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Company report review

NEC

CSR Report 2005

**Presented by: the Ethical Insight team at  
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**Note**

This review is based on information contained in the electronic version of NEC's CSR Report 2005 available at: <http://www.nec.co.jp>. This review is intended as a summary only and does not provide full and complete discussion of all the issues contained in the report.

## 1 Company background

Established in 1899, NEC is a Japanese company with almost 24,000 direct employees engaged in three core business areas:

- IT solutions – provides systems' integration, mainly to government agencies and businesses.
- Network solutions – provides network integration relating to the broadband and mobile communications field, mainly to enterprises and communications services providers.
- Electron devices – provides semiconductors, colour LCDs, electronic components, etc., mainly to electronic manufacturers.

NEC sets out a clear CSR vision based on integrating principles and practices of good corporate citizenship in order to enhance management quality and corporate value. According to NEC, 'CSR activities and the drive to improve management quality are one and the same.' Particular emphasis is placed on stakeholder engagement as a means to both satisfy stakeholder expectations and achieve stronger operating results (although, in practice, the information provided in the report would suggest stakeholder engagement is currently focused mainly on employees). The tone and content of the report reflect NEC's ambitious target to turn CSR into a 'competitive edge'.

## 2 Reporting practices

### 2.1 Materiality

The report does a better job than most in explaining the company's CSR vision and outlining how its approach connects with long term business success. Importantly, NEC has also identified six priority CSR-related risk areas: quality and safety, the environment, information security, fair trade, occupational health & safety and human rights. Unfortunately, there is no indication of external stakeholder engagement either in the identification of key risk areas or in the compilation of the report. Stakeholder engagement is vital in gathering the critical feedback necessary to ensuring that all key issues are adequately addressed. Nevertheless, the report can be said to appropriately cover the risk areas that have been identified, with the exception of human rights which lacks contextual information regarding the company's understanding of human rights and key impacts, both in relation to employees and external stakeholders. Arguably, it would also make sense to structure the report according to the company's risk management framework, rather than according to stakeholder groups. This would result in a more NEC-tailored report and help ensure all key material issues are directly and fully addressed.

### 2.2 Transparency

Having identified the key CSR-related risks, the report could offer further insight into the challenges in addressing them. There is little evidence of external stakeholder feedback which would also be of interest, alongside NEC's response. Disclosure of sensitive information such as employee dismissals for breaches of the Group Charter of Corporate Behaviour and Group Code of Conduct, as well as government relations would demonstrate a greater commitment to transparency.

### 2.3 Comparability

The report achieves a high level of comparability of environmental data with the inclusion of a comprehensive set of performance indicators and targets. In other areas, however, performance indicators and key targets are not systematically defined. With regards occupational health and safety, for example, information provided in the report suggests data gathering systems are in place but this data is simply not clearly presented over multiple years which would allow improved evaluation over time. To improve clarity and ease of reference, NEC should consider including a summary of data in a separate section of the report. Although the report was prepared with reference to the guidelines of the Global Reporting Initiative (GRI), in future reports, NEC might include a GRI Index which provides a comprehensive framework for reporting on impacts and activities and allows international and multi-sector comparison between companies, as well as ease of reference. Given that NEC is achieving highly in many areas of CSR, the use of such a framework would help it to achieve its stated aim of 'turning CSR into a competitive edge'.

## 2.4 Assurance and verification

An independent review by a Japan-based non-profit organisation is included in the report. The review highlights areas of excellence, such as the CSR Promotion framework, eco-product certification and reduced emissions, and engagement with employees on business ethics. In addition, the review identifies a number of areas for further improvement, including engagement with suppliers to improve standards, and clearer tracking of progress since the previous year as well as future targets. While the review is a useful source of critical feedback on NEC's CSR activities, it cannot be seen as a substitute for a more rigorous assurance and verification process which would add to the credibility of the report.

## 3 Management structure

NEC has undertaken a radical overhaul of CSR management structures in the last reporting year. A rigorous 'CSR Promotion Framework' has been established, incorporating both senior and line management. This structure should allow NEC to adopt a more systematic, strategic and integrated approach to CSR.

The CSR Promotion Framework is comprised of three main bodies.

- First, a high-level CSR Promotion Unit which oversees and coordinates CSR related activities group-wide, led by a senior executive with overall responsibility for CSR.
- This CSR executive is also the Chair of a CSR Promotion Committee which brings together newly appointed CSR promotion managers from all the business units. Meeting every quarter, the CSR Promotion Committee is designed to be a forum for discussions on important CSR promotion policies and critical issues.
- Finally, a CSR/Ethics Promotion Staff Steering Committee has been established. Meeting on a monthly basis, this Committee brings together CSR/Ethics staff in each corporate division.

