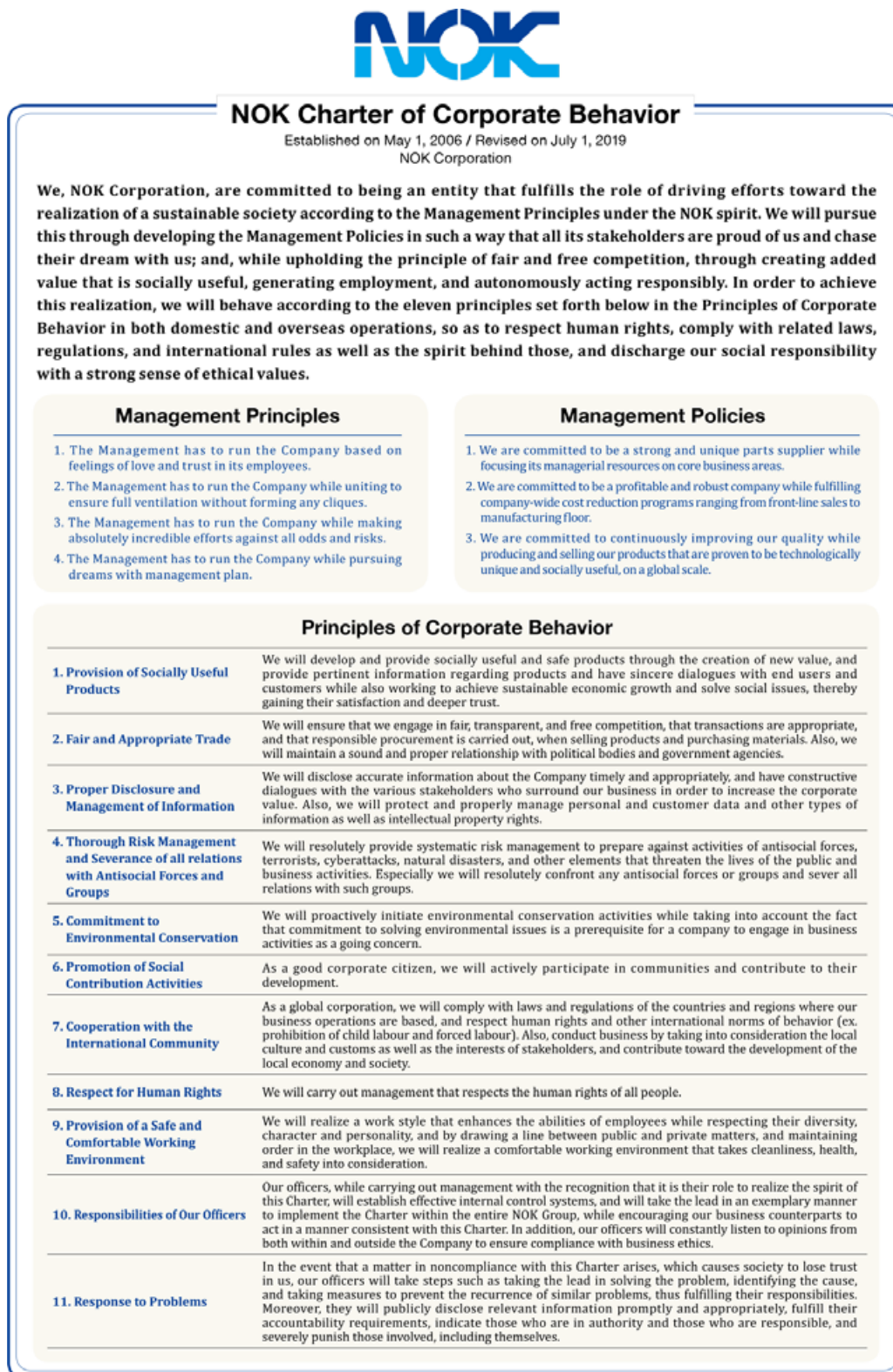
**Table 5. List of document names containing the guidebook's items and the corresponding designations, comparing the four companies' CSR policies and JAPIA'S CSR Guide Book**

Company	JAPIA	NOK	Denso	NGK	Yazaki
<b>Name of the document stipulating CSR policy</b>	8 areas in "CSR Guidebook"	11 principles in "NOK Charter of Corporate Behavior"	11 areas in "DENSO Group Sustainability Policy"	10 policies under "CSR Policy of NGK SPARK PLUG GROUP"	5 areas in "The Yazaki Group CSR Policy"
<b>Areas / Principles / Policies</b>	Safety and quality	Provision of socially useful products	Trustworthy relationships with customers, contributing to the sustainable development of society through our operations	Corporate Quality Policy	Customers
	Human Rights and Labour	Cooperation with the International Community, Respect for Human Rights, Provision of a Safe and Comfortable Working Environment	Respect for human rights, Working environment and corporate culture to respect employees	Human Resource Policy, Occupational Safety and Health Basic Policy	Local and Global Communities, Employees
	Environment	Commitment to Environmental Conservation	Environmental management	Environmental Policy	Global Environment
	Compliance	Fair and Appropriate Trade, Thorough Risk Management and Severance of all relations with Antisocial Forces and Groups, Proper Disclosure and Management of Information	Legal compliance and ethical conduct	Corporate Quality Policy, Information Security Policy	Customers, Local and Global Communities, Business Partners
	Information Disclosure	Proper Disclosure and Management of Information	Information disclosure and dialogue with stakeholders	Information Disclosure Policy	Customers, Local and Global Communities
	Risk Management	Responsibilities of Our Officers, Response to Problems	Risk management, Role of Executive management	Risk Management Policy	Customers
	Social Contribution	Promotion of Social Contribution Activities	Social participation and social development	Social Contribution Policy	Local and Global Communities
	Implementation of CSR throughout the company and business partners	Responsibilities of Our Officers	Open and fair business practices and responsible procurement activities	Procurement Policy	

Source: Created by the authors, based on JAPIA CSR Guide Book and the four companies' CSR policies



Figure 4. NOK Charter of Corporate Behaviour



**NOK**

**NOK Charter of Corporate Behavior**  
Established on May 1, 2006 / Revised on July 1, 2019  
NOK Corporation

We, NOK Corporation, are committed to being an entity that fulfills the role of driving efforts toward the realization of a sustainable society according to the Management Principles under the NOK spirit. We will pursue this through developing the Management Policies in such a way that all its stakeholders are proud of us and chase their dream with us; and, while upholding the principle of fair and free competition, through creating added value that is socially useful, generating employment, and autonomously acting responsibly. In order to achieve this realization, we will behave according to the eleven principles set forth below in the Principles of Corporate Behavior in both domestic and overseas operations, so as to respect human rights, comply with related laws, regulations, and international rules as well as the spirit behind those, and discharge our social responsibility with a strong sense of ethical values.

**Management Principles**

1. The Management has to run the Company based on feelings of love and trust in its employees.
2. The Management has to run the Company while uniting to ensure full ventilation without forming any cliques.
3. The Management has to run the Company while making absolutely incredible efforts against all odds and risks.
4. The Management has to run the Company while pursuing dreams with management plan.

**Management Policies**

1. We are committed to be a strong and unique parts supplier while focusing its managerial resources on core business areas.
2. We are committed to be a profitable and robust company while fulfilling company-wide cost reduction programs ranging from front-line sales to manufacturing floor.
3. We are committed to continuously improving our quality while producing and selling our products that are proven to be technologically unique and socially useful, on a global scale.

**Principles of Corporate Behavior**

<b>1. Provision of Socially Useful Products</b>	We will develop and provide socially useful and safe products through the creation of new value, and provide pertinent information regarding products and have sincere dialogues with end users and customers while also working to achieve sustainable economic growth and solve social issues, thereby gaining their satisfaction and deeper trust.
<b>2. Fair and Appropriate Trade</b>	We will ensure that we engage in fair, transparent, and free competition, that transactions are appropriate, and that responsible procurement is carried out, when selling products and purchasing materials. Also, we will maintain a sound and proper relationship with political bodies and government agencies.
<b>3. Proper Disclosure and Management of Information</b>	We will disclose accurate information about the Company timely and appropriately, and have constructive dialogues with the various stakeholders who surround our business in order to increase the corporate value. Also, we will protect and properly manage personal and customer data and other types of information as well as intellectual property rights.
<b>4. Thorough Risk Management and Severance of all relations with Antisocial Forces and Groups</b>	We will resolutely provide systematic risk management to prepare against activities of antisocial forces, terrorists, cyberattacks, natural disasters, and other elements that threaten the lives of the public and business activities. Especially we will resolutely confront any antisocial forces or groups and sever all relations with such groups.
<b>5. Commitment to Environmental Conservation</b>	We will proactively initiate environmental conservation activities while taking into account the fact that commitment to solving environmental issues is a prerequisite for a company to engage in business activities as a going concern.
<b>6. Promotion of Social Contribution Activities</b>	As a good corporate citizen, we will actively participate in communities and contribute to their development.
<b>7. Cooperation with the International Community</b>	As a global corporation, we will comply with laws and regulations of the countries and regions where our business operations are based, and respect human rights and other international norms of behavior (ex. prohibition of child labour and forced labour). Also, conduct business by taking into consideration the local culture and customs as well as the interests of stakeholders, and contribute toward the development of the local economy and society.
<b>8. Respect for Human Rights</b>	We will carry out management that respects the human rights of all people.
<b>9. Provision of a Safe and Comfortable Working Environment</b>	We will realize a work style that enhances the abilities of employees while respecting their diversity, character and personality, and by drawing a line between public and private matters, and maintaining order in the workplace, we will realize a comfortable working environment that takes cleanliness, health, and safety into consideration.
<b>10. Responsibilities of Our Officers</b>	Our officers, while carrying out management with the recognition that it is their role to realize the spirit of this Charter, will establish effective internal control systems, and will take the lead in an exemplary manner to implement the Charter within the entire NOK Group, while encouraging our business counterparts to act in a manner consistent with this Charter. In addition, our officers will constantly listen to opinions from both within and outside the Company to ensure compliance with business ethics.
<b>11. Response to Problems</b>	In the event that a matter in noncompliance with this Charter arises, which causes society to lose trust in us, our officers will take steps such as taking the lead in solving the problem, identifying the cause, and taking measures to prevent the recurrence of similar problems, thus fulfilling their responsibilities. Moreover, they will publicly disclose relevant information promptly and appropriately, fulfill their accountability requirements, indicate those who are in authority and those who are responsible, and severely punish those involved, including themselves.

Source: NOK Corporation's website<sup>51</sup>

51 NOK Corporation. "Message from the CEO". Last viewed on 10 December 2019. <http://www.nok.co.jp/en/company/index.html>

Figure 5. DENSO Group Sustainability Policy



Created in April 2006  
Revised in December 2018

## DENSO Group Sustainability Policy

### –Realizing a Sustainable Society –

Since our founding, DENSO has been serious about contributing to a better world. In fact, our management philosophy reads, “Creating value together with a vision for the future.” To achieve that mission, we adopted the DENSO Group Sustainability Policy, which outlines expectations for all employees in our global group companies.

**DENSO and its Group Companies\* will actively contribute to the sustainable development of society through honest business activities in each country and region.**

\*DENSO Corporation and its consolidated management companies and companies in which DENSO Corporation is the primary shareholder.

#### **Contributing to the sustainable development of society through our operations**

We will anticipate change and revolutionize our technologies, manufacturing methods, organization and management to provide products and solutions that benefit society.

#### **Legal compliance and ethical conduct**

- We will respect the culture and history of each country and region and maintain the highest ethical standards. We will comply with both the letter and the spirit of applicable laws, regulations, and international rules to ensure sound and fair business operations.
- We will not violate any laws, including competition laws, anti-bribery laws, export control laws, intellectual property protection laws, and data protection laws covering personal information.

#### **Trustworthy relationships with customers**

We will provide attractive, high-quality products and services with advanced technologies to meet customers' expectations. We will provide appropriate information pertaining to our products and services, and openly and honestly communicate to enhance credibility with our customers.

#### **Open and fair business practices and responsible procurement activities**

- We will maintain open, fair, free and sound dealings, and responsible procurement activities and will implement this approach at all DENSO group companies and throughout our supply chains.
- We will also respect our business partners including suppliers, and aim for mutual development with trustworthy relationships.

#### **Respect for human rights**

Based on international standards including the Universal Declaration of Human Rights and the UN Guiding Principles on Business and Human Rights, we will respect the human rights of all persons involved in our business activities. We will ensure that our business activities do not violate human rights in any form. For example, we will not use labor that violates human rights, such as forced labor or child labor in any form. We will understand issues that could cause human rights infringements, such as issues of conflict minerals, and ensure that our business activities will not be complicit in human rights infringements.

Figure 5. (cont.)

**Working environment and corporate culture to respect employees**

- We will comply with laws of each country and region pertaining to basic labor conditions such as working hours, days off, wages, and will maintain and improve a safe and healthy working environment.
- We will provide fair work conditions and employment opportunities, free from discrimination based on gender, age, nationality, disability status, sexual orientation or other factors in any employment situation. We will provide training and development opportunities for our employees and encourage success within a diverse workforce.
- We will build and share a sense of mutual trust and responsibility with employees through sincere communication and discussion.

**Environmental management**

We will implement technological development, factory operation, employee conduct and environmental value creation management to help solve global environmental problems.

**Social participation and social development**

We will make a positive impact on our communities in each country and region through our technologies and products, our volunteer activities and corporate philanthropy. We pride ourselves on being a concerned, caring corporate citizen.

**Information disclosure and dialogue with stakeholders**

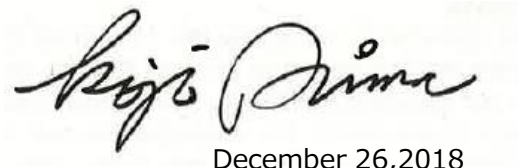
We will regularly disclose corporate information and through open, fair and constructive dialogue with stakeholders, we will enhance management transparency and maintain and improve relationships of mutual understanding and trust with stakeholders.

**Risk management**

We will monitor risks, such as cybersecurity, natural disasters, terrorism, at all times and have comprehensive plans in place to minimize damage and ensure business continuity.

**Role of Executive management**

Executive management will build healthy, effective, and transparent governance systems for business management to implement this policy.



