

# **CSR and the Supply Chain: How a Japanese Sporting Goods Company has Successfully Engaged with International NGOs**

**Japan**

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## Executive Summary

This case tries to uncover two major management issues in global supply chain management. One issue was to obtain support from internal stakeholders which included management, shareholders, employees, factory managers and trading partners. The other issue was to develop trust among stakeholders outside the company such as international organizations, NGOs, unions, competitors and the press. In ASICS's case, both issues were unique for typical Japanese companies.

CSR concerns had become critical for most of the companies in Japan over the past several years, but these have been seldom treated as part of core management strategic themes. The issue discussed in the case shows how ASICS has incorporated CSR issues into its core management strategies and what the company's CSR team did to facilitate and implement the integration.

Likewise, ASICS faced a unique challenge from international NGOs. Japanese global companies are generally those in automobile and electronics industries. Because of their technology-focused operations, these companies' supply chains are more integrated than those of apparel and sporting goods companies like ASICS. Furthermore, these companies tend to own or control local factories through direct investment and/or ownership, thus they do not have similar labor and working environment issues in their supply chain that companies like ASICS have.

Since the early 1990s, labor scandals such as the so-called sweatshop issue had gained attention from all over the world. International NGOs like Oxfam, Amnesty and Global Union Organization were very actively engaged with the business sector. Nike, one of the first sporting goods brands which suffered from the sweatshop scandal, had to go through and overcome severe backlashes from those international NGOs and international organizations. Hence, ASICS was very careful when Play Fair at the Olympics Campaign approached the company in 2003.

ASICS was responsive and moved quickly to engage with the international campaign. Led by Mr Tanooka, the company's CSR team made great efforts to establish a working group in Japan together with its main competitor, Mizuno, and two Global Union organizations in Japan, UI Zensen and TWARO. These participating organizations frequently met and communicated with each other. The working group shared information related to the issue. After having interacted with the working group, UI Zensen and TWARO, led by Ms Akiko Gono, mediated between Japanese sporting companies and the campaign. The result has so far showed that neither ASICS nor Mizuno has been seriously attacked by the campaign or other international organizations.

Creating trust is a key success factor in engaging with both the internal and external stakeholders. Since the launch of the CSR team in June 2004, the team had focused on creating an environment where stakeholders could share necessary information as much as possible. Tanooka and the CSR team also concentrated on finding ways to integrate CSR value into the core management values, Quality, Cost and Delivery (QCD) which everybody in the organization knows and understands. If CSR becomes truly a part of the core management values like QCD+CSR, CSR issues can be easily communicated among the internal stakeholders and endorsed by them. If the internal stakeholders fully supported QCD+CSR, the CSR team could further strengthen the relationship with the external stakeholders.

At the time of writing this report, Tanooka and the CSR team have many things to do to achieve the QCD+CSR goal. However, the issues presented here have opened a way for the CSR team to reach their goal.

## Case Study on ASICS and its Engagement with International NGOs

In the summer of 2003, Yoshizumi Tanooka received a letter mailed to ASICS's Europe office by Play Fair at the Olympics Campaign which puzzled him. The letter indicated that ASICS's footwear factory located in Indonesia abused and treated workers unfairly. Tanooka did not have any idea at all what it was all about – the factory in Indonesia nor Play Fair at the Olympics Campaign.

Tanooka was with the General Administration Department of ASICS and was in charge of monitoring the company's own factories in Japan and overseas, i.e. mainland China. Tanooka knew that there were international organizations conducting campaigns focusing on human rights and labor conditions which had gotten very aggressive as the summer Olympics in Athens approached. In the past, similar campaigns targeted global brands such as Nike and Adidas, forcing these companies to disclose their subcontractor factories in developing economies in their CSR report.

Tanooka initially decided to be quiet about the inquiry from Play Fair since ASICS did not have any subcontracting relationship with local footwear factories in Indonesia. However, Clean Clothes Campaign, one of the three global organizations which made up Play Fair Alliance and which was based in the Netherlands, pressured ASICS to respond to the inquiry. The other two organizations under the alliance were Global Unions and Oxfam International. The Play Fair at the Olympics campaign is one of the biggest ever mobilization campaigns against abusive labor conditions. Hundreds of organizations and many top athletes have participated in over 35 economies and more than half a million signatures have been collected in support of the campaign before the Olympics Games in Athens. Over 500 local campaign events have been organized and this has helped contribute to its extensive television, radio and press coverage in the press all over the world.<sup>1</sup>

Tanooka decided to find out what was happening in the company's supply chain overseas. He thought that there might have been something going on in the supply chain which he was not aware of because some of the overseas consignment relationships were developed by Japanese trading companies. Hence it was difficult to know everything that happened in the company's supply chain.

Tanooka and his staff spent several months studying the company's supply chain. Finally, Tanooka was ready to respond to Play Fair at the Olympics Campaign but this proved to be too late. The Play Fair Alliance was already in the process of publishing its campaign report which included the possible abuse at the factory in Indonesia. The Play Fair Alliance published the report in March 2004 and this triggered a lot of E-mails sent to the president of ASICS criticizing ASICS wrongdoing in Indonesia. Between March and May 2004, Tanooka who arranged that this type of communication be sent to him instead, received more than 2,500 E-mails complaining about the situation in Indonesia.