According to NEC, 'One key theme for CSR-driven management at NEC is for all organisational units, all directors, and each and every employee to understand these policies and implement them in the course of daily business activities.' The report indeed provides evidence of CSR educational and awareness raising programmes aimed at embedding responsible practices within the business. Specifically, NEC has begun training all employees in Japan on specific CSR-related subjects (such as business ethics, environmental issues and information security) using web-based training programmes. Training programs targeting CSR Promoters at NEC group affiliates and other initiatives have also been implemented. Overseas, NEC is concentrating efforts on providing training to local CSR Promoters via a workshop format. During fiscal 2005, CSR workshops were held in Singapore and China. Another training course was held in Malaysia for directors at NEC group companies in Southeast Asia. Meanwhile, CSR-related information is available to employees via the NEC intranet. In 2006, NEC plans to build systematic web-based training programmes on specific CSR-related subjects for employees in Japan and to provide specialized training courses for CSR

Underpinning this newly established CSR management structure, NEC has also updated its suite of CSR documents. These include the NEC Corporate Philosophy, Group Charter of Corporate Behaviour and Group Code of Conduct. The NEC Group Charter of Corporate Behaviour is composed of ten principles that provide a guide to the corporate activities required of members of the NEC group from the perspective of fulfilling NEC's social responsibilities. The NEC Group Code of Conduct specifies the behaviour expected of all employees in the course of daily business activities, mainly from the perspectives of compliance and corporate ethics.

## 4 Review of core issues

NEC undertook significant strengthening of its CSR risk management processes during the reporting year, an approach which can be seen as an effective way to focus attention on key material issues, and encourage a proactive rather than reactive approach to CSR management. Specifically, NEC has identified six priority risk categories: product quality and safety, the environment, information security, fair trade, occupational health and safety (OH&S) and human rights. Three of these risk categories are highlighted in the present review.

## 4.1 Information security

It is of little surprise that NEC highlights information security as key risk area given the unprecedented rise in recent years in security-related risks to personal and commercial information from cyber attacks, internet viruses, theft, fraud, extortion and other threats. These risks require the development of a comprehensive management approach which NEC is clearly working towards.

### 4.1.1 Policy

NEC has developed information security policies relating not only to its own information assets, but also those of customers and business partners. NEC's Privacy Policy outlines principles for the appropriate handling of personal information on customers to ensure that privacy is protected. An Information Security Statement policy outlines principles behind NEC's approach to information security more broadly, particularly with respect to the appropriate handling of information entrusted to NEC by business partners and customers, and NEC's own information assets.

### 4.1.2 Programme

There is evidence in the report of procedures in place to support the implementation of information security policies, including written procedures and training programmes. In 2005, the internal Information Systems Division coordinated efforts with the Customer Information Security Office (in the Corporate Ethics Division) to develop and implement an information security system for the entire NEC group. Importantly, NEC also developed training and awareness programmes which are vital to embedding responsible practices within the workforce. All employees received online training in personal information protection and information security during the reporting year but insufficient information is provided to comment on the quality of these programmes. There is no indication as to the feasibility of live focus groups or workshops which are often considered to be more effective.

### 4.1.3 Performance

The report provides some evidence of good performance in protecting information security. For example, two NEC divisions and 15 NEC affiliates had received certification of privacy procedures under a Japanese validation scheme for private-sector firms called 'privacy mark'. However, this information would be more meaningful if a benchmark and future targets were also provided, as well as additional performance indicators to illustrate the impact of policies and procedures in protecting privacy, highlighting areas for improvement.

## 4.2 Human rights

Another area of risk highlighted by NEC is human rights. For NEC, respect for human rights translates into 'a fair, diverse and non-discriminatory working environment that allows all employees to demonstrate their full abilities'. Clearly, NEC's approach to human rights is narrowly focused on employees. It is a real pity that NEC does not enter into a more detailed discussion of human rights, the company's impact and the risk of complicity in human rights abuses, not only with regards employees but also other stakeholders both nationally and internationally.

### 4.2.1 Policy

There is no indication of specific policies relating to human rights or diversity. However, NEC has established a group-wide Human Rights Awareness Committee which prepares activity plans in the area of human rights on an annual basis. Unfortunately, the report provides little real insight into the Committee's role and responsibilities.

### 4.2.2 Programme

There is evidence of NEC's commitment to developing an equitable and inclusive workplace. For example, all NEC business units provide a consulting centre for equal rights and other issues. Further, in response to a recently introduced 'Law for measures to support the development of the next generation' in Japan, NEC conducted stakeholder engagement with female employees with children and with labour unions to formulate

action plans. NEC will be introducing various childcare support programmes, a support website for employees seeking to return to workplaces and additional managerial training programmes.