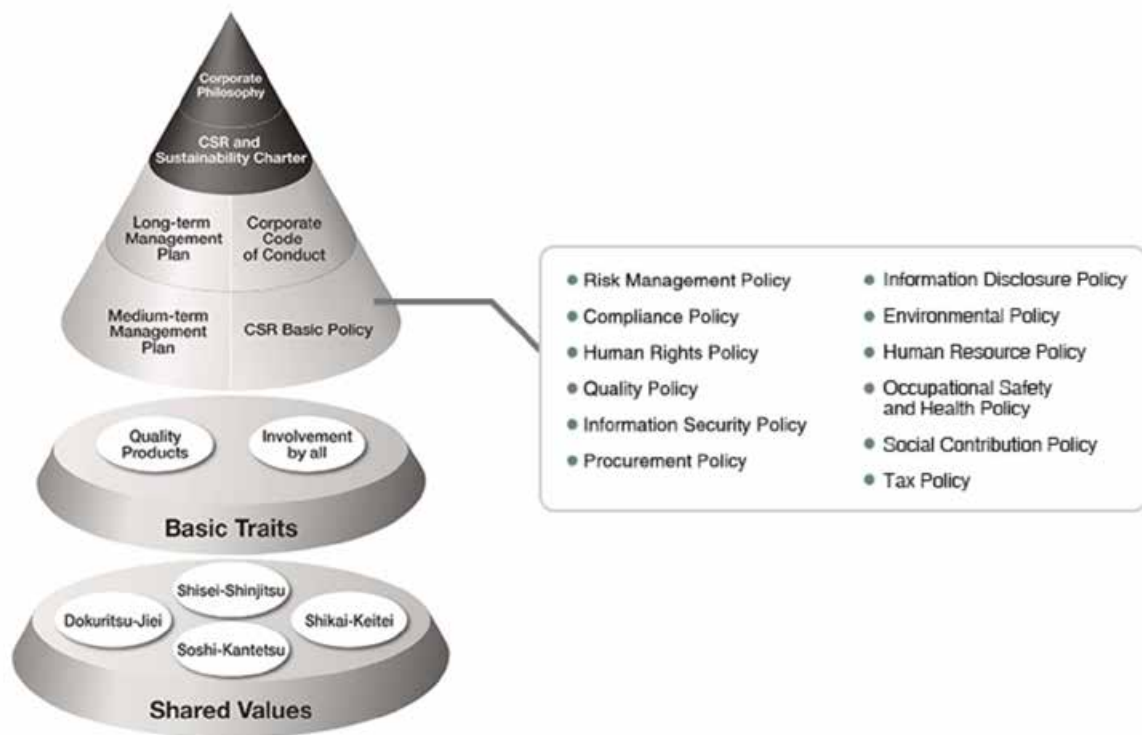
December 26, 2018

President & CEO  
DENSO CORPORATION

Source: Denso Corporation's website<sup>52</sup>

52 Denso Corporation. "DENSO Group Sustainability Policy". Last viewed on 10 December 2019. [https://www.denso.com/global/en/csr/pdf/sustainability\\_policy\\_en.pdf](https://www.denso.com/global/en/csr/pdf/sustainability_policy_en.pdf)

Figure 6. GK Spark Plug Co., Ltd. 'Our CSR'



Source: GK Spark Plug's website<sup>53</sup>

53 GK Spark Plug Co., Ltd. "Our CSR". Last viewed on 1 July 2019. [https://www.ngkntk.co.jp/english/csr/our\\_csr/](https://www.ngkntk.co.jp/english/csr/our_csr/)

Figure 7. Yazaki Corporation ‘CSR Policy’

## CSR policy

The Yazaki Group Corporate Policy of “A Corporation in Step with the World” and “A Corporation Needed by Society” will only be realized by responding to the trust and needs of our global society. In implementing our Fundamental Management Policy, we will listen to the voices of our stakeholders and reflect them in our business activities. Our goal is to contribute to the sustainable development of the earth and society, and we will encourage our business partners to support this policy and work together with us toward its achievement.

<b>Customers</b>	<ul style="list-style-type: none"> <li>■ We will develop and provide safe and high quality products and services that meet the expectations of our customers, and comply with relevant laws and standards.</li> <li>■ We will provide necessary product information properly from the perspective of customers.</li> <li>■ We will protect our intellectual property rights. At the same time, we will respect the legitimate intellectual property rights of others.</li> <li>■ We will carefully manage and protect confidential information of our business partners that we may have acquired through business activities.</li> <li>■ We will take preventive measures against all foreseeable risks surrounding our business and conduct risk management so that in the event of an emergency, we will be able to protect the safety of our employees and local residents as well as maintain business continuity.</li> </ul>
<b>Local and Global Communities</b>	<ul style="list-style-type: none"> <li>■ We will respect the culture and laws of each country and territory, and in conducting all corporate activities comply at all times with relevant laws as well as internal regulations, including this policy.</li> <li>■ We will comply with laws and regulations regarding import and export control of the country or region where we operate.</li> <li>■ We will prohibit the offering of bribes to public officials and politicians and maintain a sound and transparent relationship with government agencies.</li> <li>■ As good corporate citizens, we will endeavor to create an affluent society by promoting social contribution activities and proactive dialogue.</li> </ul>
<b>Global Environment</b>	<ul style="list-style-type: none"> <li>■ Based on the Yazaki Global Environment Charter, we will actively promote environmental conservation activities to ensure that a rich global environment is passed on to the next generation.</li> </ul>
<b>Business Partners</b>	<ul style="list-style-type: none"> <li>■ We will maintain a fair, just, and transparent relationship with our business partners and conduct transactions with integrity.</li> <li>■ We will comply with the laws and regulations of each country, region or territory in order to maintain fair competition.</li> <li>■ In procurement activities, we will expect business partners to act in accord with this policy.</li> </ul>
<b>Employees</b>	<ul style="list-style-type: none"> <li>■ We will build working relations of mutual trust through an open and sincere dialogue with our employees.</li> <li>■ We will respect the diversity of our employees, provide equal employment opportunities, and not conduct discriminatory practices.</li> <li>■ We will respect human rights and not tolerate human rights violations. We will not practice forced or child labor.</li> <li>■ We will comply with laws and regulations related to labor, including wages and working hours, and at the same time, we will provide fair working conditions to all of our employees and maintain a safe and healthy working environment.</li> <li>■ We will actively pursue human resource development and improving the capacity and creativity of our employees.</li> </ul>

Source: Yazaki Corporation’s website<sup>54</sup>

54 Yazaki Corporation. “CSR Policy”. Last viewed on 1 July 2019. <https://www.yazaki-group.com/global/csr/csr.html>

Next, their efforts to have their suppliers implement their CSR policies will be examined. They all have documents that specify actions to implement their CSR policies at their suppliers — CSR procurement guidelines<sup>55</sup>— presenting them to their suppliers to promote their understanding and compliance. Their CSR procurement guidelines encompass the eight areas specified in the JAPIA CSR Guide Book, noting that it was consulted during the formation of the guidelines. Some companies have items related to conflict minerals, which are not mentioned in the association’s guidebook; for instance, NOK Corporation has an item on conflict minerals in its CSR procurement guidelines. Three out of the four companies make use of the CSR Check Sheet serving as a guide how their suppliers implement their CSR policies.<sup>56</sup> They ask the suppliers to use their original CSR checksheets for voluntary inspection, and the suppliers report the results. They review the report and provide training for the suppliers or help them improve the situation if necessary. Their CSR procurement guidelines and CSR checksheets are provided in Japanese and English and translated into any other language used by the suppliers where necessary.

Here, the example of Denso Corporation will be examined in depth as a case study. Denso Corporation has formulated ‘DENSO Group Supplier Sustainability Guidelines (Supplier Sustainability Guidelines)’ that shows the specific actions expected from suppliers for the CSR policy implementation. The Guidelines has nine items: ‘Safety and Quality of Products and Services’,

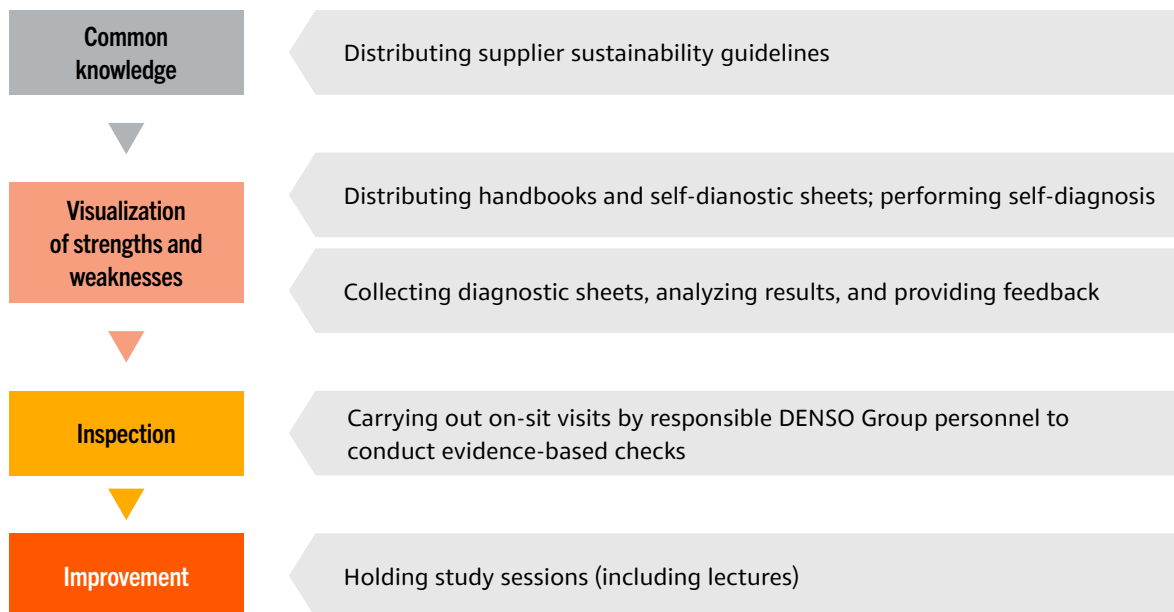
‘Human Rights/Labour’, ‘Environment’, ‘Legal Compliance’, ‘Disclosure of Information to Stakeholders’, ‘Risk Management’, ‘Responsible Material Procurement’, ‘Corporate Citizenship’ and ‘Developing and Deploying Policies and Guidelines for Suppliers’. Further, it demonstrates Denso’s hope that suppliers would formulate their own CSR policies based on the Guidelines, have their own suppliers implement them, acting to promote CSR. Denso requests suppliers to comply with its Guidelines and tracks implementation by collecting the self-diagnosis sheet from the suppliers. The Group analyses the suppliers’ self-diagnosis results and offers support through study group and feedbacks where necessary (Figure 8). The CSR Guidelines and Self-Diagnosis Sheet are provided in Japanese and English. According to Denso’s procurement manager, the self-diagnosis sheet was provided first to those suppliers that met certain standards in 2014. Of all the nine items in the guidelines, Denso focuses on compliance, human rights and labour and environment, in particular. The company also added items on responsible procurement of resources and materials to the Supplier Sustainability Guidelines revised in April 2018, prioritising survey on conflict minerals under the corporate policy to address the issue of conflict minerals. As for the environmental issues, Denso has Green Procurement Guidelines, separate from the Sustainability Guidelines, for promoting environmentally responsible development, design and production in collaboration with suppliers.

55 Those documents, created to help suppliers implement their CSR policies, have different names, such as CSR Guidelines and CSR Procurement Guidelines.

56 Those documents, created to grasp the situation of CSR policies implementation at suppliers, have different names, such as Self Inspection Sheet and Check List.



Figure 8. Main Contents of DENSO Group Supplier Sustainability Guidelines



Source: Denso Corporation's website<sup>57</sup>

#### 4.4 Impact of related industries and companies on auto parts manufacturers

In determining the priorities of CSR issues, the makers of car component consult, first, their own CSR policies, then, the CSR policies recommended by industry groups they and their business partners have dealings with and, finally, requests from their business partners. The main industry associations in Japan are the Japan Auto Parts Industries Association (JAPIA), whose members are companies that manufacture and sell auto parts and materials, the Japan Automobile Manufacturers Association (JAMA), whose members are finished car manufacturers, and the Japan Electronics and Information Technology Industries Association (JEITA), whose members deal with information technology, electronics and electronic devices.<sup>58</sup> Those associations have their own CSR policies and promote CSR activities to their members and relevant enterprises by using CSR guidebooks and guidelines devised in accordance with the policies.

Auto component companies present their CSR policies to their suppliers according to their CSR procurement guidelines, asking for compliance. Thus, when they decide on how to promote CSR, vehicle parts makers do not just refer to their own CSR policies but also those of multiple trade groups they belong to, as well as requests from their business partners. Figure 10 shows the flow of the impact that CSR policies of the relevant industry groups and companies have on the vehicle parts manufacturers' CSR initiatives. As seen in Figure 9, (1) auto component companies, on the individual enterprise level, are asked to comply with CSR policies of their business partners, such as finished car manufacturers, electrical and electronics companies and other vehicle parts suppliers. Multiple business partners often demand compliance with their own CSR policies separately. (2) As for trends on the industry level, JAMA, JAPIA and JEITA each has its own CSR policies, recommending their member companies to follow these policies. (3) JAMA shares the car industry's CSR policies with JAPIA, which the latter refers to in formulating the vehicle parts industry's CSR policies.

