

Dialogue with Stakeholders

## Priority Issues Identified by JSR Group - Dialogue 1

### Priority Issues Identified by JSR Group



As part of our efforts to promote sustainability in society and the global environment through the integration of management and CSR, we identified and disclosed priority issues in the CSR Report for the first time in FY2016.

During this fiscal year, we have focused on the following four priority issues: Safety and Disaster Prevention; Environmental Impact and Resource Reduction, and Climate Change Countermeasures; A Sustainable Society where People Can Enjoy Health and Longevity; and Communication with Stakeholders. To prepare for more detailed and specific CSR activities in the future, we have gathered and exchanged opinions with a variety of stakeholders and experts in various fields to analyze issues. The JSR Group aims to reaffirm the importance of implementing CSR activities through its business, and we are confident this will facilitate better disclosure of information to a wider range of stakeholders.

Going forward, we plan to incorporate newly identified priority issues, and advice and opinions discussed during this dialogue into future activity plans.

<Date> April 19, 2016

<Location> JSR Headquarter Executive Meeting Room

<Participants>Experts:



#### One Akiyama

President

IntegreX Inc.

Ms. Akiyama graduated from Keio University with a degree in Economics and joined a foreign-affiliated securities company, where she worked as a trader. After completing her Master of Finance at Aoyama Gakuin University in 1998, she again worked at a securities company before establishing IntegreX Inc. in 2001, through which she works to popularize socially responsible investing. She is also a certified CPA in the United States. Her chief publications include "What is Socially Responsible Investing (SRI) - Supporting good companies for the long term."

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**Hiro Motoki**

President  
E-Square Inc.

After graduating in Economics from Rikkyo University, Motoki worked as an IT consultant, strategy consultant, and environmental consultant for the Deloitte Touche Tohmatsu Group from 1992. From April 2001, he was the director of the Consulting Division at E-Square, where he provided support to large-scale companies in a wide range of industries. Areas of support included CSR strategy, communication, training, business development, etc. He has served as President and CEO since October, 2011.



**Sayaho Noda**

Director  
Caux Round Table (CRT) -Japan

Ms. Noda holds a BA in International and Cultural Studies from Tsuda College and a MA in Public Administration and Public Policy from the University of York in the UK. After engaging in environmental NGO and training NPO activities, she joined CRT Japan. She currently acts as a CSR consultant and instructor for the GRI-certified G4 training program.

JSR: Titles are as of the time of the dialogue

**Hayato Hirano** Director (Accounting & Finance, Human Resource Development, Corporate Communications, and Group Companies)

**Nobuo Kawahashi** Senior Officer (Research & Development)

**Mika Nakayama** Officer (Diversity Development and Corporate Planning)

**Kazumi Nejigaki** General Manager (CSR)



\*Hirano, Kawahashi, Nakayama, and Nejigaki from the left

**Discussion on the Future of JSR Group's CSR**

**NEJIGAKI :** JSR Group CSR in FY2016 was based on the Corporate Mission to create value through materials innovation to enrich the society, people and the environment, and the goal of integrating business management and CSR. A unique part of this has been the systematization of our activities into active CSR, which aims to address social issues through business activities, and passive CSR, which forms the base of sustainable business activities.

In planning JSR Group CSR activities for FY2017, we have identified and organized current issues corresponding to our Corporate Mission as priority issues. Last year, we identified and selected priority issues based on core subject areas and issues related to the ISO 26000 International Standard for social responsibility of organizations. This year, we have further expanded the scope of issues that the JSR Group recognizes by including the Sustainable Development Goals (SDGs) selected by the United Nations General Summit in September 2015 as well as other issues identified by major companies.