Other aspects of NEC's human rights' programme focus mainly on communication initiatives. In fiscal 2005, NEC conducted numerous human rights training seminars for new NEC employees, managers, Human Rights Awareness Committee members, recruitment interviewers etc. Total attendance for the NEC group was high in Japan (4,780 attendees), although there is no indication as to whether these seminars took place elsewhere. In future reports, NEC should always substantiate this kind of information – for example, with further details on the seminars' objectives and content – in order to facilitate the critical feedback that is necessary for continuous improvement. Other communication efforts include human rights-related features on the NEC intranet, calls for proposals for human rights-related catchphrases and distribution of leaflets on this subject. Seminars and internal communication campaigns target the prevention of sexual harassment and again, the report would benefit from further context as to the extent of the problem and other systems in place.

### 4.2.3 Performance

A lack of contextual information makes it difficult to assess the performance of NEC human rights' programmes. In future reports, NEC should present relevant key performance indicators in this section. With regards diversity, some pertinent data is provided. While significant progress must still be made, there is evidence that the glass ceiling for women is being slowly dismantled: the ratio of women in managerial positions has been increasing steadily and in 2005, the first woman was appointed to the highest senior level. With regards the employment of people with disabilities, it is interesting that NEC chose to establish a subsidiary specifically equipped to employ people with mental disabilities. Overall, the proportion of NEC employees with disabilities exceeds the Japanese statutory minimum of 1.8%. NEC states that it is aiming to achieve an employment ratio above the statutory minimum in all areas.

## 4.3 Environment

The environment section is the most extensive in the NEC report and shows a real commitment to environmental management and performance.

### 4.3.1 Policy

NEC has established an Environmental Charter describing the company's environmental principles and action plans. Importantly, NEC has also developed an Environmental Vision 2010 which takes into account both the company's direct environmental impact, as well as that of its products. Thus NEC aims to reduce environmental risks and impact, utilise resources more efficiently, and establish sustainable management practices in all business activities, as well as to provide products and services that lower customers' and society's overall environmental impact and promote the efficient use of resources.

### 4.3.2 Programme

Based on the Environmental Management Vision 2010, NEC has established a detailed mid-term plan with a number of clearly defined objectives. The report includes a comprehensive list of indicators set against ambitious time-bound targets. For example, NEC is aiming to achieve zero carbon dioxide emissions by 2010, targeting emissions both from its own activities and from customers' use of NEC products. The company is also aiming to bring all employees into the highest category of environmental awareness, measured by an ongoing annual survey.

It is also good to see that NEC incorporates all business processes into the environmental management framework, from R&D to product design, raw material procurement, production, distribution, product use by customers, product collection and recycling. The report highlights activities in a number of areas of activity, including the development of recyclable bioplastics and other environmentally conscious products; promotion of green procurement; restrictions on hazardous substances; and restructuring of delivery networks and transportation.

NEC's environmental management is underpinned by an awareness raising programme launched in 2002. In 2004, a total of 26,742 people participated in the annual survey, more than twice the number for 2003. The surveyed group accounts for approximately 24% of NEC employees. This is in itself an indication of the

company's commitment to responsible environmental management, and also allows for identification of those areas of the business most in need of environmental training and environmental awareness-building activities.

### 4.3.3 Performance

NEC clearly highlights its environmental performance during the reporting year, alongside a discussion of the work programme in the coming year. The main highlights are as follows:

- **Products:** The percentage share of Eco Symbol products has increased to 83%. The mid-term target of a 40% reduction in the power consumption of equipment in fiscal 2005 compared with fiscal 2001 was also achieved. NEC also reached its green procurement target. The collection of used products decreased 10% in terms of overall weight compared with the previous fiscal year.
- **Plants and offices:** NEC reduced energy-derived CO2 emissions by an absolute value of 14,000 tons from the previous year, but fell short of the target for emissions per unit of nominal sales. Consumption of greenhouse gases other than CO2, as well as chemical substances, increased due to new lines installed in NEC's semiconductor business. However, when converted into the GWP equivalent, emissions were held to the previous year's level by using alternatives to greenhouse gases. In 2005, 22 companies acquired ISO 14001 certification although overall, the group fell slightly short of its target.
- **Environmental communication:** In 2005, employees falling into the so-called Eco-Excellence segment (those individuals with a high level of knowledge about the environment who are also willing to take action) stood at 42.2% (an increase of 18%). This increase shows that environmental awareness is rising and can be interpreted as a reflection of effective environmental education and training provided to all employees in 2005.