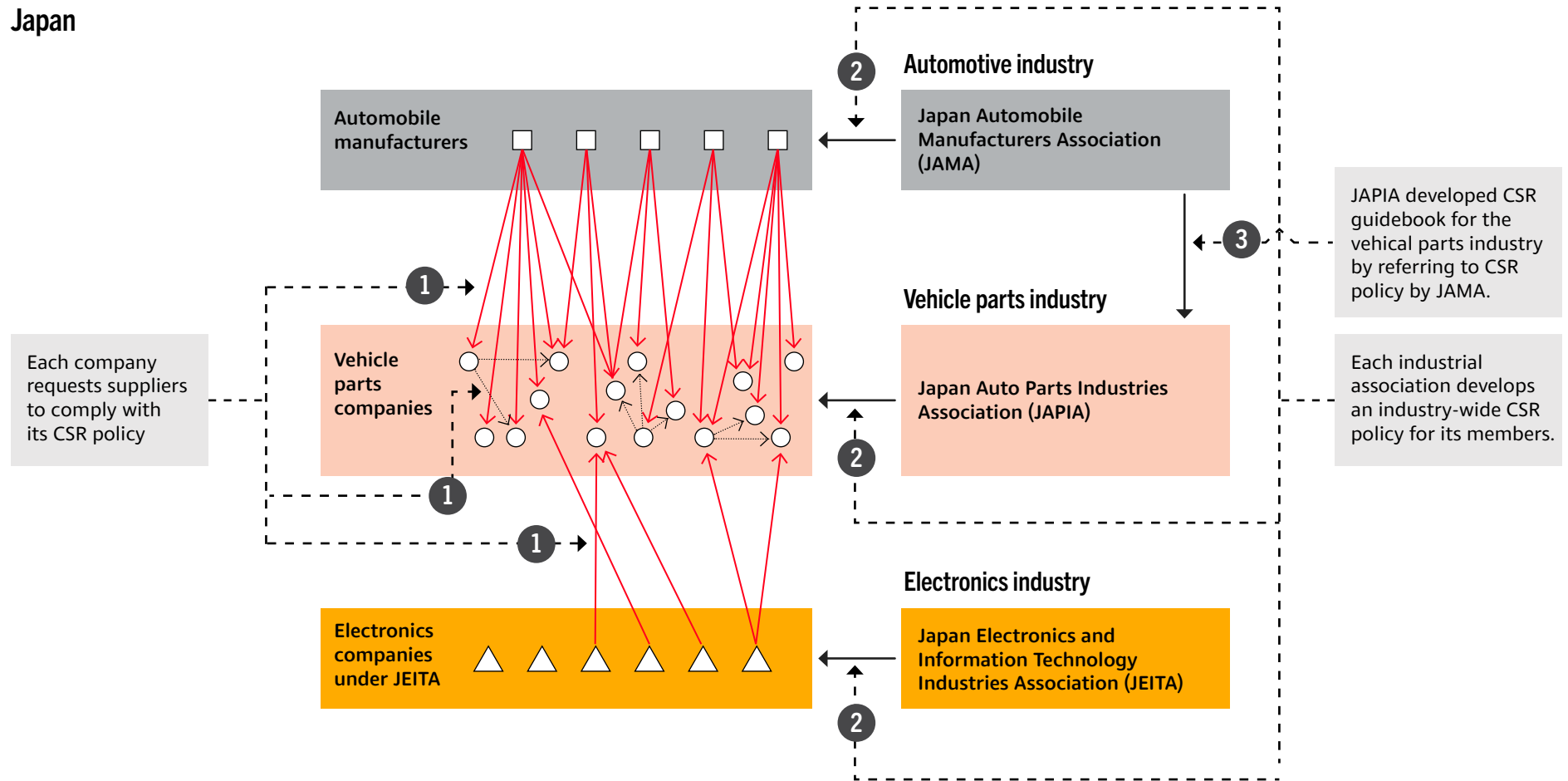
<sup>57</sup> Denso Corporation. "Promoting Sustainability throughout the Supply Chain". Last viewed on 10 December 2019. <https://www.denso.com/global/en/csr/sociality-report/suppliers/supply-chain/>

<sup>58</sup> Many auto component manufacturers have business dealings with electrical and electronics companies, which means that JEITA has a significant impact on them. Also, some car parts makers, like NOK Corporation, belong to both JAPIA and JEITA.

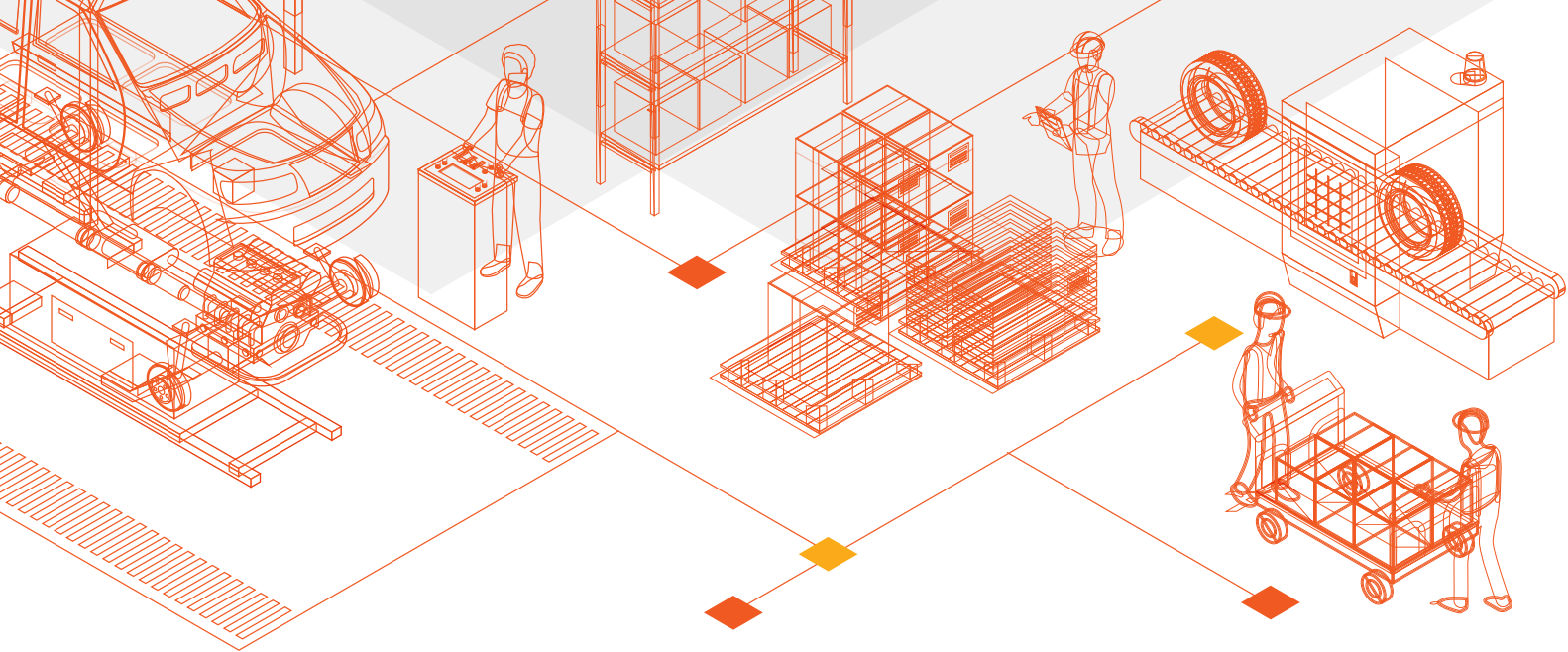


Figure 9. Flow of CSR Promotion in Vehicle Parts and Other Industries in Japan

Japan



Source: Created by the authors, based on interviews with related parties



## 5 Overview of Japanese vehicle parts companies' supply chains in Thailand

Apart from the situation of Japanese vehicle parts industry groups' and manufacturers' CSR policies, the CSR initiatives implemented by Japanese auto component makers in Thailand are under the influence of the situation of the car-related industries and their positions and business partnerships in the supply chains in this country. The overview of Thai automobile-related industries and Japanese companies' position will be presented in this section.

### 5.1 Overview of automobile-related industries in Thailand

The car and vehicle parts industries hold significant places in the nation's economic development, requiring more advanced technological innovations and development of human resources to achieve them in the coming years. As previously mentioned in I.1, the car and vehicle parts industries account for approximately 12% of the nation's GDP, with the number of people employed in the industries exceeding 700,000 by estimate, including finished car makers, car-assembly companies and Tier-1, Tier-2 and Tier-3 suppliers (BOI, 2015).<sup>59</sup> The Thai government

designated the car and vehicle parts industries as target industries for industrial growth strategies in its 11th National Economic Social Development Plan (2012–2016). They are listed in the 10 focus industries<sup>60</sup> in 'Thailand 4.0', a national strategy formed by the government in 2015 to bring the nation out of the middle-income trap and transform it into a high-income country by 2036, aiming to foster a next-generation vehicle industry. Accordingly, the car-related industries are required to develop more highly advanced technologies. The mid-to-long term strategy laid down in 'Thailand 4.0' mentions advancing the existing industries to foster higher capabilities. Achieving this would require enhancing the ability of local product development, having high-value adding processes and production in the country, developing highly skilled engineers and enabling the industries to develop locally.

The country's car-related industries have been developed so far to serve as a production base for finished cars and components for the ASEAN region, as well as to meet domestic demands; going forward, they are expected to be an export base for global markets beyond the region. The Thai automotive component industry's export

59 BOI. "Thailand's Automotive Industry: The Next-Generation". 2015. Last viewed on 1 July 2019. [https://www.boi.go.th/upload/content/BOI-brochure%202015-automotive-20150325\\_70298.pdf](https://www.boi.go.th/upload/content/BOI-brochure%202015-automotive-20150325_70298.pdf)

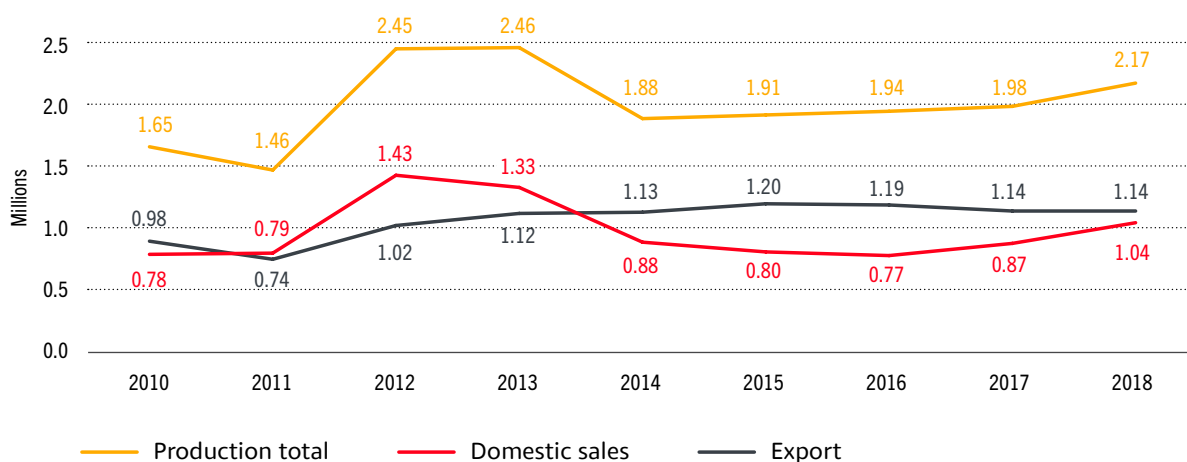
60 The 10 focus industries are as follows: (1) next-generation automotive; (2) smart electronics; (3) medical and wellness tourism; (4) agricultural, biotechnology; (5) food innovation; (6) automation and robotics; (7) aerospace; (8) biofuels and biochemicals; (9) digital economy; and (10) medical hubs.

volume has increased, bringing the country up to the world’s 13th exporter of vehicle parts (OICA, 2018).<sup>61</sup> The boost in demand for vehicle parts within the region transformed the industry from a production base serving finished car manufacturers in the country to an export base for vehicle parts, thereby enhancing the quality and quantity of components produced by parts makers in Thailand.

The production volume of automobiles greatly affects that of automotive components. FTI reveals that finished car production in Thailand is of the greatest scale in the ASEAN region, producing 2,167,694 finished cars in 2018, a 9.0% increase

year-on-year.<sup>62</sup> The nation ranks 11th globally in the production of finished vehicles including buses and passenger cars; it ranks 6th in the world for commercial vehicles in particular.<sup>63</sup> Table 6 shows the trends in production volume of finished vehicles by types in Thailand. The production volume exceeded 2.167 million (a 19.2% increase year-on-year) in 2018, of which, approximately 1.039 million were sold domestically. Japanese finished car manufacturers have a significant share of the cars sold in Thailand. Table 7 shows the market shares of manufacturers in Thailand in 2018. Toyota ranks first at 30%, followed by Isuzu (17.1%) and then Honda (12.3%).

**Table 6. Trends of finished car export, domestic sales and total sales volumes in Thailand (unit: million)**



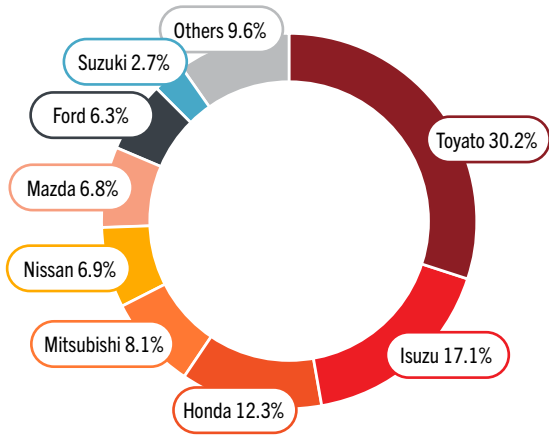
Source: Created by the authors, based on information provided by Thailand Board of Investment (BOI) and the automotive industry club at the Federation of Thai Industries (FTI)

61 Organisation Internationale des Constructeurs d’Automobiles (OICA). “2018 Production Statistics”. OICA’s website. Last viewed on 1 July 2019. <http://www.oica.net/>

62 Marklines. “Thailand - Flash report, Sales volume, 2018”. 24 January 2019. Last viewed on 1 July 2019. [https://www.marklines.com/en/statistics/flash\\_sales/salesfig\\_thailand\\_2018](https://www.marklines.com/en/statistics/flash_sales/salesfig_thailand_2018)