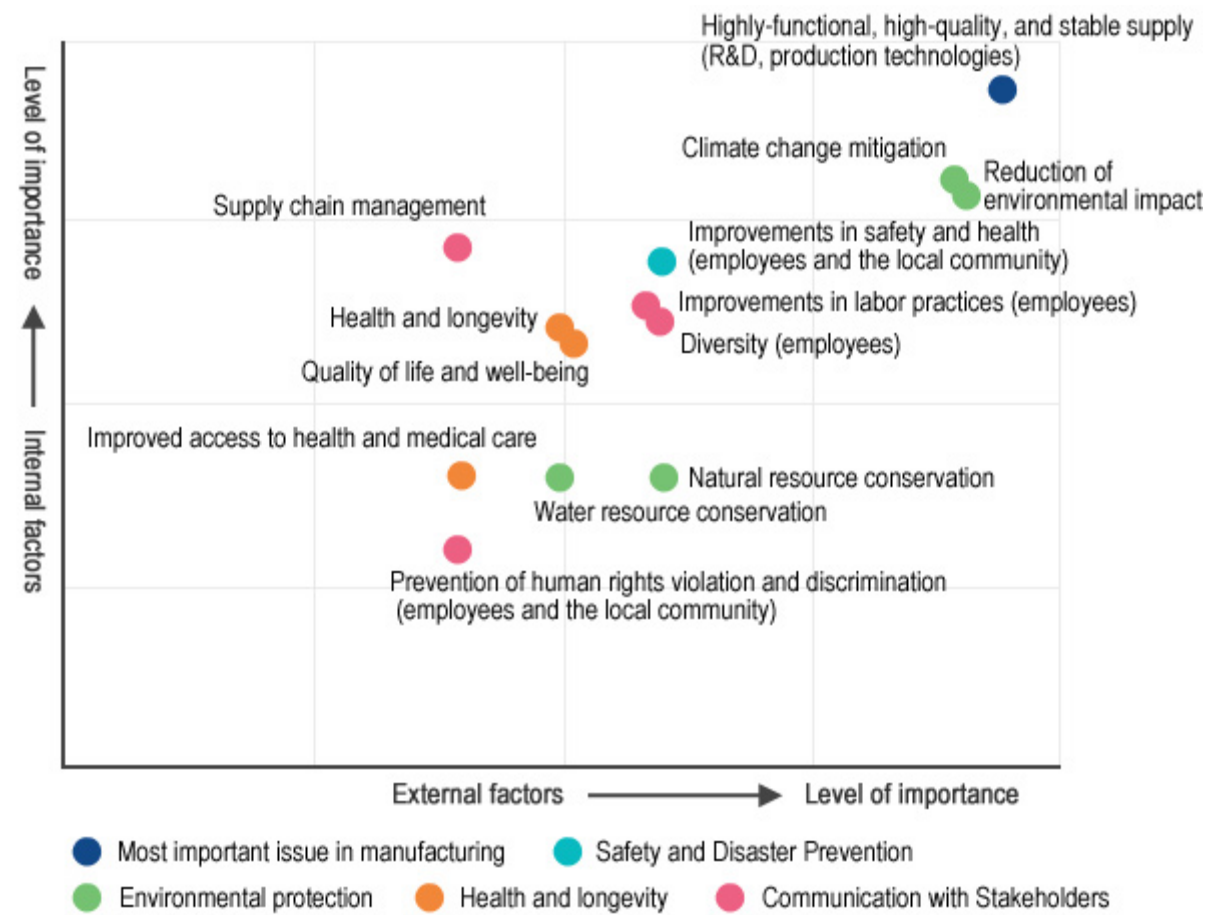
Figure A illustrates the reorganization of priority issues by the CSR Department after dialogue with customers, investors, employees,

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and other stakeholders.  
I look forward to frank discussion about the processes required to establish and organize priority issues.

Fig. Matrix of priority issues in the Verification Process



### Importance of the Process for Determining Priority Issues

**AKIYAMA :** Integrating the Corporate Mission, CSR, and activities to address issues facing society is quite admirable. Furthermore, continuing efforts to constantly review what has been established every year is also noteworthy. I feel this is an excellent foundation for CSR. The reviewed CSR priority issues have been clearly organized, and this has made it easier to tackle them. The actual identification process itself is quite thorough and appropriate.

On the other hand, having a respectable Corporate Mission system and engaging in activities based on it is difficult to visualize through the selected priority issues alone. I think it would be great to illustrate in an easy-to-understand manner how each of the organized priority issues corresponds to the Corporate Mission and individual corporate activities.

As governance, compliance, and risk management form the fundamental basis of corporate activities, these areas should be addressed as well.

**MOTOKI :** It is evident that JSR understands the need to periodically review what has been established, and makes adjustments accordingly. It is also clear that JSR studies identified priority issues thoroughly and places importance on the process. I felt that incorporating ideas, concerns, and opinions from various stakeholders into the process was especially admirable. In priority issues, placing "High-quality, and stable supply," which represent the strength of business activities at the top of the upper-right of the figure shows the attitude of active CSR. I also commend the positioning climate change mitigation, reduction of environmental impact, and improvements in safety and health directly under it.