Tanooka was shocked at how big and serious the relationship with the international organizations was. As a manager in charge of such corporate activities, Tanooka wanted to know:

- What relationship ASICS should develop and how it should communicate with international NGOs and other international organizations
- How he could get senior management involved in the process

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<sup>1</sup> Please see The Play Fair Campaign website: <http://www.fairolympics.org/index.html>.

- Whether the company should create a team or group dedicated to global supply chain management
- Whether ASICS should engage alone or partner with other Japanese companies in the sporting goods industry
- How he could integrate this effort into the business objectives and get support from the rest of the organization

Tanooka was facing challenges that were very new to the company and perhaps to most of the Japanese companies. He had to move quickly but cautiously to tackle them.

## Introduction

Founded in 1949 as Onitsuka Company Limited, ASICS Corporation (ASICS) has led the sporting goods industry in Japan and is now one of the leading sporting goods brands in the world. As a premiere Japanese sporting goods company, ASICS became a main product supplier for baseball stars like Ichiro Suzuki and many Olympics athletes, and thus its brand recognition grew dramatically in the global market. In addition to its world brand recognition, the company is also well-known for producing and marketing sporting goods in Japan and other parts of the world. Thus, unlike Nike which is mainly a marketing-oriented company, ASICS produces and at the same time markets sporting goods.

According to the company website, the company is now listed on the first section of Tokyo and Osaka Stock Exchanges. On a consolidated basis, ASICS employed more than 4,230 people and generated revenues of JPY194.5 billion as of 31 March 2007. Headquartered in Kobe, Hyogo, the company has main branches in Tokyo and Osaka and three local sales offices in Japan. It has 15 subsidiary companies in Japan and 19 companies overseas.

Since its brand and business operations have become global, more than half of ASICS's sales came from overseas operations. As of 31 March 2007, some 56.5% or JPY 113.1 billion (excluding the inter-segment sales) of the company's annual sales came from overseas and the rest, or JPY 81.4 billion, came from domestic sales. Major international sporting events such as the Winter Olympics and the FIFA World Cup Soccer in 2006 as well as marathon races around the world further increased ASICS's sales. Its overall operating income was JPY16.4 billion consisting of JPY3.9 billion, or 23.7% from domestic sales and JPY12.5 billion or 76.3% from overseas sales.

In addition to sales and marketing, ASICS is also into manufacturing. The company owns and operates factories in Japan and overseas, but it also consigns production capacity to factories overseas, mainly in China. Subcontractor factories in China are playing a pivotal role in the company's footwear business.

As a global company and a main product supplier, ASICS has successfully recruited top athletes like Ichiro Suzuki and leading marathon runners as product endorsers. In addition to its main brand, ASICS, the company has more than a dozen sporting goods brands for different market segments, ranging from kids to seniors, which have also gained worldwide popularity.

## Business Goals

In Europe, Japan and the US, the populations are aging and more people have become health conscious. Starting as city marathons in major metropolitan cities in the world, running and jogging have become popular daily exercises. Demand for running and jogging shoes is increasing worldwide. In addition, Japanese athletes who had been associated with ASICS have joined overseas professional leagues and played very well in major competitions. This has enhanced ASICS reputation as a product supplier for the sporting goods market.

The company's business performance has been positive and it is expected that the company will continue to do well in the coming year with the start of the Olympics in Beijing and with more Japanese athletes playing in the global markets. ASICS brand and the other brands under the company have been increasingly well-received in major markets around the world. Based on its strong business forecast and its brand recognition, ASICS sets its sales target at JPY300 billion (US\$ 2.61 billion<sup>2</sup>) by 2010, which is roughly a 50% increase from the sales in FY2007 of JPY194.5 billion. This is an aggressive goal.

Planning, Manufacturing and Sales and Marketing are the company's three core business functions having their main focus areas, Quality, Cost and Delivery (QCD). If ASICS positions well in each of these three focus areas, the company is likely to meet the sales target. However, it is not an easy task.

Tanooka knew how hard the competition worked to keep up their QCD because he was facing a different force from different stakeholders that the company did not engage proactively. Producing high quality goods with less cost had been the company's main focus and many of Tanooka's colleagues in Planning, Manufacturing and Sales and Marketing believed the same thing. However, Tanooka also believed that ASICS had to take care of working conditions and labor rights at local factories, even though they were just subcontractors. If ASICS were reluctant in allowing the local workers to exercise their labor rights, it would be unlikely that the company would meet the expectations of the core business people.

Consumer preferences were changing quickly and frequently. Sporting goods brands had to accommodate such changing needs and wants. Most of the customers did not really care who actually produced the shoes or T-shirts or how bad their working conditions were.

Sporting brand companies like ASICS needed to deliver goods that satisfied consumer needs and wants as well as produce goods in a way that meets local workers' needs and wants.

## CSR Team

The ASICS CSR Team was officially launched in June 2004. As the manager of the team, Tanooka has been leading the team since then. Although the launching of the CSR team was synchronized with the Play Fair Alliance, the company wanted to develop a group of employees who would dedicate their time and resources to CSR issues, especially global supply chain management. Tanooka's team was initially placed under the General Administration Department but was later on moved to the Legal Department. Under the General Administration Department, the CSR team inspected ASICS local and foreign factories; with the Legal Department, the team worked on implementing guidelines and policies to be shared with the entire organization.

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<sup>2</sup> FX rate (JPY/US\$) = JPY115 per dollar.

When the CSR team was formed, Tanooka assigned two staff members to oversee supply chain management.<sup>3</sup> Tanooka learned that the company's main rival, Mizuno Corporation also received a similar inquiry from the Play Fair Alliance. Thus, the CSR team asked Mizuno to work with ASICS and represent Japanese sporting brands in addressing the issue posed by Play Fair Alliance.