63 OICA. “2018 Production Statistics”. OICA’s website. Last viewed on 1 July 2019. <http://www.oica.net/>

**Table 7. Market shares of manufacturers in Thailand (2018)**

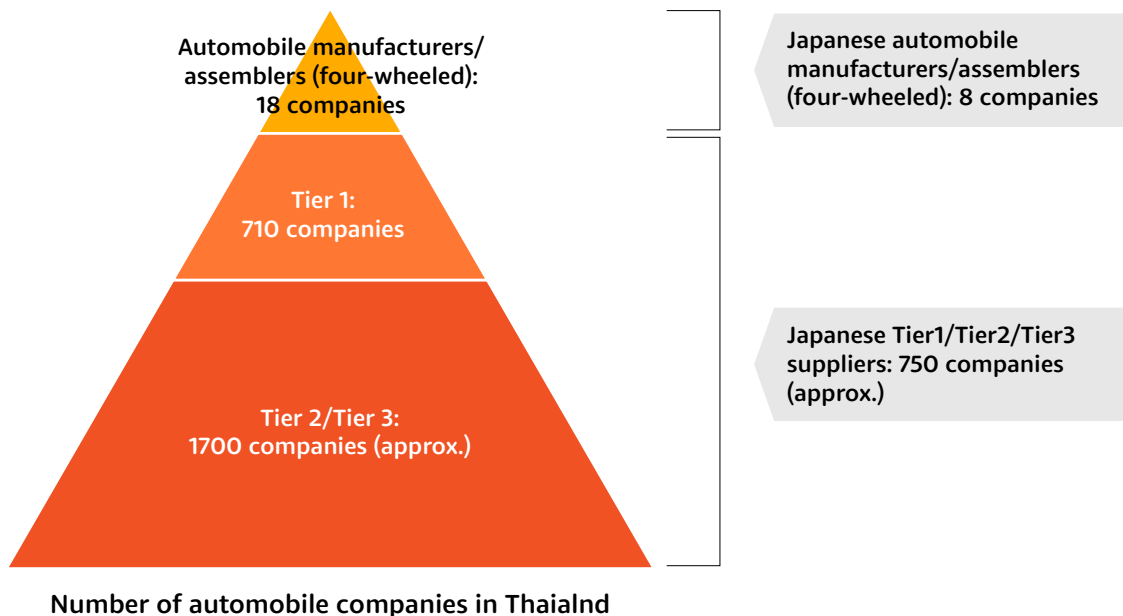


Source: Created by the authors based on the data provided by Marklines Co., Ltd.<sup>64</sup>

## 5.2 Importance of Japanese enterprises in the Thai vehicle parts industry

Japanese businesses have significant presence in the country’s market for automotive components. Figure 10 shows the number of companies in the car industry, dividing it into three parts: finished car manufacturers and assembly companies, Tier-1 suppliers, and Tier-2 and Tier-3 suppliers. This illustrates the significance of Japanese enterprises, which account for 8 out of 18 finished car or assembly companies and approximately 750 out of the total 2410 suppliers from Tier 1 to Tier 3 in this country. Since Japanese vehicle parts companies started having plants in Thailand in the 1960s, car-related industries and others have increasingly clustered. Thailand is now an important production base in the ASEAN region for Japanese finished car makers. This is clearly reflected in the fact that about half of the finished vehicles are exported to the ASEAN region and other parts of the world (Table 6).

**Figure 10. Breakdown of the Thai automotive industry**



Source: Created by the authors, based on the information provided by “Global Value Chains in ASEAN, Paper 10 Thailand”, the ASEAN Promotion Centre on Trade, Investment and Tourism (ASEAN-Japan Centre), March 2019<sup>65</sup> and Thailand Board of Investment (BOI)<sup>66</sup>

64 Marklines. “Thailand - Flash report, Sales volume, 2018”. Last viewed on 10 August 2019. [https://www.marklines.com/en/statistics/flash\\_sales/salesfig\\_thailand\\_2018](https://www.marklines.com/en/statistics/flash_sales/salesfig_thailand_2018)  
 65 ASEAN-Japan Centre. “Global Value Chains in ASEAN, Thailand”. Paper 10 March 2019. Last viewed on 1 July 2019. [https://www.asean.or.jp/ja/wp-content/uploads/sites/2/GVC-in-ASEAN-paper-10\\_Thailand.pdf](https://www.asean.or.jp/ja/wp-content/uploads/sites/2/GVC-in-ASEAN-paper-10_Thailand.pdf)  
 66 BOI. “Thailand’s Automotive Industry: The Next-Generation”. Last viewed on 1 July 2019. [https://www.bo.go.th/upload/content/BOI-brochure%202015-automotive-20150325\\_70298.pdf](https://www.bo.go.th/upload/content/BOI-brochure%202015-automotive-20150325_70298.pdf)

Thus far, Japanese car suppliers have played an important role in the development of the vehicle parts industry in Thailand. About 50 years have already passed since they started building plants in this country, and its ability as a production base has been fully developed. It is now possible for Japanese finished vehicle makers to procure almost all the parts necessary for car production locally, and those imported from Japan are used only where high precision is required.<sup>67</sup> Going forward, this country's automotive-related industries need to provide more reasonably priced vehicles in response to medium-term increase in domestic consumption and change in market needs, to address the emergence of eco-friendly vehicles that require advanced technology, to expand production capacity for finished vehicles to increase exports to the ASEAN region and other parts of the world and to develop the vehicle parts industry that makes all this possible. To achieve all these, the industry needs to further enhance existing Thai engineers' abilities to develop highly advanced local production engineers and to improve the production technology to locally manufacture products of higher quality and precision. Japanese automotive and vehicle parts manufacturers are engaged in fostering business managed by local top management and engineers—that is to say, in promoting localization of production. This is aligned with the Thai government's development strategy laid down in 'Thailand 4.0'. Japanese vehicle parts makers carry out activities to support fostering of the Thai vehicle parts industry in line with 'Thailand 4.0', with support from Thailand's Ministry of Industry and relevant Japanese governmental bodies such as the Ministry of Economy, Trade and Industry. For example, Denso is engaged in LASI—a training programme for lean automation system integrators in the connected industries—which the MOI runs at the Industry Transformation Centre (ITC), supporting small and medium-sized enterprises to advance industries. Through LASI, Denso aims to develop system integrators who can eliminate excesses

in production lines and plants and build efficient production systems by combining automation and information technologies, thereby realising highly competitive production conducted solely in Thailand.<sup>68</sup>

### 5.3 Relationships between Japanese suppliers in the automotive supply chains in Thailand

In this section, the characteristics of Japanese automotive component makers' supply chains seen in the Thai car supply chains will be explained. Figure 11 presents the relationships between vehicle parts makers and their business partners in a simple diagram, based on interviews with the companies that participated in the survey and the information they provided. The supply chain is divided into three parts, namely, procurement, parts production and assembly and sales, with actors in each phase labelled with nationality and type. For the procurement phase, companies are divided into five types: Japanese companies, Japanese companies based in Thailand, local Thai companies, foreign companies based in Thailand and global Japanese companies. For the parts production phase, companies are divided into Tier-1 and Tier-2 suppliers, with automotive component manufactures classified into Japanese vehicle parts companies, Japanese vehicle parts companies based in Thailand, local Thai vehicle parts companies, foreign vehicle parts companies based in Thailand and global Japanese vehicle parts companies. For the assembly and sales phase, finished car makers and assembly companies are divided into four types: Japanese finished car makers based in Thailand, Japanese finished motorcycle makers based in Thailand, other finished product makers based in Thailand and global Japanese finished car makers. Figure 12 shows the relationships between enterprises at the phases of procurement, parts production and assembly and sales.<sup>69</sup>

67 Based on interviews with companies in Thailand (conducted from July to August 2019)

68 Based on an interview with DENSO International Asia Co., Ltd. (DIAT) (conducted on 1 August 2019)

69 This simplified diagram does not mention Tier-4 suppliers and below, because the purpose of this diagram is to bring the characteristics of car parts makers' supply chains in Thailand into sharp focus, but not to present the whole picture.

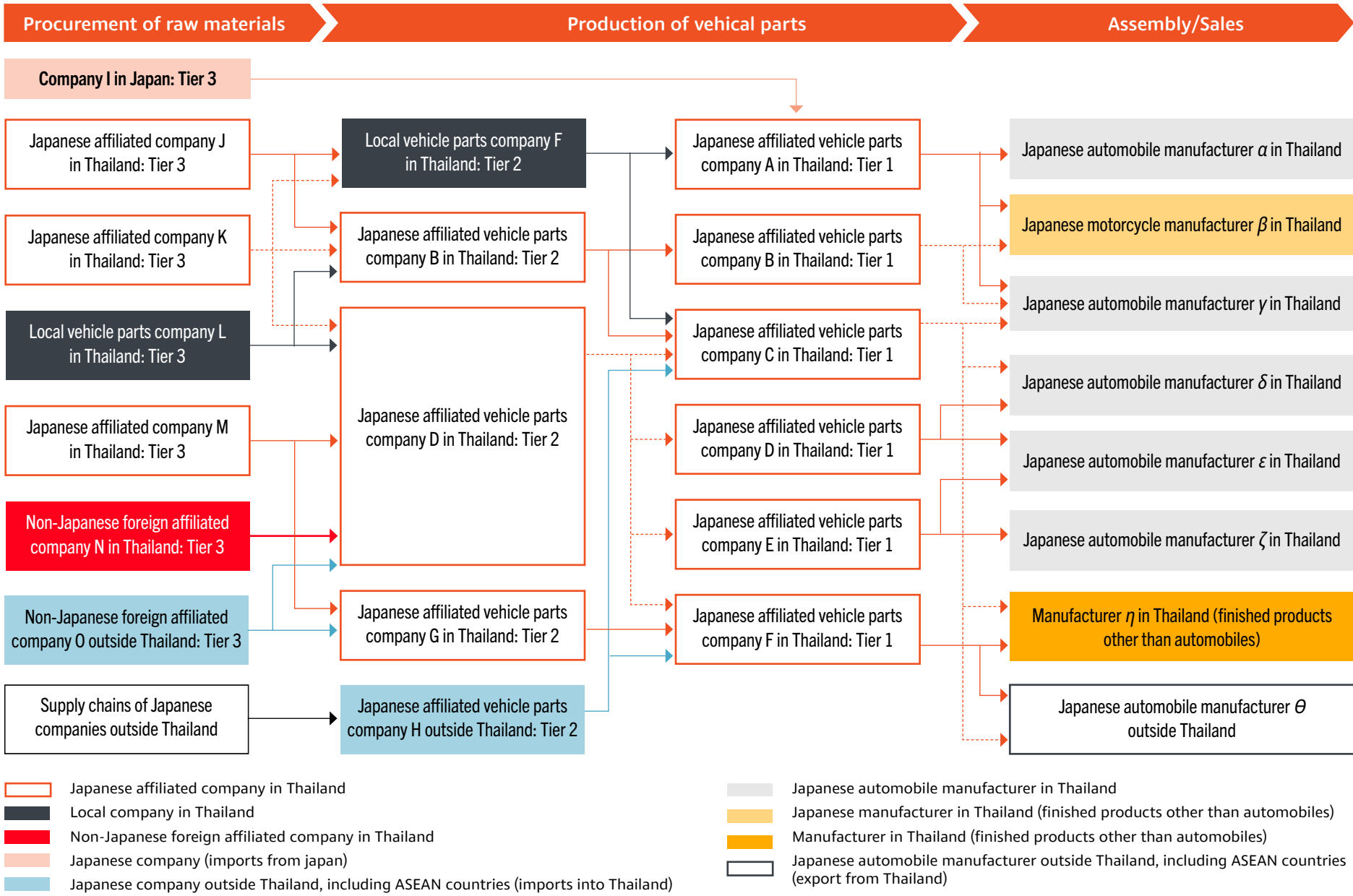
The first characteristic shows that automotive component manufacturers buy raw materials and parts from multiple suppliers and sell their products to multiple finished goods manufacturers. Take a look at Japanese vehicle parts maker A, for instance. A delivers its goods to Japanese finished car maker  $\alpha$ , Japanese finished motorcycle maker  $\beta$  and Japanese finished car maker  $\gamma$ . Unless they are under the exclusive sales agreement, automotive component manufacturers procure raw materials and parts from multiple suppliers and deliver goods to multiple finished products companies belonging to different groups. The second characteristic is that they have dealings not just with finished car makers but also with finished motorcycle and other finished products companies. Their customers' products range from automobiles, motorcycles, construction machines, to other products. The third is that Japanese vehicle parts companies may occupy different positions at different phases simultaneously in the supply chains of finished vehicle manufacturers. Take Japanese vehicle parts manufacturers B and D based in Thailand, for instance. B is a Tier-1 supplier of Japanese finished motorcycle maker  $\beta$  and, simultaneously, a supplier of Japanese vehicle parts manufacturer C, as well as a Tier-2 supplier of Japanese finished car maker  $\gamma$ . D is a supplier of Japanese vehicle parts companies C, E and F, as well as a Tier-1 supplier of Japanese finished car manufacturers  $\delta$  and  $\epsilon$ . Thus, a Tier-1 supplier of a certain finished car manufacturer may be a Tier-2 supplier of another. The fourth is that both suppliers and buyers are of diverse nationalities. The companies listed in Figure 12 are of different nationalities: Japanese based in Thailand, Thai local, foreign affiliates based in Thailand, Japanese and global Japanese companies. They procure parts and raw materials from local companies and foreign affiliates in Thailand, not just from Japanese companies. As for assembly and sales, parts they make in Thailand are assembled and sold not just by Japanese finished car companies based in Thailand, but also by other finished vehicle makers.

These four factors imply that for Japanese vehicle parts makers in this country, it is not a simple matter of responding to CSR policies of one particular finished automobile manufacturer, as they are required to comply with those of different companies and of different industries. The fact that companies have multiple, different relationships, rather than a single relationship, in the supply chain means that the pressure to comply with CSR policies of business partners may differ depending on their positions. They use multiple suppliers and provide finished product makers with their own goods, suggesting multiple business partners. They have dealings with finished makers of products other than cars; this implies they have to conform to CSR policies of not just the automotive industry but also those of electrical, electronics and other related industries. Suppliers and buyers are based in various countries, which means that they have to deal with CSR policies of not just Japanese, but local or foreign companies of diverse nationalities. Furthermore, increasingly more autopilot, next-generation powertrain, connected vehicles will be produced. Consequently, this will give rise to different sets of parts, fewer engine parts and rising demand to use external sensors and communication equipment for vehicles. This suggests that the CSR standards of the electrical and electronics industries will have great impact on the vehicle parts makers. Thus, they are expected to deal with increasingly more complicated CSR policies.

Given this situation, the CSR initiatives of the four Japanese vehicle parts companies in Thailand will be presented in the next chapter as case studies.