**NODA :** The first thing I noticed after reading CSR Report 2015 was the clear executive

commitment toward CSR. There are very few companies in Japan that



demonstrate a sincere desire to integrate management with CSR, and one that actually follows through is rarer yet. I felt the JSR Group is one of the very few companies that demonstrate this. I do not know any other company that holds a CSR Report Presentation Meeting every year to disseminate its commitment to employees. Chemical manufacturers also handle toxic raw materials and bear the risk of significantly affecting society in the event of an accident. As this also affects the company brand, ensuring that employees have a high sense of ethics and awareness regarding the Corporate Mission is crucial. From this perspective as well, the CSR Report Presentation Meeting is truly a wonderful activity.

I think that the process of identifying CSR priority issues can be praised and even compared with international standards. The selected issues are important in the chemical industry.

Having said that, I had some questions about the level of importance of the issues from a stakeholder perspective in Fig. Instead of being grouped into one of these issue categories, it may be more effective to leave some of these priority issues ungrouped.

**HIRANO :** As Ms. Noda mentioned, the President talks about executive commitment to CSR from various perspectives. I myself have also continued to improve JSR Group CSR and feel that there are no major negatives at this moment. However, I think that CSR is something that needs to be constantly improved. I would like to use this opportunity to clarify the types of initiatives we should institute in the future.

**NAKAYAMA :** The Corporate Planning Department manages activities that increase awareness about the Corporate Mission throughout the company, and the persons in charge in each department participate on a semi-voluntarily basis. In other words, we have been able to raise awareness because they feel the same way and act with enthusiasm.

Making the relationship between priority issues and corporate activities easy to understand is key in raising awareness about the Corporate Mission and CSR. I always express the opinion that we must think and act on a daily basis through business activities based on the relationship between the Corporate Mission and CSR. Highly-functional, high-quality, and stable supply are about products, and having that in the upper-right of Fig. is a perfect representation of "Materials Innovation." This certainly is characteristic of the way we think of CSR. However, if the relationship between our Corporate Mission and our products is not clear to the public, as pointed out earlier, I see finding ways to explain it as an important future issue.

**NEJIGAKI :** As Ms. Akiyama pointed out, there certainly are some rough edges in the relationship between issues facing society and business. One is to understand that expectations from society and stakeholders are reflected in the content of questionnaires conducted by external rating agencies. Hence it is of importance to recognize which social issues are considered the most important and think about how to relate them to business. As we regard these as medium- and long-term issues, we have not yet organized them completely. Going forward, I trust we can identify what we can do as the JSR Group, what we should do, or what can be considered as business

opportunities.  
We have been rather successful in increasing employee awareness about the Corporate Mission through dialogues between executives and employees as well as other activities. I hope that these activities will help employees to consider how these social issue initiatives will create corporate value and how we can find new business opportunities through these initiatives.

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Importance of Understanding Priority Issues from a Global Perspective

**NAKAYAMA :** I would like to talk about diversity, which has been identified as a priority issue. The JSR Group established its Diversity Promotion Office in response



to the recognized need to provide support for the advancement of women. It had its beginnings in a project designed to provide greater opportunities for women and increase the number of women in management. From there, we moved toward establishing a dedicated department to enable us to become more thoroughly engaged. However, it seems that employees still do not understand certain aspects of the company's desire to increase the number of women in management. More than a few employees seem to see it as being because of the call for gender equality, as women demanding their rights, or as the just the most recent social trend. The actual reason, however, is to create new value through diversity. Opportunity for women is an issue most employees are at least vaguely familiar with, and it was, frankly, the easiest initiative to get started. I am aware, though, that the reasons behind the initiative are not fully understood and that we need to work on this in the future.

**AKIYAMA :** While it may be easier to imagine the advancement of women in companies manufacturing consumer goods that target women directly, it may be not be as simple for the JSR Group or other materials manufacturers. Continuing with the Japanese-style of diversity management will not work, especially when expanding overseas. In fact, the number of Japanese companies struggling with this issue overseas is increasing. Initiatives designed to increase the acceptance of diverse values and change people's way of thinking to create new values are now required. I think this will be required in Japan as well.