Aside from Mizuno, the CSR team also approached non-government organizations like the Japanese Federation of Textile, Chemical, Food, Commercial, Service and General Workers' Union (UI Zensen), International Textile, Garment & Leather Workers' Federation (ITGLWF) and ITGLWF's regional office in Asia and Pacific (TWARO). UI Zensen and TWARO were members of Global Unions, and Ms Akiko Gono represented the two organizations in Japan. She was willing to support ASICS and other Japanese companies in improving their CSR activities to include allowing labor unions in their factories.

The CSR team organized meetings and conferences among these stakeholders and presented to them how Japanese sporting brands worked with local subcontracting factories and what their labor rights policies were.

## Engagement with NGOs

Play Fair at the Olympics Campaign (Play Fair Alliance) was initiated and run by three strong NGO organizations: Clean Clothes Campaign, Global Unions and Oxfam International. Clean Clothes Campaign first approached the Europe office of ASICS to inform the company that its local staff discovered that there were some labor abuses at a factory manufacturing sporting goods for ASICS in Indonesia. They informed the ASICS's European office that they were going to campaign against the company unless ASICS responded to the issue.

Tanooka did not know how to respond to the issue because ASICS at that time had no relationship with any local footwear factory in Indonesia. Before the CSR team was officially formed, Tanooka and his team had monitored factories that ASICS had relationship with on product quality, as well as working conditions including safety and training, on a regular basis. He was therefore shocked that labor abuses were allegedly committed by ASICS factories.

After a thorough investigation of the issue, Tanooka figured it out. The factory in Indonesia cited in Play Fair's letter was manufacturing counterfeit goods of brand companies like ASICS. While it was obvious that the factory produced fake products, Play Fair Alliance did not respond as Tanooka expected. It turned out that this was because Oxfam Australia replaced Clean Clothes Campaign as the main organization assigned to deal with ASICS because Oxfam Australia was the expert on labor rights issues in the Asia Pacific region.

Play Fair Alliance thought that they had not received a satisfactory reply from ASICS when the Campaign was about to publish their campaign activities. Play Fair Alliance published the campaign activity report in March 2004. The report concluded that ASICS committed labor abuses at its local footwear factory in Indonesia and that ASICS did not respond to the issue seriously. Because of the publication of the report, more than 2500 E-mails from around the world were sent to Tanooka for the next three months, citing ASICS alleged involvement in the incident in Indonesia.

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<sup>3</sup> As of August 2007, Tanooka assigned Mr Koji Takiyama, Mr Toshiaki Kawasaki and Ms Seiko Inoue to oversee the supply chain management in CSR team.

Tanooka found out that Mizuno, a key competitor of ASICS was also facing the same issue from Play Fair Alliance. Through Tanooka's efforts, Mizuno agreed to work with ASICS to address the issue and continue to do so if necessary. Tanooka felt that ASICS and Mizuno had to represent Japanese sporting brands in order to show how well Japanese companies had been working with local factories. He also arranged to communicate directly with Oxfam Australia and later on invited other NGOs like Oxfam Japan, TWARO, and UI Zensen to a meeting where they discussed the issues confronting companies like ASICS and Mizuno.

## **Management Involvement**

Management involvement was one aspect that the CSR team had to hurdle at that time because they themselves were not very familiar with the workings of so-called activist organizations like Play Fair Alliance which did not seem to be legitimate organizations. Greenpeace was the only activist legitimate organization that they were aware of. Therefore, Tanooka did not have any idea at first how to handle the letter from Play Fair at the Olympics Campaign.

Tanooka later on learned that there were many different types of organizations among NGOs, from activist NGOs to yoga NPOs (People's Organizations). He also learned that Play Fair Alliance had its own track record and its objective was not entirely extreme; some of their assertions were legitimate and appropriate.

Despite Tanooka's deeper understanding of NGOs, he found it difficult to make the company's management understand what the NGOs were doing and who they were. Management did not have any clue why ASICS needed to pay attention to these organizations and how seriously the company had to relate with them. It was the CSR team which made the management understand the nature of international NGOs like Oxfam Australia and how important it was for ASICS to relate with them.

In order to obtain buy-ins from the management, the CSR team deliberately developed relationship with the international organizations and informed the management of every development, from minor events to critical issues, that arose with these relationships. The management now understands who they are and what they are doing, as well as why they are critical for ASICS. It was a very important step for the company to seriously consider its relationship with these NGOs which, in the past, were considered outsiders in the world of business. Tanooka now believes that the management counts on his experience and relationship with these international NGOs.

## **Organizational Support**

Organizational support was another hurdle that the CSR team had to overcome. There was no simple way of estimating the risk to the company that Tanooka and the CSR team were trying to address. Therefore, there was no proof that the engagement with the stakeholders in the company's value chain deserved to be prioritized by the company. While it was true that the importance of the stakeholder engagement was seriously regarded by ASICS since the Athens Olympics and the Germany World Cup soccer were critical for the company's business, it was also true that its global sales continued to increase, even without paying attention to this concern.



Because of competition in the sporting goods industry and rapidly changing customer preferences, QCD (Quality, Cost and Delivery) was the focal point of the company's strategy. Tanooka's problem was how the CSR risk could be incorporated into the strategy or how CSR could be considered as equally important to QCD by ASICS's employees. Not only was CSR a new concept for the employees, but the stakeholders such as Play Fair Alliance and Oxfam were also very new to them. They had no idea why the company should care about these stakeholders when they were not part of the company's value chain at all.