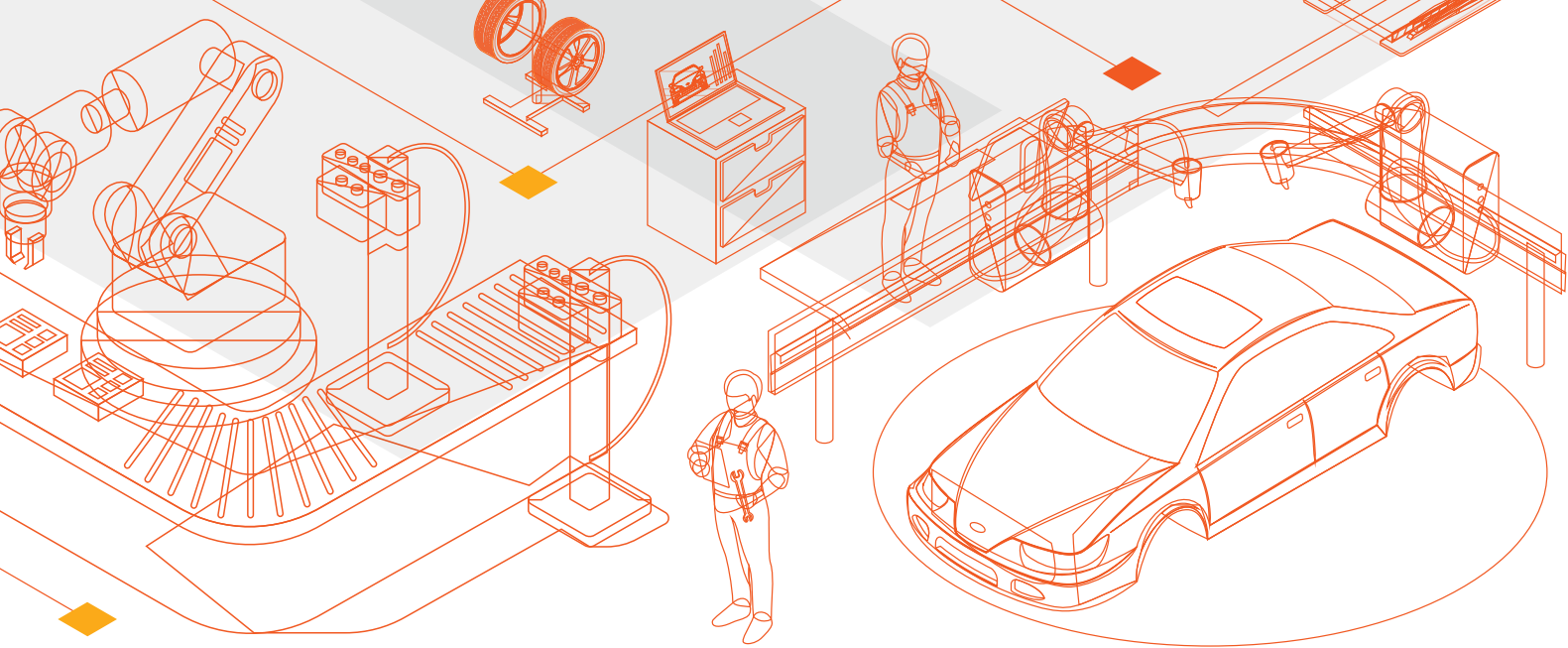


Figure 11. Relationships between Japanese vehicle parts makers and different players in Thai car supply chains



Source: Created by the authors, based on the information provided in interviews and reference materials



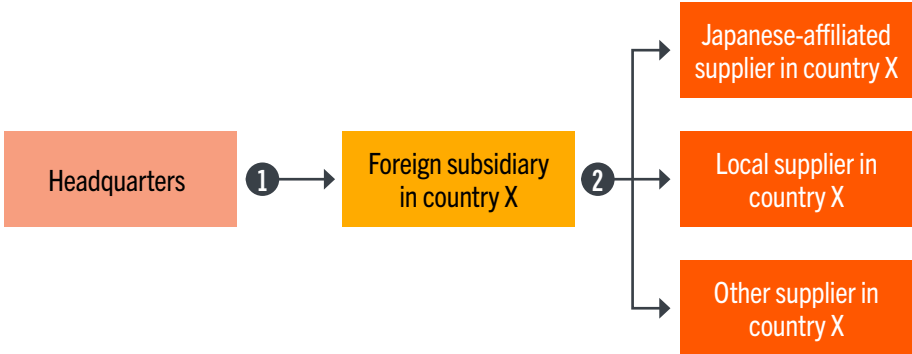


# 6. Case Studies

As previously mentioned, Japanese automotive component manufacturers make efforts to implement their headquarters' CSR policies at their local subsidiaries and suppliers, in collaboration with their business partners in the complex web of supply chains. Their efforts are under the influence of the CSR policies promoted by various industries related to automobiles. Their programmes are complex, rather than simply demanding compliance of the CSR policies. They make various efforts for the policies to be accepted by local subsidiaries, who, in turn, will urge local suppliers to follow the same. In this section, good practices of CSR promotion seen in the supply chains will be studied to see how Japanese automotive component makers are advancing CSR policies in Thailand.

The challenge in having a company's CSR policies implemented throughout its supply chains is how to enforce them to their local subsidiaries and suppliers' plants in concrete forms in the process of procurement. The key to this lies in bilateral communications between management and employees. Therefore, the case studies of the four model companies presented here will be focused on how their engagement with the local subsidiaries and suppliers and their communications with workers help promote CSR policies on the ground. This section, which will present their initiatives to propel CSR policies throughout their supply chains, will first look at their efforts for the policy adoption throughout the local subsidiaries (1 of Figure 12). Then, we examine their efforts to have the subsidiaries encourage local suppliers to adopt the policies (2 of Figure 12) and finally present good practices of constructive labour-management communications.

Figure 12. How CSR policies are implemented in supply chains



Source: Created by the authors

## 6.1 How to have the headquarters' CSR policies implemented throughout Thai subsidiaries

### 6.1.1 Good practice of advancing CSR policies by the method devised by the local Thai management and employees (THAI NOK Co., LTD.) Key concepts: locally-driven, safety, and dialogue

Run by Thai top management, THAI NOK has improved the safety and health of the workplace to suit the local context. Moreover, using the bottom-up approach, the company is working to foster a corporate climate where employees themselves promote the CSR policies of the headquarters (NOK Corporation). This has encouraged the workers to identify issues on the frontlines, proactively take actions to solve them and acquire self-discipline, thereby carrying out the CSR policies. The following are three examples of initiatives at THAI NOK.

The first example is CSR promotion driven under the initiatives of the Thai top management. With the headquarters' blessing, THAI NOK is currently run by local executives, who have in-depth understanding of the land, with full consideration for the local particularities. Local residents account for 80% of the top management, who have extensive knowledge of Thai culture, personality, lifestyles, as well as management policies and methods of the headquarters. Under the local leaders, THAI NOK has formed its own missions and visions, aiming to maintain high levels of Safety, Environment, Quality, Delivery, Cost and Morale (SEQDCM) for continued sustainable growth. The core competencies of the subsidiary, also selected locally, are Safety awareness, Excellency in quality, Accountability, Learning for continuous improvement (SEAL). The Thai executives have assimilated the headquarters' policies into the subsidiary by tailoring them to what they call 'our own working style'. The Japanese business culture of Reporting, Contacting and Consulting, 5S (Sort, Straighten, Sweep, Standardize, Sustain), and *kaizen*, required by the headquarters to observe, are also localized and practised.<sup>70</sup> Rather than imposing the headquarters' policies on the workers,

the leaders explain why they are necessary to them. This creates a culture of trust between the top management and the employees. THAI NOK also holds events proposed by the local employees, such as company trips, festivals, tree planting and fundraising to give back to the community. Having a fitness room and a basketball court, a futsal pitch and a music studio helps boost employees' motivation, resulting in good work practice. Employees creating a song, unbidden, about the company along with its music video seems to demonstrate the pride they take in working for this company. Their voluntary efforts are part of CSR implementation tailored to the local environment.

The second example is CSR promotion incorporated into labour safety of business operations. THAI NOK is thorough in its belief that employees' safety must be protected in ways adapted to the country to produce '*iimono* (products of high quality)' mentioned in the company motto, and this idea is woven into the business operations. This has served to help promote the CSR policies. The method to protect worker safety appropriate in Thailand is reflected in high-quality communication between management and employees. THAI NOK manages to detect issues early on and address them by having communications of high quality and quantity between the leaders and workers. For example, if a factory worker complains about back pain or a sore eye, the leaders lend them an ear and take action. The underlying philosophy here is Safety (Environment) as the premise of achieving Quality, Cost and Delivery (QCD) that customers demand. The idea is that if employees heighten their safety (work environment), this will ultimately lead to realising QCD at high levels.

The third is their initiative to build a mechanism of promoting self-discipline. The bottom-up approach, in which factory workers review and assess the work environment of their own accord, has helped improve their working practices and self-discipline. Thus, the company has a mechanism where factory workers detect, report and improve potential issues by themselves, not because they are told to do so or because others do so. Understanding the benefits of self-discipline fostered by these

<sup>70</sup> Read the essay on a case study of *kaizen*.

actions boosts their motivation for voluntary approach. This is encouraged by pink cards placed throughout the plant. If factory workers find issues or something wrong, they report them to operational leads using the pink cards, with ideas to rectify the situation. Upon receiving the pink cards, operational leads review them, analyse the situation, and create corrective plans, sending them back to the workers as feedbacks. Workers have the habit of reporting every small issue using the pink cards; a worker submits three to five pink cards a month. With this method, they can see and feel the benefits of the pink cards, as everything is made visible from issue detection to results. This prompts self-discipline among factory workers. Moreover, on the wall of the factory, a sign reads, 'Solve problem by ourselves', and a board explains in detail how to solve a problem detected in a short period. By taking the initiative to solve problems, workers acquire self-discipline, which leads to implementation of CSR policies.

### **6.1.2 Good practice of creating a workplace that implements the headquarters' policies adapted to its culture (DENSO THAILAND) Key concepts: Respecting the local culture, and bottom-up approach**

Denso Thailand (DNTH) engages in bottom-up approach to achieve CSR and other policies of the headquarters (Denso Corporation) and production targets led by Thai employees, rather than Japanese employees sent from the headquarters ordering them what to do. In the past, the company was run by Japanese employees who were temporarily transferred to the subsidiary. These Japanese employees gave instructions from the headquarters to Thai employees, which were relayed to Thai workers at the factories. DNTH turned it around and started to work towards locally led management of the business. Now, they have a system nearly set up where the Thai employees explore approaches tailored to the country on their own initiative and make use of them to achieve the targets. This attitude can be seen in various activities. An initiative conducted in a factory will be presented here as a case study. The local workers take it upon themselves to achieve management goals and work on their business practices day by day, until a better work environment is created. Here,

they have managed to create a workplace that best suits them by their own hands. Ingenious ideas for locally led management can be found throughout the factory.

The work environment, developed mainly by the local employees, allows the Thai employees to work safely and comfortably and to improve efficiency. Upon entering the factory, everyone must go through an arch with Safety First reminders, and employees read the safety guidelines posted on the wall of the corridor. Walking through this before work every day helps them become safety-conscious naturally. Near the factory entrance, there is a study space with postings and leaflets to learn about occupational health and safety, a board to check production targets and the current status and a communication space to learn about the environmental conservation. Simply by looking at those colourful posters and information materials, they can deepen their understanding of these matters. Just inside the factory is the management corner: workers review safety training and production targets for each production line here. On the shop floor, their original *kamban* system using interlocked ping pong balls is adopted to enhance operational efficiency in some parts of the factory. This is part of the mechanisms they created to eliminate waste from operations. They used to walk over to the next process to pass on *kamban* (production instructions); now, ping pong balls signifying instructions in different numbers and colours are automatically forwarded to the next process, reducing the waste in using people to do so. The space and human power generated by expelling waste from the shop floor can be channelled into production, which boosts operational efficiency. This *kamban* system is a good example of flexible ideas proposed by the local workers adopted by the management, not something that Japanese workers would come up with. Life-size panels of winners of engineering tests and competitions are presented at the centre of the factory, which shows that the company values skill improvement of engineers. Furthermore, a traditional Thai roof is built over part of the production lines, which is another ingenious idea of Thai workers. A glance at the factory reveals the company values Thai culture and a work environment where workers feel comfortable. The CSR policies of the headquarters are implemented on the shop floor, adapted to the local culture by the empowered local workers.

### 6.1.3 Good practice of executing CSR policies based on workers' safety by top management listening to their opinions (THAI ARROW PRODUCTS) Key concepts: top management commitment, employee safety

Thai Arrow Products puts employees' safety first in its business management. Establishing a safe place for its employees is of utmost importance to this enterprise as it believes that ensuring they can work without having any problem, mentally or physically, is the only way to achieve Quality, Cost and Delivery (QCD). Based on the management philosophy<sup>71</sup> of its parent company, Yazaki Corporation, Thai Arrow Products values people and aims to be loved by the community. In putting this into practice, the company sends out the messages of 'Employee

Safety First' and 'High Quality is a Must for a Contract' to all its stakeholders daily. They do this consistently throughout the subsidiary and its suppliers, under the strong initiative of the top management. If an accident occurs at the factory, the president immediately investigates the situation on the site and shares the information with the safety committee so that it can be dealt with swiftly. This policy of prioritising workers' safety is thoroughly observed, which changed the attitude of managers and workers alike, helping them realise they are valued, enhancing their sense of belonging to the company. As a result, the rate of accident occurrence dropped at the factory. At present, they hardly have any accident or serious incidents due to negligence. The president practises labour CSR by demonstrating the commitment to the policies and by visiting the factory to listen to the voices of the workers. Here, its initiative will be examined in detail to see how Thai Arrow Products communicates its CSR policies throughout the company and its suppliers to have them implemented under the leader's initiative.

There are two examples of its efforts to seek out workers' opinions and to reflect them into the business operations. The first is preparing a workplace that employees would want to go to every day. Improving the work environment

at the factory is a vital factor, which determines worker motivation and satisfaction and directly or indirectly impacts productivity and quality. Therefore, the company's welfare committee often discusses restrooms, the canteen and commuter buses. The company increased the number of restrooms so that female workers, who account for 80% of the total employees, could use them without experiencing inconvenience. It also moved the locations of mirrors so that they could check themselves in the mirror any time. The dining hall has multiple restaurants, which provides nutritiously-balanced meals at reasonable prices and rice for free. The company also offers free commuter bus rides to provide safe transportation to its employees as traffic jams and accidents are common occurrences in Thailand. It provides thorough traffic safety training, too. Many workers use motorcycles to commute in this country. It is often the case, however, that they obtain the license without taking proper safety training, resulting in traffic accidents. Not all the employees of the company received sufficient training. Thus, Thai Arrow Products decided to provide its employees with safety training and driving lessons to prevent traffic accidents. In some cases, strict steps are taken, as in not giving entry permission for employees riding a bike without wearing helmets. As a result, the rate of motorcycle accidents declined, and they hardly have any serious accidents where employees are hospitalised. The second is using emoticons to show workers' health and mental conditions every day. Female workers find it hard to tell their supervisors that they are not feeling great because they are having a period, for example. It is important for supervisors, however, to be aware of workers' health conditions. By placing emoticons, smiley or otherwise, next to their names on the list of employees, they can let others know the state of their mental and physical conditions. Supervisors are now able to give sufficient considerations to each employee by checking the emoticons, preventing accidents or defects. The top management says that this is the spirit of mutual help, which is exemplified in the slogan of Yazaki Group, 'One for All, All for One', translated to reality.