**HIRANO :** As Ms. Nakayama said, our engagement in diversity had its start in an initiative aimed at the advancement of women, which was, as also mentioned, the easiest initiative to start. Like Ms. Akiyama, I worked at a European office in the past and had difficulties with differences in language, culture, and religion. Communication is natural if both speakers are from the same cultural and linguistic background, but employees dispatched overseas must have the resolve to actively understand and work together with individuals from different cultures. Approximately 2,000 of our Group's 7,000 employees are non-Japanese; and when we consider that overseas activities account for 55% of total sales, working on the Corporate Mission and CSR in Japan alone is not enough. We may have difficulties

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disseminating the mission overseas.

**NAKAYAMA :** We conduct annual questionnaires on the Corporate Mission for overseas offices, and they show differences in awareness according to country. On the other hand, there are also generational differences in attitude in Japan such as the emergence of young males who are not interested in career advancement. Such issues cannot be addressed overnight. It will take time, years of work. I believe the JSR brand can be further strengthened through these initiatives.

**AKIYAMA :** I think awareness of the JSR Group Corporate Mission must be heightened overseas as well as in Japan. However, we must consider how to better communicate and root the Corporate Mission. I think the solution is more "glocal" than "global," which means thinking from a global perspective and acting from a local perspective. The fundamental core of the Corporate Mission should remain intact but be communicated in a way that takes the local culture and values into consideration so that it can be understood clearly. Each and every local employee must consider how their work ties in with Materials Innovation.

**HIRANO :** I completely agree with the "glocal" concept that Ms. Akiyama mentioned, and I also think this concept applies inside the company. Each department and division has its own interpretation of the Corporate Mission. For example, in the Account & Finance Department where I work, we relabeled the Corporate Mission, "Cash Innovation." The same interpretation can be made overseas without being too strict.

**MOTOKI :** If overseas operations are considered when we look at passive CSR, important items are evident. There is high interest in the issues of air and water pollution overseas. The JSR Group should actively show that it is working on these issues as a natural part of CSR.

Another high-interest issue overseas is human rights. Even if no such problems exist inside the company or with business partners, the JSR Group could be affected if they occur in the supply chain. However, problems are difficult to identify when the supply chain includes three or four levels of subcontracting. The way in which we engage risk management, therefore, is certainly an important issue.

**AKIYAMA :** There are many differences between the way in which issues facing society are interpreted and addressed overseas and in Japan. The most obvious example is the issue of human rights. In Japan, the so-called "sweatshop companies" are merely mocked; but in other countries, they would be considered forced labor. There are also significant differences in the legal standards for anti-corruption, anti-trust, and other similar laws.

**NODA :** In Japan, the issue of human rights is understood narrowly as power and sexual harassment. Globally, the term human rights encompasses all basic human rights. As Mr. Motoki mentioned, this includes the rights of not only the company's own employees but also the workers employed by suppliers as well as local residents. For example, if local residents do not have sufficient access to usable water due to water pollution resulting from business activities, such a situation would be a violation of their human rights. Therefore, it is imperative to act from the perspective of the entire value chain. As illustrated in Fig. A, the issue of human rights is positioned low on the JSR Group's list of priority issues. I think human rights should be positioned more to the top right. In addition, prevention of discrimination has been grouped together



with the prevention of human rights violations. If the prevention of discrimination is pointing at an internal workplace human rights issue, I think it would be easier to address by separating the prevention of human rights violations from the handling human rights in the global context.

**KAWAHASHI :** While slightly off-topic from what was just said, I personally feel that the handling of suppliers involves human rights. Delivery deadlines are very strict and we require the cooperation of suppliers to meet these deadlines. So we need to set strict deadlines for our suppliers. The way strict demands are received varies greatly by country. In that sense, the "glocal" concept is necessary.

**HIRANO :** I feel the JSR Group is operating a risk management system that can firmly respond to global risk. Relevant organizations, including the Legal Department, Risk Management Committee, and Corporate Ethics Committee, regularly identify issues in Japan and overseas. Operational audits are also conducted for all overseas sites once every two years. While several issues have been reported through the hotline, I believe we are doing quite well.

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## Priority Issues Identified by JSR Group - Dialogue 3

### Priority Issues and their Correspondence to Investor and Customer Needs

**MOTOKI :** When I looked into how many JSR shareholders signed the Principles for Responsible Investment (PRI) required by the UN, principles that investors consider ESG (Environment, Society, and Governance) issues when choosing which company to invest in, I found that over two-thirds of major corporate investors had signed. As ESG efforts are already part of the six principles of PRI, this illustrates that many of your shareholders place importance on ESG; and I believe that investors, who place importance on ESG evaluate the JSR Group not only by business results but also by non-financial factors disclosed in the CSR Report and other sources. For example, long-term investors that incorporate ESG perspectives such as pension funds do not typically change their share portfolios often. They tend to hold onto their assets for five or ten years, or even longer. It can be said that JSR Group CSR is contributing significantly to the building of a stable investor base. It would seem that the JSR Group and its investors are in alignment regarding increasing corporate value over the long term.