## 5 Certification

NEC does not systematically present certification and awards it has received in the area of sustainability which it might consider doing in future reports for ease of reference. The following highlights took place during the reporting year:

- Joined the UN Global Compact
- Ranked fourth overall in the CSR survey by the Nikkei Business Daily (including first place in the consumer and business partner fields)
- 22 group companies acquired ISO 14001 certification
- Two NEC divisions and 15 NEC affiliates had received certification of privacy procedures under a Japanese validation scheme for private-sector firms called 'privacy mark'

## 6 Ethical Insight's comment

3½ Star Rating: ★★ ★☆☆

NEC has produced an impressive CSR report, based on a clear CSR vision and philosophy and a solid CSR management framework. Progress is clearly being made in a number of areas, although further attention might be paid to external as well as internal stakeholder engagement which can be a vital source of critical feedback necessary to continuous improvement. The report is clearly structured but quite dense in places and somewhat imbalanced, with an emphasis on environmental management. In future reports, NEC might consider a structure based on its risk management framework rather than stakeholder groups.

### *Reporting practices*

NEC does a better job than most in explaining the company's CSR vision and outlining how its approach connects with long term business success. Also to its credit, NEC has identified six priority CSR-related risk areas which provide an effective way to focus attention on key material issues, as well as supporting a proactive rather than reactive approach to CSR management. Unfortunately, there is no indication of external stakeholder engagement either in the identification of key risk areas or in the compilation of the report which would have helped to ensure all key issues are adequately addressed. Human rights in particular could be explored in greater detail. The report achieves a high level of comparability of environmental data but in other areas, however, performance indicators and key targets are not systematically defined. In future reports, NEC should consider including a target scorecard and a separate section summarising key data over multiple years, to allow comparison over time. The report includes a useful independent review, highlighting areas of excellence and areas for improvement but this is not substitution for a rigorous assurance and verification process which would build the report's credibility and provide critical feedback for future reports.

### *Management structure*

NEC undertook a radical overhaul of CSR management structures during the reporting year, creating a framework that effectively incorporates senior and line management. This structure should allow NEC to adopt a more systematic, strategic and integrated approach to CSR.

### *Management systems*

This review considers NEC's policy, programme and performance in three key areas:

- Information security: NEC has developed information security policies relating not only to its own information assets, but also those of customers and business partners. There is evidence in the report of procedures in place to support policy implementation in this area, including written procedures and training programmes although further details could be provided. In terms of performance, it is significant that a number of NEC divisions and affiliates have received certification but this information would be more meaningful if set against benchmarks and future targets, as well as additional performance indicators to illustrate the effectiveness of procedures in place.
- Human rights: It is a real pity that NEC does not enter into a more detailed discussion of human rights, the company's impact and the risk of complicity in human rights abuses, as well as the functioning of NEC's Human Rights Awareness Committee. In practice, however, evidence is provided in the report of NEC's commitment to a more equitable and inclusive workplace, particularly with regards women and parents. Other aspects of NEC's human rights' programme focus mainly on fairly extensive communication initiatives which would be more insightful if placed in the context of the reasoning and objectives behind NEC's approach.
- Environment: NEC has set a clear direction towards environmental responsibility by developing an Environmental Charter and an Environmental Vision 2010, taking into account both the company's direct environmental impact, as well as that of its products. NEC has set out a programme for achieving its Vision and includes in its report a comprehensive list of indicators set against ambitious time-bound targets, notably to achieve carbon neutrality by 2010. NEC's environmental management is underpinned by an internal awareness raising programme, with almost half of employees falling into the category of highest awareness. Again, NEC should consider engaging with external stakeholders in the area environmental management and presenting feedback, and the company's response to it, in the report.

### *Certification*

NEC recently joined the UN Global Compact and was ranked fourth overall in the CSR survey by the Nikkei Business Daily. In future reports, NEC might consider presenting certification and awards more systematically for ease of reference.

## 7 Appendices

### 7.1 Maplecroft's Ethical Insight report review criteria

Maplecroft's Ethical Insight report reviews are based on a four-pillar framework, taking into account reporting practices, corporate responsibility management structure, management systems (policy, programme and performance), and certification. The review of management systems considers the company's core issues as identified by the company in its report and by Maplecroft on the basis of the company's industry sector. Maplecroft is currently developing a map of core issues by sector which will be available shortly. The report review criteria are not comprehensive, but are designed to highlight the most significant practices and performance within each company, as well as important omissions and areas for improvement in future reporting.