71 See Chapter IV for Yazaki Corporation's CSR policies.



Employee Safety First is consistently carried out, not just within the subsidiary but also for its suppliers. At the annual general meeting, the company's employees visit the suppliers to convey the headquarters' policies, and at the same time, they provide support for labour safety as well as for technical matters at the factories, promoting safety for workers in all the business operations. For example, Dawn, one of its suppliers, is contracted to perform part of the production processes for wire harnesses. The employees of Thai Arrow Product offer technical support to DAWN's workers, while also promoting the spirit of employee safety first and efforts to achieve that. This is another evidence of putting into practice the policy prioritising workers' safety.

## 6.2 How to engage with the suppliers /business partners for them to observe the headquarters' CSR policies

### 6.2.1 Good practice of helping suppliers to improve their work conditions by engagement in Quality, Cost and Delivery (Siam DENSO Manufacturing)

#### Key concepts: QCD and trust

Siam DENSO Manufacturing (SDM) promotes the CSR policies of the headquarters (Denso Corporation) to its suppliers by engaging in initiatives to enhance quality, price, delivery (QCD) and other aspects of its suppliers, improving their work environment. In the process of enhancing QCD, it is necessary to improve suppliers' productivity. Making the production processes lean ultimately helps them observe the basics of labour safety in factories. Another factor is that the trust cultivated between SDM and its suppliers in terms of QCD fosters an environment which makes it easy for the company to advance CSR policies. That is, the suppliers, in trying to improve QCD, engages with matters such as occupational health and safety at the factories, workers' morale and motivation, wages and working hours, forced labour and child labour, in the process of eliminating waste from the

production and streamlining the processes. This, as a result, helps them engage with what is dictated by the CSR guidelines of the Denso Corporation. This will be illustrated by the cases of a Japanese and a local supplier.

The first case is SDM's engagement with its Japanese supplier X. X identifies issues of occupational health and safety and human rights in its factories by bottom-up approach to address them through quality improvement efforts called CORPS activities in cooperation with SDM. The Japanese supplier solves various challenges with workers who take the initiative, making use of the QC circle activities (QCC) contest. Teams compete against each other over the inefficiencies they uncover on the shop floor, ideas to improve productivity by eradicating these inefficiencies and results of trying out those ideas. QCC begins with understanding the problem. Hence, workers, divided into teams of five to seven, have weekly meetings to detect issues in quality, cost, working conditions and other matters, and discuss solutions. Workers propose the solutions to the top management, and they are acted upon. Teams record the results, create reports and make presentations at the contest. They have already improved matters such as splashing of oil mist, noise, conditions of restrooms, remodelling work clothes and other problems at the factories. X has solved diverse problems in the areas of safety and quality, human rights and labour, the environment and compliance, using the bottom-up approach that it learned from SDM in its engagement with the supplier. This has helped promote business management that cares about workers' rights.

The second case is SDM's engagement with BOON ENGINEERING PARTS, a local supplier that provides parts related to air conditioners. BOON has been engaged in a quality control initiative by SDM for nearly two decades. Based on the mutual trust built over the many years of engaging in this activity, SDM instructs BOON for improvement on the matters of occupational health and safety and the environmental issues, not just of quality control and safety. The following are examples of BOON's programmes. They all use Constitution

Assessment Programme for Suppliers (CAPS)<sup>72</sup>, Denso Group's global programme to develop suppliers' abilities. SDM conducts Supplier Quality System Assessment (SQSA) on BOON using CAPS, to track Quality, Cost, Delivery, Safety and Moral (CQDSM) of the supplier. It also provides technical support for BOON where necessary, depending on the results. In the past, BOON's factory workers were sent to Denso Training Academy in Chonburi, Thailand, acquiring skills that proved to be useful at the factory later. BOON has many migrant workers from Myanmar. Therefore, it is vital to have instructions in multiple languages to ensure occupational health and safety at a level required by SDM. BOON explains about health and safety in both Myanmar and Thai and places employees who speak both languages in the positions of responsibility. It also ensures that employees should have no inequality by the reason of nationality, in terms of benefits, working hours, wages, holidays, maternity leaves and so on. SDM maintains a relationship with BOON where it can offer its opinions on such issues of occupational health and safety and personnel matters, on reviewing the current situation. The trust fostered by the quality control programme promotes open communication between them; they have achieved a relationship where SDM's employees can visit BOON any time and have direct communication with its factory workers. This helps them discover issues in the work environment and other CSR challenges early on to address them.

Thus, by building a relationship of mutual trust with its Japanese and local suppliers through technical support, close communication and engagement for QCD, SDM has helped them engage with initiatives on occupational health and safety required by the CSR guidelines of the headquarters.

### **6.2.2 Good practice of promoting CSR policies throughout the entire supply chain under the mission of giving back to the local community (SIAM NGK SPARK PLUG) Key concepts: Contributing to local community, and horizontal implementation of CSR procurement guidelines**

SIAM NGK SPARK PLUG (SIAM NGK) began with analysing the current situation to have the CSR policies of the headquarters (GK Spark Plug) observed in the production sites in Thailand. The idea was that promoting the CSR policies would help them contribute to the local community. In the following section, we will explain the underlying philosophy that SIAM NGK used in its efforts to promote the CSR policies throughout the supply chain, its method and particular points for their suppliers.

The company believes that enabling local suppliers to understand the positions on human rights and labour, the environment and the local community dictated by the CSR policies and engaging in the business together helps build a clean Thai company and ultimately give back to the society of this country and enhance its business sustainability. With this idea, SIAM NGK first examined how the CSR policies were adopted by its Thai suppliers. For raw materials and parts procurement, the company was already keeping a close tag on the suppliers, as their customers sometimes questioned them on environmentally hazardous substances and conflict minerals. It was not the case, however, with other CSR matters such as human rights and labour, which were left to the discretion and voluntary efforts of the suppliers.

72 CAPS is Denso Corporation's approach to supplier improvement programme, in which it assesses its suppliers by its standards and gives feedbacks. In turn, the suppliers use these feedbacks to improve themselves. Denso Corporation. "The DENSO Group's Procurement Policies". Last viewed on 1 July 2019. <https://www.denso.com/global/en/csr/sociality-report/suppliers/procurement-policy/>



Next, Siam NGK's initiative to have the headquarters' CSR policies implemented throughout the entire supply chain will be explained. The first step is checking how well its own CSR policies are carried out. The company uses two tools for this purpose: the CSR procurement guidelines and the CSR voluntary checksheet, formulated in accordance with the headquarters' CSR policies. SIAM NGK offers explanations on the guidelines to all its suppliers and asks them to report on the current situation by using the checksheet. The submitted checksheets enable it to track implementation. The company explained about its CSR policies to its main suppliers directly at the Thai supplier meeting held in June 2019, requesting their cooperation. It otherwise asked for cooperation of those suppliers that did not attend the meeting. When the survey team visited the company in late July, SIAM NGK was to collect the filled-out checksheets, aggregate and analyse the data and formulate a plan roughly by the end of July. There was a similar attempt targeting a limited number of suppliers four years ago, but never before all the suppliers. The company translated the CSR voluntary checksheets into three languages, English, Thai and Japanese, so that Japanese, local and other suppliers can use them without any problem. Its procurement managers also give detailed briefings to the suppliers.

Finally, the specifics of the checksheet will be given here. The CSR voluntary checksheet used by SIAM NGK to obtain insight into the situation at the suppliers contains detailed questions in seven areas designated by its CSR procurement guidelines: human rights and labour, health and safety, the environment, fair trade and ethics, quality and safety, information security and social contribution. The questionnaire covers all the necessary items to perform due diligence, identify risks and find solutions in all the seven areas. To obtain better understanding, procurement managers repeatedly explain the guidelines to all the suppliers, requesting their cooperation with the checksheet.

Thus, SIAM NGK persists in asking for understanding and cooperation of the suppliers to gain insight into their current CSR status. This is because it holds firmly to its mission of conducting a clean business as a local Thai company lasting many

years in this country, and of continuing business that contributes to the local community. SIAM NGK makes full use of its strength as a Japanese company—close relationships with suppliers—in advancing the CSR policies.

## 6.3 How to engage with employees

### 6.3.1 Good practice of the trade union in helping employees grow with the company (THAI NOK) Key concepts: Respecting local culture and dialogue

The trade union of THAI NOK provides support for communication between management and workers, so that all the factory workers, counting more than 5,000, can understand the intention of the top management, solve any questions and work without any worry. For instance, the union ascertains the impact of any changes in the policies and production efficiency on workers, and it works with the company to take proper measures. When the company's policies are made acceptable, the union provides ample explanation to the labourers so that they are united in their effort to achieve the targets. The trade union, which serves as an important channel of communication between the company and the employees and promotes constructive dialogue, provides three benefits at THAI NOK.

First, the management and workers can work together to achieve production targets and other enterprise goals, by having effective labour-management dialogue. The union's dialogue with the company is not one-sided as in leaders simply relaying their decisions or the union confronting them with demands; it offers bilateral communication for both sides to find win-win situations. Discussions are held with the idea that the management cannot achieve production targets without the employees' cooperation, and employees cannot expect to see pay raise and other improvement without the company achieving its management goals. For both sides to arrive at common understanding of the current situation, the management shares business conditions and strategies in depth with the trade union, and the union suggests how to boost employee motivation and labour efficiency to achieve the company's goals.

Second, the workers' approach shifted from power play (e.g. staging a strike) to productive dialogue in finding accord. The union learned how to do so from the trade union of the headquarters, NOK Corporation, which shared similar view that positive labour-management dialogue can benefit both sides. Thus, THAI NOK's trade union became engaged in having dialogue with the leaders of the subsidiary. It also had an opportunity to learn about adverse impacts of labour disputes. It used to go on a strike demanding pay raise until about 10 years ago when the union did not interact with the network of trade unions. The union is now enabled to solve issues through effective labour-management dialogue after it has learned how to engage with the management.

Third, the union is now able to deal with problems before becoming serious, because of its frequent opportunities to convey the workers' requests to the company. Having gained trust from the management by maintaining mutually beneficial discussions, the union is now acknowledged as the central focus of the labour-management communications. Thanks to frequent opportunities for discussions the union creates, the company can detect employees' nascent problems, thereby preventing serious disputes with them. Main occasions for union-management discussion include monthly collective negotiation and monthly Open House Meeting. The union is also able to have direct communication with the top management at any time.

Thus, constructive labour-management dialogue is beneficial to both parties. Further, the top management at THAI NOK allows the union to conduct independent activities, fostering constructive bilateral discussions throughout the entire community. It supports the union representative's effort in conducting capacity building for trade unions of other companies in the industrial park of Amata City, for example.

### **6.3.2 Good practice of locally led labour-management communication (DENSO THAILAND) Key concepts: Respecting the local culture, and dialogue**

DENSO THAILAND (DNTH) builds a more productive labour-management relationship by changing the driver of communications from Japanese to local members of the top management, tailoring the strategies and methods of negotiations. Nowadays,

the trade union and the management discuss how to create the future of the company together, rather than simply demand something from the other. Here, examples of labour-management communication at DNTH will be presented.

Thai vice president is in charge of basic labour-management communication. The management team presents the enterprise's monthly performance in detail and explains their next targets and the sector's outlook to the union; negotiations are built upon such regular communications. The main agent of the communication gradually shifted from Japanese members of the top-management to local members; the dialogue is now conducted upon sharing of the corporate performance. Previously, the management did not explain the numbers, ask for the union's understanding of the business conditions and discuss how to build the future together as frequently and regularly as it does now. Along with this change, the union came to show understanding for the idea of the management that better compensation package should come from improvement in competitiveness (productivity hike) achieved by workers' own efforts. In negotiating a better compensation package with the management, the union allows some consideration for the business conditions, understanding that the growth of the company and that of employees should go hand in hand. Now, the union no longer demands pay raise myopically when, for example, the company has short-term operating profits.

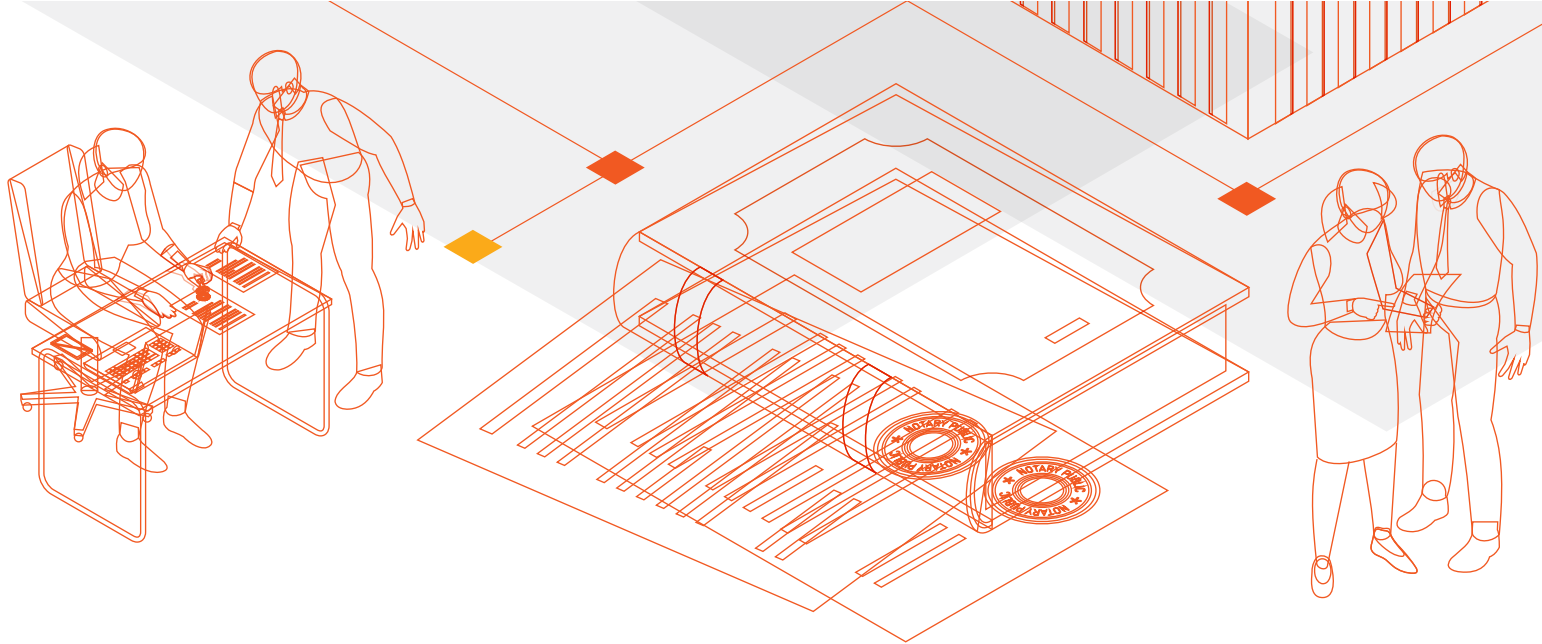
Moreover, workers on the shop floor show deeper understanding of the company's business now. It does not come naturally for factory workers on the shop floor, far away from the boardroom, to connect the company's performance with what they do in the factory daily; yet, the union helped them understand the connection better by relaying business results and the management's explanations in plain terms. Consequently, they are now able to understand how their daily improvement efforts help the company achieve its goals, which impacts their work environment and enhances the quality of their life. Now, workers strive for sustainable growth together with the company, and the union serves as one of the important communication channels between the management and employees. The executive committee chair of the trade union at DNTH says, 'We understand that the business climate will be

changing. The union will try to grow along with the company, to adapt to the changing environment.' Meanwhile, the management says, 'Conventionally, improvement ideas executed were formed from the perspective of the company. Going forward, we'll have them locally led, enhancing the productivity for the future.' This shows that both parties are implementing the policies of Denso Corporation as equal partners. Having its own library, the union makes sure that its members can pass on knowledge and information necessary for workers. Furthermore, it shares information and good practices with its members through seminars held in cooperation with the trade unions of business partners. Aiming to define itself as the mother trade union in Asia just as the company strives to become Asia's mother factory as part of its global strategy, the union is forming itself that grows with the management.