As an ASICS veteran manager for 20 years, Tanooka was certain that the employees would not easily understand what was happening and what impact it would have on the company, its value chain or its customers. He and his team had to come up with solutions to tackle employees' attitude step by step. For the management, the employees as a whole and even to Tanooka himself, the attack on Nike and Adidas by the above-cited international NGOs was fire on the other side of the river. They did not realize that ASICS was a leading global brand in the sporting goods industry, which means that the brand had become a potential subject of any negative campaign by outsiders or activists who were on the look-out for well-known brands to lend more impact to their campaigns.

## **How the CSR Team Responded to the Challenges**

*What relationship ASICS should develop and how it should communicate with international organizations like NGOs*

The CSR team was organized in June 2004. When the issue with the Play Fair Campaign cropped up, the company had already been discussing the organization of the CSR team within the company's Legal Department. Regardless of CSR activity, the company wanted to set up an internal oversight capability for overseas factories. As ASICS business expanded globally, its supply chain had gotten global as well. The company had actively made a consignment contract with local factories, mainly in China, through trading companies and agencies. ASICS thought that it could monitor the volume, product quality and production time of the factories. Thus, in terms of its QCD, a function like an internal audit was necessary for the company to catch up with increasing demands in the global market.

However, after the Play Fair Alliance incident, the company found out that creating an internal audit function was not enough. What the company needed was a function that would take on not only an internal audit role but also a catalyst role, engaging with stakeholders such as NGOs and other interested parties.

At the same time that the CSR team was being organized, Tanooka and his team started dialogues with Play Fair Alliance, mainly with Oxfam Australia. Oftentimes, ASICS represented Japan in the dialogues. The company invited Mizuno and other Japanese sporting goods companies and TWARO which was representing factory workers. TWARO was part of the Global Unions but during the dialogues with ASICS, the organization served as an objective mediator. For example, in ASICS's dialogues, the negotiations were done between Japanese companies and the campaign representative, Oxfam Australia. While Japanese companies created jobs and hired workers in developing economies, the campaign promoted the quality of workers' life. Thus, TWARO which represented textile, garment and shoe workers, supported and joined the campaign group, and at the same time, tried to mediate between the group they represented and ASICS to come into an

acceptable solution to improve labor rights in developing economies. For Oxfam Australia, TWARO served as a reliable source of information on local issues.

ASICS's strategy to move the dialogues forward was to conduct them on a regular basis and allow active exchange of communication, with all Japanese companies such as Mizuno and others in the sporting goods sector, acting as one team, Team Japan. It was very important for Oxfam to know that Japanese companies were serious in addressing the issue. The involvement of TWARO in the dialogues and negotiations further contributed to their success.

Moreover, the company also conducted dialogues with factory workers. In July 2005, ITGLWF organized a symposium in Hanoi, Viet Nam where local factories and sporting goods brand companies discussed and consulted with each other on how they conducted business with local factories. By attending the symposium and small workshops in Viet Nam, the CSR team learned more about the factory workers and the issues and concerns affecting them.

ASICS's efforts were well-received by the team of negotiators. Ms. Akiko Gono, secretary of TWARO, pointed out that several Japanese companies including ASICS and Mizuno had been working hard on improving their supply chain management and actively engaging with local suppliers and international NGOs. She noted that it was time for the suppliers and unions to improve themselves. For example, some local suppliers as well as workers did not have knowledge of worker's rights due to lack of training. Thus, even though sporting brand companies like ASICS did not oppose the organization of trade unions among these workers, the suppliers for their part, were not ready to accept labor unions and were not aware of the pros and cons of having them in the company. Ms. Gono informed Tanooka and the CSR team that educating local suppliers was important in order to strengthen supply chains and make them transparent.

Ms. Gono also felt that international NGOs and other international organizations like ITGLWF and TWARO needed to strengthen themselves if they were to continue to be good partners with the business sector. In order to be credible counterpart to companies, ITGLWF and TWARO had to strengthen their affiliates in their organizing and research activities.

Lastly, Ms. Gono emphasized that international NGOs and organizations should respect the social norms in each society and culture. In order for TWARO as well as UI Zensen to act effectively, these organizations needed to understand how to deal with foreign companies. For instance, the Play Fair Campaign which was led by western organizations, tended to focus on attacking a target company and mounting large negative campaigns in the initial stage. The main purpose of such campaigns was to increase awareness concerning some social issues and to demand that companies should improve or change their ways of doing business. Hence, to be more effective, international NGOs and international organizations should respect social norms of the society where target companies conducted their main business.

### *How he could get senior management involved in the process*

As mentioned earlier, a negative campaign was something that senior management could not understand at the start. Tanooka exerted a lot of effort to let senior management know that the issue was as important to the company as QCD. If left unattended, the issue could destroy corporate reputation or diminish its image just like what happened to Nike. Tanooka reported to his boss and senior management on a regular basis the status of the campaign, how the company has responded or should respond to it, as well as what similar activities in the industry were taking place especially among ASICS competitors, and how these companies were also responding.

Senior management reacted positively to the efforts of Tanooka and the CSR team. They finally appreciated the importance of the issue and fully supported the CSR team to take care of this issue in their role as catalyst. Tanooka and the CSR team had the full backing of senior management to hold meetings and attend conferences and symposia where Tanooka shared how the company worked with local factories and their employees.