**HIRANO :** I recognize that investors are interested in ESG. We hold around 300 meetings each year with investors both in Japan and overseas. I always ask about the investors' perspective of ESG at these meetings, and I found that ESG is basically an "initial screen" for evaluation as an investment option. Making our ESG attractive for investors is not just a matter of disclosing information on ESG efforts. We have to engage in appropriate activities as a corporate citizen while also delivering results.

**AKIYAMA :** Investors expect a return on their investment. Ultimately, they want companies to create new technologies or business models that address environmental and other issues facing society, and, in doing so, grow as a company. To begin with, ESG is not intended as tool for the evaluation of activities separate from business. I completely agree that ESG is an "initial screen" because if the evaluation of the company is negative, it would not even be considered as an investment option. As the JSR Group continues to integrate CSR with management, potential investors will consider how CSR is linked with the business, and how the business will lead to solutions for issues facing society and contribute to society while also improving results.

**MOTOKI :** Investors that focus on ESG have their own policies and criteria regarding such issues as climate change and water conservation that they use to evaluate companies. In this sense, only companies that conform to those policies and criteria survive the "initial screen." Of course, expectations regarding ESG will also continually increase. Investors have ever-increasing access to information on companies. Even if a company makes it through the



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"initial screen," it may not continue to merit consideration if it does not continue to improve its CSR and results.

**AKIYAMA :** I think it is very good for the JSR Group to take foreign stakeholder opinion into consideration when selecting priority issues. I do not think there are many Japanese companies that do this. I expect CSR to play an increasingly important role both in Japan and overseas, and so it is important for companies to incorporate this perspective into their business.

As providing an effective, high-quality, and stable supply of products is the most critical priority issue, how is CSR related to product R&D and manufacturing technologies?

**KAWAHASHI :** We conduct several design reviews\* over the course of initial research and development through final release to the market, and environmental impact checks are always included in these reviews. These repeated design reviews also help increase awareness and employee commitment to CSR.

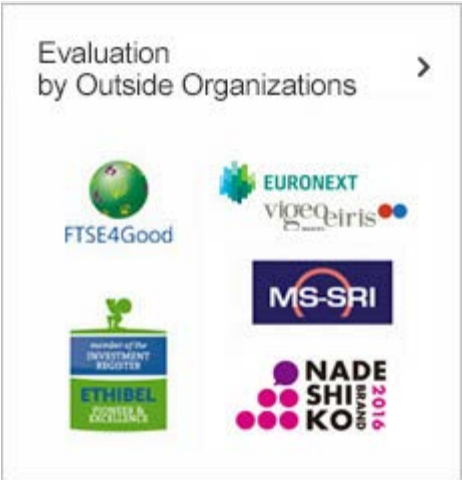
\* Design review: Reviews conducted at each stage of development to ensure that materials, production processes, product performance, functionality, and quality satisfy predetermined criteria before the product can advance to the next development stage. The review items include energy-saving, resource conservation, improved recyclability, and reduction of hazardous materials.

**NODA :** As I'm involved in promoting the implementation of the international CSR reporting guidelines, or "GRI Sustainability Reporting Guidelines," I feel that Japanese companies tend to become too focused on filling in the details. The purpose of the guidelines is not to show the status of achievement by filling in the details. The real purpose is to communicate transparently with stakeholders about the processes of initiatives aimed at solving issues facing society. There is a risk of allowing the focus on format to interfere with our ability to communicate the actual initiatives.

**KAWAHASHI :** In the case of our Life Sciences Business, we chose the direction of our research and development considering issues facing society by deciding to focus on a cutting-edge diagnostic system using our own materials. This was in response to the shift in healthcare from treatment to prevention. On the other hand, most research and development is conducted on the basis of customer need. While it may appear that there is no connection with issues facing society, this is not actually the case. When I was working in the LCD (Liquid Crystal Display) Materials Department, we had a request to make screens look brighter. My first thought was that the request was based on the simple desire to make the screens look better. As I thought deeper, however, I realized screens that look brighter help reduce power consumption, which in turn leads to energy-saving. In other words, there are many cases in which focusing on customer needs produces the same social benefit as focusing specifically on how to address individual issues. I think the way we look at CSR will change when we get into the habit of thinking that understanding customer needs may lead to a response to social needs.