### **Essay: *Kaizen* activities for the production process based on workers' health**

THAI NOK achieves streamlining of the production processes by giving attention to wastefulness in the production lines and the health conditions of workers and by identifying their root causes to address them. This essay will present such efforts. The first is reviewing the configuration of production lines. THAI NOK conducted *kaizen* activities to streamline a production process by changing the configuration of the production lines to eliminate waste. Consequently, the operating

efficiencies of all machines were improved: waste in the production process was reduced by 80%, the lead time was shortened by 70%, and the total production efficiency of the line was raised by 20%. In the new configuration, factory workers did not have to walk over to the next process to pass on products. Their health problems were eventually solved, as they only had to manage substantially shorter walking distance and time and no longer had to carry heavy products. The second is reviewing the production processes by tracking workers' physical conditions, using pink cards. THAI NOK uses pink cards to collect information on various problems including the workers' physical conditions, not just on machine failures and product defects occurring on the shop floor. Changes in physical conditions reported by workers in the pink cards are analysed for root causes—useful source of information for *kaizen* activities to enhance production efficiency of the factory. When an increasing number of workers reported, for example, back or lower back pain and fatigue, the company deemed the process causing the pain to be problematic. It identified the cause and dealt with it, thus eradicating incidents such as machine failures and product defects. THAI NOK benefits from its *kaizen* activities by paying attention to the health of employees as well as the production processes, in that occupational health and safety of the workers employed in the production lines, as well as the production efficiency, were improved.



## 7. Opportunities and challenges in advancing CSR policies further

This survey report has, so far, shown that Japanese vehicle parts manufacturers engage with both local Thai subsidiaries and their suppliers in various initiatives to advance their CSR policies over the entire supply chains through their procurement processes. This section will examine the opportunities and challenges emerging from the survey results, which they would meet in trying to advance initiatives recommended by the CSR policies further. This study will review, first, the initiatives to have their own CSR policies implemented at their local Thai subsidiaries (1 of Figure 13); second, their efforts to have the subsidiaries encourage local suppliers to adopt them (2 of Figure 13); and third, practices of constructive labour-management communications, according to the framework of Figure 13 presented in the section of the case studies. First, opportunities seen in the case studies will be examined, followed by challenges, for all the three phases.

### 7.1 How to have the headquarters' CSR policies implemented throughout Thai subsidiaries

The starting point for Japanese automotive component manufacturers to have CSR policies implemented throughout the entire supply chains in Thailand is local subsidiaries. The case studies showed how they focus on occupational health and safety in promoting the CSR policies of the headquarters to Thai subsidiaries, with 'locally led', 'safety', 'dialogue', 'respecting the local culture',

'bottom-up', 'engagement of the top management' and 'employee safety' as key concepts.

THAI NOK, under the Thai top management, has been creating the climate suited to advance the CSR policies of the headquarters, NOK Corporation. This is accomplished by embedding the CSR promotion into the business operations in ways tailored to the local context to improve the safety and health of the workplace and by encouraging the employees to improve their working practices and self-discipline through the bottom-up approach. The key to success at THAI NOK was in building safe work environment by methods that are locally led and suited to the country and in fostering self-discipline among the workers through voluntary dialogue using the pink card. The Thai top management promoted the headquarters' CSR policies as something that Thai employees could relate to and willingly follow, rather than just imposing the policies on them. Thus, the employees performed tasks related to occupational health and safety, which is a central CSR matter, consequently implementing the headquarters' policies on the shop floor.

DENSO THAILAND (DNTH) engages in the bottom-up approach to perform CSR policies of Denso Corporation in Thailand. The Thai employees take active roles in deciding how to implement them, rather than the Japanese employees sent from the headquarters giving orders to them. The local workers take it upon themselves how to perform the policies and improve the methods daily. As a result, they have created their own



tailored workplace. The work environment at DNTH, created under the initiative of the local workers, enables them to ensure safety, improve operational efficiency and give opinions freely on workplace improvement and other matters. This helps promote occupational health and safety, a key item in CSR, thereby directly impacting the implementation of the headquarters' CSR policies.

Under a strong commitment of the top management, THAI ARROW PRODUCTS achieves CSR implementation on the shop floor, by listening to workers' voices, placing 'building safe work environment' at the heart of business management and making their safety the top priority. The company runs the factory with ample considerations for workers' physical and mental health by listening to their voices, perfecting a work environment with restrooms, the dining hall and commuter buses, using emoticons to check on workers' physical and mental health every day. This results in significantly lowered occurrence of incidents and defects. For THAI ARROW PRODUCTS, occupational health and safety is at the centre of advancing CSR.

The first opportunities emerging from the case studies is the fact that those companies focus on what is most important in the labour CSR – occupational health and safety for the local companies' factories – in promoting CSR policies, and that their initiatives in that respect are quite advanced. Headquarters will find the incentive strengthened for local subsidiaries to advance CSR, by helping them to understand that occupational health and safety is at the centre of CSR and that promoting CSR improves the business operations. The companies examined in the case studies also adopted approaches that were tailored to the local methods down to minute details in their initiatives on occupational health and safety. Such deep engagement would offer them a hint for implementation of other CSR initiatives. The second opportunity is that processes and trust between employees and the management built to enhance occupational health and safety will prove useful when extending the CSR initiatives to other areas. Since such initiatives cannot be set in motion without employees' engagement, it is necessary to have dialogue with them in the local method, exploring feasible options.

The challenges for which further progress can be expected are, first, in the limited scope of the initiatives for promoting the headquarters'

CSR policies. The companies examined in the case studies focus on those items related to 'occupational health and safety' and 'dialogue with employees', out of all the items in their CSR policies. This scope should be extended. These two themes are part of the principles related to Employment, Training, Conditions of work and life and Industrial relations set down in the MNE Declaration, which is an internationally accepted standard supported by many of the enterprises engaging with CSR activities and incorporated into their corporate code of conduct and CSR policies. In broadening the scope of their initiatives, companies should also refer to the core labour standards, which the ILO formulated to lay minimum standards concerning freedom of association, the effective recognition of the right to collective bargaining, elimination of all forms of forced and compulsory labour, effective abolition of child labour and elimination of discrimination in respect of employment and occupation. The second challenge lies in further identifying adverse impacts occurring in factories of the local subsidiaries. The case studies reveal that the vehicle parts companies adopt methods suited to the local situation, rather than enforcing Japanese ones, in implementing the initiatives. There was no sign, however, of their identifying the repercussions arising out of differences in hometowns and religions even among Thai people. Japanese people may regard them all as Thai and Buddhist, but some of them may be Muslim. The difference may not be easily perceptible when they are a minority. Still, companies should take precautions for discriminations on the grounds of such differences.

## 7.2 How to engage with the suppliers/business partners for them to observe the headquarters' CSR policies

The case studies show how the four companies urge their suppliers to observe the headquarters' CSR policies through communication based on trust fostered by the initiatives to enhance QCD.

Siam DENSO Manufacturing (SDM), in particular, encourages its suppliers to engage with initiatives on occupational health and safety required by the headquarters' CSR guidelines, having built a relationship of mutual trust with its Japanese and local suppliers through technical support,

close communication and engagement for QCD. Its suppliers voluntarily participate in SDM's QCD programmes, such as QCC contest and CAPS, regarding them as opportunities to solve their issues at the factories or to build capacity. Consequently, they are enabled to detect and address issues in human rights and labour, the environment, compliance and other areas, not just in safety and quality, as well as conduct business management that gives consideration to workers' rights by the bottom-up approach led by workers.

SIAM NGK SPARK PLUG (SIAM NGK) tracks implementation at its suppliers, making use of its strength as a Japanese company—close relationships with suppliers. The company uses two tools to ascertain how well its CSR policies are observed: the CSR procurement guidelines and the CSR voluntary checklist. These tools were created in accordance with the headquarters' CSR policies. Its procurement manager repeatedly discusses with local suppliers the CSR policies' positions on human rights and labour, the environment and the local community to gain their understanding and cooperation. For the local suppliers, complying with SIAM NGK's CSR policies and engaging in the initiative together enable them to understand that their compliance helps them build a clean Thai company and ultimately give back to Thai society and enhance its business sustainability.

The first opportunity presented by the case studies is that the trust relationship and close communication between a Japanese vehicle parts maker and its suppliers, fostered through QCD efforts, help them achieve CSR at the suppliers' factories. The suppliers, in trying to enhance QCD, become engaged with matters such as occupational health and safety at the factories, workers' morale and motivation, wages and working hours, forced labour and child labour, while making the production lean and streamlining the processes. Of course, the purpose of QCD initiatives lies in improving the product quality, cost and delivery, not advancing CSR. The fact, however, that those QCD activities resultantly strengthen CSR efforts on the ground demonstrates that QCD engagements lead to CSR implementation. Additionally, 5S (Sort, Straighten, Sweep, Standardize, Sustain) and the *kaizen* approach they employ in improving QCD

certainly are useful in other areas, in that they can improve the work environment extensively from the bottom up. The second opportunity lies in the fact that the trust built between the vehicle parts makers and their suppliers form the basis of cooperative relationship necessary for the former to work on human rights due diligence at the latter. Having such trust relationship with suppliers would prove to be of great help when automotive component makers try to strengthen their CSR efforts and perform human rights due diligence.

Going forward, the challenge in intensifying programmes to promote CSR policies is in how companies exert influence further. SDM's efforts in CSR policies focused on occupational health and safety at the factory, on the back of QCD activities. It was not precisely directed at getting an overall picture of diverse CSR matters at its suppliers, including human rights, employment and industrial relations, to prompt improvement. SIAM NGK already began tracking implementation of CSR initiatives by Thai suppliers. Its challenge will be how far it will use its influence in prompting improvement there. Companies should not just grasp the current situation; they should also share that information with stakeholders and monitor the progress, leading to specific solutions. The OECD Due Diligence Guidance for Responsible Business Conduct (OECD, 2019) is useful for companies using their influence on suppliers to advance CSR. The OECD lists human rights, employment and industrial relations, environment, combating bribery, bribe solicitation and extortion, consumer interests and disclosure as the scope of the guidance.<sup>73</sup> It gives specific examples of companies' exerting influence: 'Using leverage to affect change in the practices of the entity that is causing the adverse impact(s) to the extent possible'. Moreover, 'if the enterprise does not have sufficient leverage, consider ways to build additional leverage with the business relationship, including for example through outreach from senior management and through commercial incentives. To the extent possible, cooperate with other actors to build and exert collective leverage, for example, through collaborative approaches in industry associations, or through engagement with governments'. Finally, 'to prevent potential (future) adverse impacts and address actual impacts, seek

73 OECD. 2018. Due Diligence Guidance for Responsible Business Conduct (Japanese translation originally referenced). Last viewed on 6 August 2019. <https://mneguidelines.oecd.org/OECD-Due-Diligence-Guidance-for-RBC-Japanese.pdf>



to build leverage into new and existing business relationships, e.g. through policies or codes of conduct, contracts, written agreements or use of market power.<sup>74</sup> Companies are required to first decide on how and to what degree they exert influence, by considering the extent of their impact on the suppliers, the traits of the sector and their products and the nature of their relationships with the suppliers.

### 7.3 How to engage with employees

The most important stakeholder for a Japanese automotive parts maker to achieve CSR throughout the entire supply chain in Thailand is its employees and their trade union. The case studies show, in the interviews with the trade unions, how the vehicle parts companies work constructively to engage with employees of their Thai subsidiaries—integral to the effort of implementing the headquarters' CSR policies—with Respecting the Local Culture and Dialogue as key concepts.