*Whether the company should create a team or group dedicated to global supply chain management*

Launching the CSR team had been a pressing issue for the company. In order to keep QCD rolling and monitor CSR issues such as labor rights and working conditions at the same time, it was necessary to organize a CSR team. The functions of what was to become the CSR team were initially done by the General Administration Department where Tanooka belonged. However, since the issue with Play Fair Alliance highlighted the need to cover labor rights as well, the company decided to launch the CSR team within the Legal Department instead of General Administration.

One of the team's first tasks was to develop the company's Code of Conduct (see Appendix 2) and Corporate Policy of Engagement (see Appendix 3). This was done not only for the benefit of the employees of the company but for its subsidiaries and the other stakeholders, including factories and trading companies in ASICS supply chain. The team wanted to emphasize that ASICS had a Code of Conduct and Corporate Policy of Engagement which had to be strictly followed.

The development of the code and the policy sent a clear message to the employees that ASICS had become a company proactively taking care of labor rights and working conditions even in its overseas activities. The global supply chain is a key to the company's success in meeting its sales target of JPY300 billion in the short term.

Tanooka and his team actively promoted the Code among its local factories and trading companies which were also connected to some local factories through their business relationship. The CSR team visited local factories on a regular basis (e.g. once a year), and monitored the operations of local factories and their compliance with the working conditions standards established by the Code.

In addition, ASICS decided to join and partner with Fair Labor Association (FLA), "a nonprofit network which gets major footwear and clothing manufacturers to agree to disclose specific factory names, and where in the world their products are manufactured."<sup>4</sup>

According to the FLA website, "the FLA represents a multi-stakeholder coalition of companies, universities and NGOs. There are currently 20 leading brand-name companies participating in the FLA. These are Adidas AG, ASICS, Eddie Bauer, Drew Pearson Marketing, GEAR for Sports, Gildan Activewear, H&M, Liz Claiborne, Mountain Equipment Co-op (MEC), New Era Cap, Nordstrom, NIKE, Outdoor Cap, Patagonia, Phillips-Van Heusen, PUMA, Reebok, Top of the World, Twins Enterprise, and Zephyr Graf-X. These companies have committed to a rigorous program of Workplace Standards implementation, monitoring and remediation in order to bring their manufacturing sites into compliance with FLA standards." In addition, 194 colleges and universities have joined FLA.<sup>5</sup>

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<sup>4</sup> Please see FLA website: <http://www.fairlabor.org/all/about/index.html>.

<sup>5</sup> Ibid.

By joining FLA, ASICS is expected to promote both the company's code of conduct as well as FLA's Code of Conduct (see Appendix 4). Moreover, FLA requires a participating company to report local factories and their addresses to FLA. As a third party auditor, FLA goes to local factories and investigate how the factories operate. ASICS believes that such a third party audit is effective and objective. However, as of now, ASICS has decided not to disclose the full information of their contract factories such as names and addresses to the public, but instead has given the information to FLA for them to monitor these factories.

The CSR team again started to promote FLA's code of conduct within the company and with local factories in its supply chain. By asking local factories and trading companies to follow FLA's code of conduct, ASICS has become more confident in its oversight of local factories and managing its reputation in the global supply chain.

*Whether ASICS should engage alone or partner with other Japanese companies in the sporting good industry*

In dealing with Play Fair Alliance, ASICS had to involve Mizuno, its rival company, and some other Japanese sporting brand companies. From ASICS's point of view, in such a campaign, ASICS or Mizuno was simply considered a Japanese brand or Japan as a whole. The Play Fair Campaign tended to claim that Japanese companies or Japan as a whole, did not respect labor rights at local factories. It became more of a national matter rather than an issue affecting a single company. ASICS thought that it would be a good idea to work together with other Japanese companies. Mizuno who had faced similar issues from Play Fair Alliance sympathized and cooperated with ASICS.

However, ASICS seemed to be the only Japanese company dealing with other international NGOs such as the FLA. During the time that ASICS was strengthening the CSR team and its internal audit capability, the company relied more on the third party audit done by FLA. The third party audit presented to the company an objective view of working conditions at local factories and uncovered other aspects of factory operations that the internal audit could not capture. Given the unpleasant responses from local factories, ASICS decided to disclose detailed information on the factories to FLA as basis for their inspection.

Among Japanese companies, ASICS pioneered in the global supply chain management which was being followed by many companies. The company hopes that it could persuade other companies to join FLA or similar third party auditors in the near future.

*How he could integrate this effort into the business objectives and get support from the rest of the organization*

Tanooka's strategy was to (1) have his staff regularly visit all the company's own factories and those with subcontracting arrangement with ASICS; (2) inform senior management of the latest status of the company's global supply chain activities and get management support; and (3) bring CSR to the level of QCD by getting the company's employees involved in CSR issues in the global supply chain.

In order to achieve these three objectives, Tanooka started to form a CSR team consisting of two staff who regularly visited local factories as part of internal audit. Tanooka also regularly reported to the management on the latest situation in the global supply chain, including stakeholder engagement with Oxfam Australia and FLA.

By being concerned with just QCD, the employees tended to overlook those who were actually working for the company and its products. QCD was centered on products and not the people who manufactured them. Tanooka believed that people management should be given the same importance as QCD for while it was important to focus on QCD to achieve the business goal, it was equally important for the company to take care of those who actually produced goods for the company. QCD plus CSR were what Tanooka and the CSR team had to promote.