## Engagement is Essential in Promoting the Integration of Management and CSR

**NODA :** I felt that the way in which we seek mutual understanding with stakeholders, or in other words, how we engage with stakeholders,



was unclear. Mono-directional communication through the website and CSR reports is not sufficient. Opinions on all sides can be incorporated into CSR through active engagement with stakeholders. As values and cultures overseas are different, there is a risk if engagement is not handled properly. I think that how we engage and how we build trusting relationships with stakeholders are both important issues that need to be considered going forward. There is a need to know the range of stakeholders that are interested in the company's business activities and also to always be aware of the trends.

**NEJIGAKI :** It is not easy to engage with stakeholders even in Japan. What should we be thinking about?

**NODA :** There was mention of identifying issues when expanding overseas. One method is to advance engagement by creating opportunities for dialogue with a wider range of stakeholders. It may also be effective to hear from NGOs and experts in various fields. As JSR already holds 300 meetings with investors annually, simply organizing and communicating meeting details should make a change. Furthermore, the importance of priority issues changes depending on the person you are listening to. For this reason, balance must be maintained.

**NEJIGAKI :** I heard opinions from overseas for the first time during the process of identifying our current priority issues. In 2015, we organized a CSR Caravan to the US and Europe to discuss CSR initiatives, philosophies, and the Corporate Mission. In 2016, we plan to have CSR Caravans to China and South Korea. We intend to strengthen this initiative in the future to increase awareness of CSR.

**NODA :** I learned that the JSR Group is a leading company in establishing and increasing awareness of CSR. One example of this is the inclusion of CSR from the research and development stage. "Communication" is an initiative that I hope JSR would focus more on in the future. In doing so, it is important to think about the various stakeholders and consider how to communicate in way that is easy to understand. Using SDGs or similar global indicators, for example, can help you to communicate more effectively.

**MOTOKI :** I feel it would be better to express the concept that the JSR Group anticipates the needs of society as we look ahead to meet customer needs. The JSR Group can better emphasize the direction in which it is moving by connecting each environmentally friendly product with SDGs and other concepts shared by international society. I think sharing scenarios and social vision for business development 10 to 20 years in the future and their realization in the context of current business and CSR will enable better JSR Group CSR communication. Specifically, I think adding initiatives that "adapt" and prepare for the impact of global warming to current climate change "mitigation" will further improve our effectiveness in communicating initiatives. As this is a global issue, I believe it would lead to greater attention.

**AKIYAMA :** I completely agree with what both of you have said. Allow me to add that I think communicating the greatness of the corporate culture, something I felt strongly during dialogue with young employees, in CSR Report 2015 would be a nice idea. Furthermore, I feel that these great concepts and activities have not been effectively highlighted as a result of the modesty with which the Japanese tend to communicate. This is unfortunate. I hope the JSR Group will communicate its goodness more actively with the "glocal" concept in mind when engaging overseas. In doing so, I think it is important to communicate with focused story-telling.

**KAWAHASHI :** "Glocal" is the term that stands out for me the most in today's discussion. As disseminating the concept in Japan as well as overseas is related to core issues such as human rights, I would like to handle it carefully.

**NAKAYAMA :** While JSR certainly excels in technology and numbers, the Group's software may be weak. There is also a culture of not communicating thoroughly. This approach will not lead to success on the global level. As I reaffirmed that we must be more active in achieving mutual understanding, I hope to overcome this challenge as we move forward.

**HIRANO :** I was able to reaffirm the importance of communication, the method of communicating and mutual understanding through dialogue. I also recognized anew the importance in both global and local situations of conveying our way of thinking after having heard voices from other locations. For both CSR and ESG, there is no need to rush into disseminating the philosophy. I hope to take sure steps even if it may take time. The reason for this is that the Corporate Mission is something like a set of unwritten family rules, a way of thinking I feel may take 10 to 20 years to become a part of everyone's consciousness.  
I believe we are doing what we should with regard to CSR, and I would like to continue integrating CSR with management while analyzing and reviewing the issues.

**NEJIGAKI :** I feel that the challenge of promoting CSR while trying to grasp social trends has become clearer during today's discussion. I look forward to incorporating everyone's advice and opinions into future activities.  
Thank you for your time today.



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