- **Reporting practices** are reviewed on the basis of four key reporting principles:
  - **Materiality:** Does the report cover all the key issues relevant to the sector? Does the report provide the context and relevance of each issue to the company? Has the company engaged with key stakeholders in identifying and exploring material issues?
  - **Transparency:** Does the report disclose regulatory non-compliance? Does the report make other sensitive or groundbreaking disclosures? Is there public reporting at the local level?
  - **Comparability:** Does the company report in accordance with the GRI guidelines or other external metrics? Have internal metrics and data collection/management systems been developed? Does the report clearly present key indicators and targets?
  - **Assurance and verification:** What type of assurance and verification are provided? What is the scope of assurance and verification? What are the feedback / results of the assurance and verification process?
- **Management structure** is assessed on the basis of three main criteria: Is there a board level CSR Committee (or equivalent) in place? Is there a dedicated CSR network in place? Has the company signed up to any best practice principles or external bodies?
- **Management systems** incorporate principles (governance level), policies (strategic level), procedure and guidance (executive level) and practise (operational level). For each of the company's core issues, Maplecroft reviews policy, programme and performance.
- **Certification** refers to the company's listing on sustainability indices, such as the FTSE4Good and Dow Jones; external certification such as SA8000 and ISO14001; and any external awards received during the reporting year.

## 7.2 Previous Ethical Insight report reviews

Ethical Insight includes a review of a company sustainability report in each fortnight's edition. These reviews, together with the original report, can be accessed from the Maplecroft website at <http://www.maplecroft.net>.

Previous Maplecroft reviews are as follows: These are all hypertext links to the reviews.

- **ABN Amro sustainability report 2003**
- **Alcan corporate sustainability report 2004**
- **Alcatel - Sustainable Development Report 2004**
- **Anglo American Report to Society 2004**
- **BAA annual report 2003/2004**
- **BAE Systems corporate responsibility report 2003**
- **BBC Corporate Sustainability Report 2004**
- **BP Sustainability Review 2004**
- **Cadbury Schweppes Corporate and Social Responsibility Report 2004**
- **Citigroup Citizenship Report Review 2004**
- **Co-operative Group corporate responsibility report 2003**
- **HSBC Corporate Social Responsibility Report 2004**
- **Hydro corporate social responsibility annual report 2003**
- **Marks & Spencer Corporate Social Responsibility Report 2005**
- **Nike Corporate Responsibility Report 2004**
- **Rio Tinto 2004 Sustainable Development Review**
- **Royal Mail corporate responsibility report 2004**
- **RWE corporate responsibility report 2003**
- **Shell Foundation 'Enterprise solutions to poverty' Report 2005**
- **Standard Chartered 2004 Corporate Responsibility Report**
- **TPG annual report 2003**
- **TPG Corporate Sustainability Report 2004**
- **Unilever Social and Environmental Reports 2004**
- **Vodafone corporate social responsibility report 2003/04**
- **WestLB Sustainability Report 2005**
- **Westpac Stakeholder Impact Report 2004**

### 7.3 Ethical Insight's sustainability reporting services

The Ethical Insight team at Maplecroft works with global organisations across all sectors, providing a range of specialist corporate responsibility advisory services. Further details about the wider range of Maplecroft services and the Maplecroft team are available at <http://www.maplecroft.net>.

In the area of sustainability reporting, we have considerable expertise in the full range of management systems that underlie effective social and environmental reporting, including auditing, indicators, monitoring, impact assessment and performance management. Maplecroft is also experienced in report writing, verification and assurance, having contributed substantively to several award winning reports.

The Ethical Insight team is also able to provide independent assurance and verification services of the highest standard, including in accordance with GRI and AA10000 criteria.

Maplecroft has developed a number of proprietary tools to assist companies in the reporting process. Specifically, we have developed the *Principles-plus multi-audit etool*, a practical and comprehensive auditing method that brings together a host of social and environmental standards, international best practice principles and instruments of corporate citizenship in a set of worksheets. The tool is designed to help companies assess their conformance with best practice requirements and identify the specific areas in which performance can be improved. A corrective action request form assists in the performance management process.

Maplecroft has also developed a *Human rights monitoring mechanism*, a straightforward electronic human rights survey, which can be used and adapted by companies to provide a detailed picture of human rights risk in its operations around the world. The survey assesses the human rights situation and management systems in place at the country level which, together with external country and issue specific human rights research, allow for a detailed analysis of the company's risk of complicity in human rights violations, and specific recommended action points.

The Ethical Insight team comprise fully trained and experienced SA8000 and ISO14001 auditors.

Please call us or email to discuss how our award winning Ethical Insight team might help:

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