The CSR team started to conduct internal training sessions to promote CSR among the entire corporate communities. The team also promoted the code of conduct of ASICS and FLA among representatives of trading companies. In February 2007, Tanooka successfully organized the first CSR session for employees and trading company representatives at the company headquarters. More than 80 people attended and learned ASICS's global supply chain management system and the company's efforts to improve CSR initiatives and working environment.

After ASICS's continuous efforts to promote the company's CSR and improve its supply chain management, Oxfam International agreed that there had been improvements in the company's supply chain. In 2006, Oxfam International published its research publication called *Offside* and mentioned that "Until a few years ago, ASICS had done very little to address labour rights in its supply chain but recently there have been a number of positive developments, including:

- ASICS's willingness to engage in dialogue with trade unions and NGOs and the company's interest in cooperating with these groups to ensure that workers receive labour rights training;
- ASICS's communication to its suppliers that it expects them to comply with international labour standards and the company's willingness to investigate violations and seek to remedy them; and
- ASICS's decision to submit part of its supply chain to the FLA's monitoring program."

## Going Forward

Looking back at what they had gone through in this complex issue, Tanooka and the CSR team recognize that there are two important aspects that both make ASICS unique. One is that ASICS confronted this issue as a global social issue rather than a minor issue happening overseas. As described earlier, the ASICS's Europe office received the letter from the Play Fair at the Olympics campaign. The Europe office's interest in this issue was so strong that Tanooka and his team had to address it as a global issue. Hence, they had to pay attention to various stakeholders on a global basis. The CSR team believes that had the Europe office not received the letter of complaint, the results might have been quite different.

The other aspect is that there were just a few Japanese companies which were subjected to the global supply chain issues that confronted ASICS and Mizuno. This was because most Japanese brand manufacturers were in electronics and automobile production which required highly technical skills, thus production was mainly done in factories owned directly by a Japanese company. On the other hand, ASICS and Mizuno products did not require high technical skills from their workers. Sporting goods and apparel companies hired local factories to produce sporting goods and apparel products at the least cost and at the shortest possible time. Thus, corporate governance at the local factory level is quite different between an automobile factory owned by a Japanese company and a garments factory owned by a local subcontractor.

With these aspects in mind, Tanooka thinks that there are many things that the CSR team will have to work on. He believes that the company is ahead in supply chain management compared to the Japanese sporting goods industry and most of the Japanese companies. Thus he thinks that the company can continue to lead in the social aspects of CSR. However ASICS still has to incorporate more environmental considerations into its CSR practices to address the environmental aspects. The company is trying to promote recycling of used shoes at retail shops but as a manufacturing company, Tanooka believes that the company can do much more since the environmental issues are critical for the company's CSR project and its core business. He and the CSR team need to develop some innovative programs on the environment.

Likewise, the CSR team wants to inspect all company-owned factories and those of its regular subcontractors. While the team relies on the third party inspection by FLA, the team wants to have the same information internally. Having the information internally could create efficiency in the supply chain management as well as the company's business operations. Furthermore, the company itself is seriously considering lessening its dependence on its subcontractors in China and on its local suppliers which are mostly Chinese-owned. It is a serious business risk for ASICS to place a big portion of its business in the hands of just one source of supply. Hence, the company is now seriously considering a way to develop new suppliers and subcontracting networks outside China, thereby diversifying the global supply chain risk. In order to do so, it is critical for the team to observe and monitor all the factories that do business with ASICS and make routine internal audit of all factories in the near future.

Lastly, the team would like to make CSR part of ASICS's DNA. The team plans to organize for the entire organization a series of seminars and workshops to spread the concept of CSR and the company's CSR standards. Educating the employees is critical.

The Code of Conduct workshop in February 2007 helped employees understand what is happening around the company's core business. It is important to recognize how CSR relates to what employees are doing at work everyday. Such learning opportunities are critical for the company as a team to pursue certain objectives together. For example, ASICS has a concrete business goal to achieve JPY300 billion sales. In order to achieve this sales figure, it is necessary to produce high quality goods cheaply and market them as quickly as possible to meet the demands of the market. At the same time, it is equally important to know the process behind manufacturing, sales and profit making or who produces the products, how those products are made and how the workers are treated. Hence, process management is also people management. In the global supply chain management, these two management strategies must be incorporated. These will eventually have great impact on the company's core business.

## **Conclusion**

Having celebrated the third anniversary of the launch of the CSR team in June 2007, Tanooka feels confident of what he and the CSR team have done for the past three years. When the CSR team was created, international NGOs and activist campaigns were totally foreign to him. However, he soon realized that these international NGOs were behind the attack on Nike and Adidas for having violated labor rights at the supplier and subcontractor levels. ASICS is a global brand company as well as a manufacturer, so its business model is somewhat different from that of Nike and Adidas. ASICS initially believed that the problem with Nike and Adidas was fire on the other side of the river. However, due to ASICS increasing global presence in the world's sportswear market, ASICS had become a likely target just like Nike and Adidas.

Tanooka believes that the CSR team has handled the said critical situation well by building a good stakeholder relationship with international organizations. By many accounts, ASICS is regarded as a leading Japanese brand in the global supply chain management. Tanooka himself is being invited to speak before college students and business professionals, among others. The CSR team has contributed to increasing ASICS brand further.