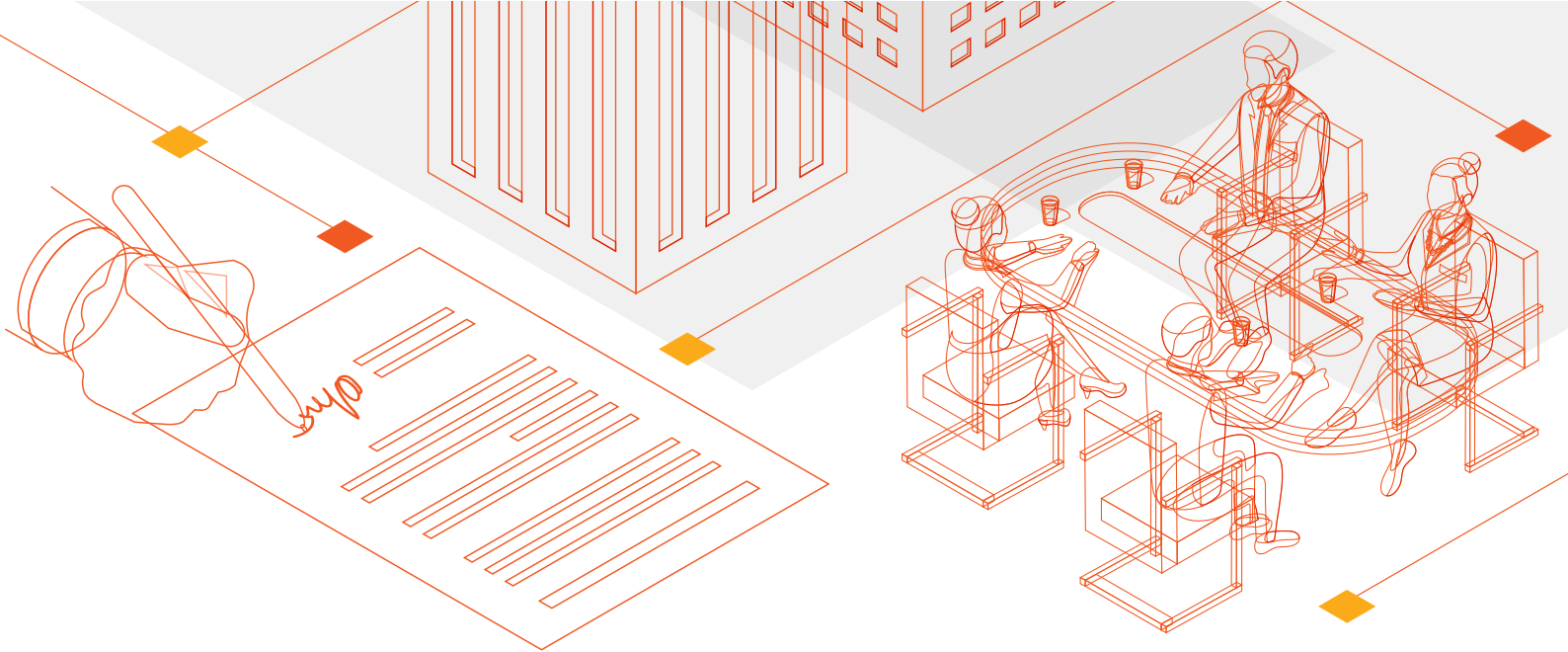
At THAI NOK, the trade union serves as an important channel of communication between the company and the employees, promoting effective dialogue between them. Both labour and management agree on the benefits of such dialogue: (1) both parties are now able to work together on the company goals such as production targets; (2) the employees' attitude changed to seek common grounds; and (3) it is now possible to deal with problems before they become serious because workers now have frequent opportunities to convey requests to the company.

DENSO THAILAND (DNTH) is making the industrial relations more constructive by localizing the strategies and methods of negotiations. Through regular communications with the management to share business performance and to discuss how to build the company's future, the union has come to allow for business conditions to some degree, understanding that the company and employees should strive to grow together, while negotiating better compensation package with the management. It serves as an important communication channel between the management and employees.

The first opportunity demonstrated by these cases can be found in that those enterprises build on dialogue with the most important stakeholders in promoting the CSR policies — their employees and the trade unions. They sometimes clashed with the unions in the past; now, they continue to work on gaining understanding of the workers by offering more thorough explanations regularly. As major shifts are expected to occur in the supply chains of automotive components, the trust between the labour and the management built over continuous productive dialogue should demonstrate its efficacy even better in the coming years. The second is in the fact that locally led initiatives select the methods of communication, making it easier for local workers to understand. Constructive industrial relations are built by respecting the local society and culture, and delegating important roles of leading the engagement to local employees. Such approach affects business partners, as they share information and good practices through seminars held in collaboration with the trade unions of their business partners. It is hoped that the locally driven and locally centred positive industrial relations presented previously will be formed in other parts of the world, just as in Thailand.

The challenge of expanding the engagement with employees is in, first, maintaining close communication with them in the changing business climate. For sustainable management of the business, it is vital to communicate with employees who may be non-permanent or non-union workers, newly employed due to sudden changes in the business. Companies must strengthen their efforts to build constructive industrial relations with every employee for responsible supply chains, in other words, responsible overseas business operations and expansions. The second challenge is that the headquarters should be sufficiently involved, while the initiatives may be locally led. Locally driven engagement should prove its worth, as local workers would know the reality and conditions of factories in the country inside out. Yet, it is necessary to review them by international standards, which is a role of the headquarters. Hence, interactions between the trade unions of the headquarters and those of local subsidiaries would likely prove important, too.

74 OECD. 2018. Id. II. 3.2(c). p.30. Last viewed on 6 August 2019. <https://mneguidelines.oecd.org/OECD-Due-Diligence-Guidance-for-RBC-Japanese.pdf>



## 8. Proposals

### **To the Japanese government: provide a framework where companies are enabled to achieve responsible supply chains**

The government should promote responsible supply chains and human rights due diligence in global supply chains and accelerate such initiatives to fortify enterprises' proactive efforts towards sustainable development goals, in accordance with the UN Guiding Principles on Business and Human Rights, the ILO MNE Declaration and the OECD Guidelines for Multinational Enterprises. This is explicitly mentioned in G7 Schloss Elmau Declaration on Responsible Global Supply Chains (2015), G20 Hamburg Summit Declaration on Sustainable Global Supply Chains (2017) and further in G7 Social Communique (Paris, 2019).

### **Send out a clear message of respecting human rights**

The government should explicitly call on the private sector to perform human rights due diligence according to the UN Guiding Principles, as set down in G7 Schloss Elmau Declaration. Doing so would enhance the transparency of supply chains, help with identifying and averting risks and, furthermore, fortify grievance mechanisms to realize better working conditions. It should provide clear expectations as a government, to help businesses exercise human rights due diligence. It should play its part in performing the joint responsibility of government and companies to promote sustainable supply chains and encourage best practices.

### **Provide detailed guidance on human rights due diligence**

The government should execute practical policies to encourage companies active or headquartered in this country to begin due diligence procedures on their supply chains, by forming voluntary due diligence plans or guidelines so that the transparency and accountability of their supply chains would be enhanced. It should maintain its stance to urge businesses to respect human rights consistently in its policies, including incentives for public procurement. The government should also provide them with accurate and sufficient information for undertaking due diligence, in cooperation with its affiliated agencies. Start with high-risk areas, in particular. It also needs to implement initiatives for industries and sectors and provide small to medium-sized enterprises with support.

### **Work on other governments**

The government should urge governments of the countries involved in the supply chains to prepare legislation meeting the international labour standards, so that Japanese companies can perform labour CSR in conducting business operations overseas. If they are hindered from doing so by any social practice or structural issues, the Japanese government must also address this concern to the governments of those nations. Thus, it is necessary to form a common understanding on the labour dimension of CSR and conduct capacity building for relevant agencies there. Japanese companies face risks of giving adverse impact on human

rights in taking business overseas, if legislation on the environment, labour and human rights is non-existent or insufficient in those countries. It may pose a risk to them if their business partners or companies they merge with do not carry out their responsibility for human rights.

### **Form a level playing field through international cooperation**

It is necessary to provide an arena where companies are enabled to compete on an equal footing, exerting their abilities to the full. SMEs in Japan ask for a level playing field in Asia to ensure competitiveness, as the region has their competitions. The sustainability provisions of EU-Japan Economic Partnership Agreement (EPA) and Strategic Partnership Agreement (SPA) should be leveraged to expand cooperation on labour CSR initiatives. The chapter on trade and sustainable development (16.5(e)) in EU-Japan EPA stipulates that both parties should promote CSR. This may require multiple channels and forums, as multiple roles are involved in such matter. EU and Japan have the EU-Japan Industrial Policy Dialogue — a forum to discuss in depth issues of mutual interest, including competitiveness and industrial policies. A special note should be made about its Working Group on Corporate Social Responsibility. The working group meets annually to discuss the approach for responsible corporate actions. This framework should be further leveraged, inviting more stakeholders, to engage in actual cooperative activities, not just discussions.

### **To Japanese companies: Perform human rights due diligence at home and throughout the supply chains and achieve decent work**

Businesses need to implement and strengthen human rights due diligence in their business operations. Addressing the risk maximises positive results. They are in a position where they can respect diverse rights in the business operations, realise decent work and contribute to society's sustainable development (Sustainable Development Goals). They can enhance competitiveness of the business management rooted in values and ideals by incorporating human rights due diligence into their management policies and carrying them out.

### **Adopt systematic methods to make CSR policies operative**

Companies should review their business management in terms of human rights and systematically reinforce efforts in that respect, consulting the ILO standards, the UN Guiding Principles and other international instruments. They need to check if their policies are aligned with general international standards and have them expressed in common languages, across departments and various offices and factories engaged in their business, while also translating what is required in terms of respecting human rights into specific actions. The key to such extensive programmes is the engagement of vital stakeholders—namely, employees and trade unions.

### **Bolster implementation of responsible supply chains in the relationships with business partners**

Enterprises can educate Japanese suppliers and other business partners or assist in the implementation of responsible supply chains in their business operations, based upon trust built in their relationships. They should offer cooperation, share information and conduct training on occupational health and safety, labour and human rights in their engagement with suppliers in relation to production processes and quality. They should implement their policies consistently and have them understood throughout their local subsidiaries, factories, contracted factories and suppliers, keep in close communication with them and support them in their actions. Further, they should try to gain understanding of their customers for their responsible supply chain initiatives and include items related to labour CSR in the engagement as well as those of quality.

### **Disclose information voluntarily**

Businesses are required to present and disclose information on their efforts for human rights, referring to international frameworks. Japanese companies that focus on compliance alone need to acquire competitive edge of accountability. Be a leader in Asia by sector-wide collaboration and incentives.

Multiple industries and companies are involved in CSR policies, which companies are required to conform to. Sharing good practices throughout the sector, not just with business partners, will bolster the initiatives for the entire sector. They should explicitly incorporate the current international standard of the sector – the UN Guiding Principles – into their guidelines. Further, they should try to gain understanding of their customers within the sector as well as their organizations for their responsible supply chain initiatives and include items related to labour CSR in the engagement as well as those of quality.

Finished car manufacturers, as the leader of the car-related industry, should clearly establish their labour CSR policies, and proactively engage with their business partners in the supply chains not just for the improvement of quality but also for labour CSR.

The evolution of CASE (Connectivity, Autonomous, Sharing/Subscription and Electrification) has broadened the scope of finished car makers' business partners to include electric parts makers and software development companies, beyond the vehicle parts industry. Sectoral associations of the finished automotive industry can prepare the stage for promoting labour CSR by making industrial CSR policies publicly available to establish them

as the common language of related industries. What is needed here is information sharing and cooperation across different sectors, in addition to collaboration within sectors, which will help strengthen labour CSR of the entire industry. The Japanese car industry and its companies have considerable impact on the society and economy of Thailand, as well as Asia. They are in a position to take the initiative in implementing labour CSR.

## Trade Unions

When companies perform labour CSR, they have constructive industrial relations established. The most important stakeholders for them are trade unions, which play a key role in human rights due diligence, engagement and access to remediation. Interactions between the trade unions of the head office and its overseas subsidiaries and suppliers help promote its CSR policies and solve labour-management issues overseas.

Trade unions and the management of Japanese companies in this region must engage in efforts to promote constructive industrial relations and dialogue to achieve responsible supply chains throughout Asia. The trade unions of Japanese companies can serve as mother trade unions towards this end.

# Appendix

## Overview of “Responsible Supply Chain in Asia” programme<sup>75 76</sup>

### 1. Background

The Responsible Supply Chains in Asia (RSCA) programme aims to promote responsible business practices into the operations of multinational companies and their supply chains. Active in six Asian countries, the project in Japan is working to share lessons and disseminate best practices among multinational companies with supply chains in the electronic and car parts industries. This project is co-funded by the European Union and the ILO under the EU’s Partnership Instrument.

### 2. Objective

The overarching objective of the project is to promote smart, sustainable and inclusive growth by ensuring that businesses have a better understanding and practical examples of responsible behaviour. Expected results of the RSCA programme are:

- Increased awareness and strengthened capacity of all relevant actors and in particular businesses and public authorities in the region in relation to CSR/RBC;
- Enhanced development and dissemination of CSR/RBC approaches and initiatives (including best practices, case studies, tools, lessons learned and documentation) on CSR/RBC in line with internationally agreed principles and guidelines;
- Improved coherence on CSR/RBC between the EU and Asia, in line with relevant internationally agreed principles and guidelines;
- Developed and/or reinforced existing multi-stakeholder partnerships, including at sectoral level and sound industrial relations in line with internationally agreed principles and guidelines on CSR/RBC;

- Strengthened and sustained information exchange involving all relevant stakeholders in relation to internationally agreed CSR/RBC principles and guidelines; and,
- Enhanced contributions of businesses operating in Asia to environmental protection, decent working conditions, and the respect of human rights and strengthened coherence with relevant regulatory frameworks.

### 3. Principles and Guidelines

As a basis for this work, the project utilizes internationally agreed principles and guidelines on corporate responsibility, principally the OECD’s Guidelines for Multinational Enterprises and the ILO’s Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy. Complying with these internationally agreed guidelines will help to nurture corporate culture that observes compliance with labour laws and regulations and will eventually contribute to protecting workers’ rights in compliance with relevant national laws and international labour standards and enhancing industrial relations.

### 4. Activities

The RSCA programme aims to increase awareness and strengthen capacity of businesses regarding internationally agreed standards and approaches in relation to CSR/RBC. To this end, this programme conducts research, outreach, policy advocacy and training. The programme will share good practices obtained through research among stakeholders, such as governments, enterprises and workers to develop strategic partnership and align with existing initiatives. In Japan, the RSCA programme performs research and outreach activities in collaboration with IDE-JETRO. This report was prepared based on a joint research by ILO Office for Japan and IDE-JETRO.

75 [https://www.ilo.org/asia/projects/rsca/WCMS\\_672798/lang--en/index.htm](https://www.ilo.org/asia/projects/rsca/WCMS_672798/lang--en/index.htm)

76 [https://www.ilo.org/tokyo/ilo-japan/WCMS\\_689335/lang--ja/index.htm](https://www.ilo.org/tokyo/ilo-japan/WCMS_689335/lang--ja/index.htm)







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