More importantly due to the efforts of the CSR team, ASICS feels confident in entering Viet Nam as an additional manufacturing location. The company's target of JPY300 billion by 2010 is very aggressive and cannot be achieved without having additional subcontracting factories overseas. Currently, the company's manufacturing capability is heavily concentrated in China and ASICS's management strongly feels the need to build up additional capacity outside China.

Having experienced the campaign by activist NGOs, Tanooka and the CSR team have learned how to handle similar campaigns in the future. The campaign should not be regarded as an enemy but also as a good teacher or instructor for the company, because the campaign often represents factory workers and local people in the area where the company has some relationship. Knowing what local workers want or need is very important for the company to do business in the area.

Usually, the campaign is formed by a group of organizations and each organization has its strength in certain issues. In this case, Oxfam Australia, ASICS counterparty has extensive network and wide-ranging experiences in Asia in terms of labor rights and working conditions. Tanooka has established a good relationship with the organization, so he knows what the company has to do after it launches a manufacturing capacity in Asian economies other than China.

As head of the 8-person staff of the CSR team, Tanooka believes that there are many other CSR activities that they have to implement other than the global supply chain management. Yet, for Tanooka, the CSR team and the company, the global supply chain management has been one of the most important CSR issues that the company faced and successfully hurdled. With the experience that they have gained, the CSR team continues to improve ASICS CSR practices and is now ready to address the other CSR issues.

**Appendix 1:  
A Scene from Play Fair at the Olympics Campaign in Athens**



(Source: Play Fair at the Olympics Campaign in Athens Website  
<http://www.fairolympics.org/countries/international.html>)

**Appendix 2:  
ASICS Corporation Code of Conduct**

The 'ASICS CORPORATION Code of Conduct,' based on ASICS Vision and ASICS Principles (established in 2003), which set out the fundamental views of the management, aims to clarify the essence of a corporate conduct to be accepted and respected by all persons. The contents outline appropriate corporate behaviour as a Code of Conduct to be observed by each and every director, officer, auditor and employee of ASICS CORPORATION (hereinafter to be referred to as 'the Company') in accordance with their values, with corporate ethics and with the law.

ASICS CORPORATION Code of Conduct

1. Purport and scope of application

The 'ASICS CORPORATION Code of Conduct' (hereinafter to be referred to as 'the Code') outlines the principles that are to be complied with by all directors, officers and auditors of the Company (and those in similar positions) and all employees (hereinafter to be referred to collectively as 'we', 'our' or 'us') during the daily conducting of business. In observing these principles the said persons are to remain fully aware of the Company's social responsibilities and must act in accordance with all relevant laws and ordinances in all corporate activities, fully recognising that socially acceptable conduct is indispensable for the sound development of the Company.

2. Our basic stance

(1) In all of our corporate activities we shall comply with all relevant laws, ordinances, international rules and regulations and in-house regulations including the Code, to the letter and in spirit. We will endeavour to see to it that the corporate activities of the ASICS group are managed properly and that they are consistent with social ethics.

(2) We will respect the fundamental human rights of all persons in all of our corporate activities. We will not discriminate against individuals on the basis of their ethnic origin, race, nationality, religion, gender, age or any disability, nor will we impair their dignity.

(3) We believe in appropriate disclosure of information and will work to bring this about. We will maintain fair, just and transparent relations with anyone having an interest in the Company, and will conduct fair transactions.

(Courtesy of ASICS Corporation)



### **Appendix 3: ASICS Corporation Corporate Policy of Engagement**

#### **A. Objectives**

1. ASICS expects all of its business partners, which include but are not limited to ASICS' suppliers and subcontractors ('ASICS Business Partners'), to operate their businesses in line with the principles set out in 'ASICS Vision', 'ASICS Philosophy' and the 'ASICS Code of Conduct'.
2. The purpose of this policy is to establish and to ensure that ASICS Business Partners comply with ASICS' policy regarding the minimum requirements relating to human rights, labour, health, safety and environmental issues at all facilities operated by ASICS Business Partners. This policy is based on ASICS Vision', 'ASICS Philosophy', the 'ASICS Code of Conduct' and the model Code of Conduct issued by the World Federation of the Sporting Goods Industry (WFSGI).
3. ASICS will assess all ASICS Business Partners on the basis of their compliance with this policy. As such, this policy is a tool that enables ASICS to select and retain ASICS Business Partners that follow business practices which are consistent with ASICS' policies and values.

#### **B. Standards**

ASICS expects ASICS Business Partners to run their businesses in accordance with the following standards:

1. General principle: ASICS Business Partners are to operate in full compliance with all national and local laws, rules and regulations as are applicable to their business operations.
2. Employment standards: As regards the employment of any and all employees of ASICS Business Partners ('Employees'), ASICS Business Partners are to comply with the following standards:
  - a) Forced Labour: ASICS Business partners shall not make use of forced labour, either in the form of prison labour, indentured labour, bonded labour, or any other form. No Employee can be compelled to work through force, the threat of force or intimidation of any kind.
  - b) Child labour: ASICS Business Partners shall not employ persons under the age of 15 (or 14 where employment at the age of 14 is permitted by the relevant laws), nor shall they employ persons who have not yet reached the age at which they should complete compulsory education in the country in which they are employed where such age is higher than 15.
  - c) Harassment or abuse: ASICS Business Partners must acknowledge that their Employees have the right to a workplace where there is no physical, sexual, psychological or verbal harassment or abuse and are to treat Employees with respect and dignity.
  - d) Discrimination: when employing or hiring, the salaries, benefits, promotion, training, discipline or conditions of termination or retirement offered by ASICS Business Partners shall not show any discrimination based on gender, race, religion, age, disability, sexual orientation, nationality, political opinion, or social or ethnic origin.
  - e) Right of association and collective bargaining: ASICS Business Partners shall recognize and respect the rights of Employees' to organise and join associations of their own choosing, and to bargain collectively.
  - f) Wages: ASICS Business Partners must recognise that Employees are to be fully remunerated for all time worked and must be provided with a clear written payslip showing details of their pay for each pay period. ASICS Business Partners shall pay Employees at least a) the minimum wage required by law or b) the prevailing industry wage, whichever is the higher. In addition to remuneration for regular hours of work, for overtime hours Employees are to be paid at least the premium rate required by law or, in those countries where such laws do not exist, a rate that exceeds the regular hourly rate.
  - g) Hours of work: including overtime, ASICS Business Partners shall not require their Employees to work more than sixty hours a week or the maximum working week established by the relevant law, whichever is shorter, on a regular basis. ASICS Business Partners are to give Employees at least one day off in every seven-day period on a regular basis and paid annual leave as required by the relevant law.
  - h) Benefits: ASICS Business Partners are to see to it that their Employees receive all legally mandated benefits.
  - i) Health and safety: ASICS Business Partners are to provide a safe and healthy working environment, which includes but is not limited to adequate lighting, heating and ventilation systems and protection from fire, accidents, and hazardous substances. ASICS Business Partners' Employees must have access to clean and adequate sanitary facilities at all times. Where residential facilities are provided for Employees, the same standards apply.

3. The environment: ASICS Business Partners are to comply with all applicable environmental legislation and regulations and must work to further improve environmental conservation. Furthermore, ASICS Business Partners are to run their businesses with due consideration for health and safety and the environment by saving resources and energy, reducing emissions, showing due concern for the environment when purchasing and by preventing pollution.

C. Publicity

ASICS Business Partners are to make every effort to ensure that their Employees understand this policy by informing Employees of this policy orally, and by distributing written copies of this policy, or by displaying this policy, translated into the local languages spoken by Employees, in a prominent place in the workplace.

D. Documentation and inspection

ASICS Business Partners are to maintain all documents necessary to demonstrate compliance with this policy and any applicable laws, and must submit these documents to ASICS upon request. Furthermore, ASICS has the right to conduct inspections or to have a designated independent inspector conduct such inspections with or without prior notice in order to ascertain that ASICS Business Partners are complying with ASICS standards and the applicable laws. ASICS Business Partners are obliged to accept such inspections.

E. Application of this policy to ASICS group companies

ASICS group companies are to operate their businesses in accordance with the principles set out in this policy.

(Courtesy of ASICS Corporation)

Website: <http://www.asicseurope.com/Sitewide/AboutUs/CorporatePolicyOfEngagement.htm>

**Appendix 4:  
Fair Labor Association Code of Conduct**

Workplace Code of Conduct

**Forced Labor** There shall not be any use of forced labor, whether in the form of prison labor, indentured labor, bonded labor or otherwise.

**Child Labor** No person shall be employed at an age younger than 15 (or 14 where the law of the country of manufacture\* allows) or younger than the age for completing compulsory education in the country of manufacture where such age is higher than 15.

**Harassment or Abuse** Every employee shall be treated with respect and dignity. No employee shall be subject to any physical, sexual, psychological or verbal harassment or abuse.

**Nondiscrimination** No person shall be subject to any discrimination in employment, including hiring, salary, benefits, advancement, discipline, termination or retirement, on the basis of gender, race, religion, age, disability, sexual orientation, nationality, political opinion, or social or ethnic origin.

**Health and Safety** Employers shall provide a safe and healthy working environment to prevent accidents and injury to health arising out of, linked with, or occurring in the course of work or as a result of the operation of employer facilities.

**Freedom of Association and Collective Bargaining** Employers shall recognize and respect the right of employees to freedom of association and collective bargaining.

**Wages and Benefits** Employers recognize that wages are essential to meeting employees' basic needs. Employers shall pay employees, as a floor, at least the minimum wage required by local law or the prevailing industry wage, whichever is higher, and shall provide legally mandated benefits.

**Hours of Work** Except in extraordinary business circumstances, employees shall (i) not be required to work more than the lesser of (a) 48 hours per week and 12 hours overtime or (b) the limits on regular and overtime hours allowed by the law of the country of manufacture or, where the laws of such country do not limit the hours of work, the regular work week in such country plus 12 hours overtime and (ii) be entitled to at least one day off in every seven day period.

**Overtime Compensation** In addition to their compensation for regular hours of work, employees shall be compensated for overtime hours at such premium rate as is legally required in the country of manufacture or, in those countries where such laws do not exist, at a rate at least equal to their regular hourly compensation rate.

Any Company that determines to adopt the Workplace Code of Conduct shall, in addition to complying with all applicable laws of the country of manufacture, comply with and support the Workplace Code of Conduct in accordance with the attached Principles of Monitoring and shall apply the higher standard in cases of differences or conflicts. Any Company that determines to adopt the Workplace Code of Conduct also shall require its licensees and contractors and, in the case of a retailer, its suppliers to comply with applicable local laws and with this Code in accordance with the Principles of Monitoring and to apply the higher standard in cases of differences or conflicts.

(Source: Fair Labor Association Website: <http://www.fairlabor.org/all/code/index.html> )

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