

Third-party Opinion



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Turbulent Times

The last two years have been turbulent with regard to geopolitical developments and their economic consequences. The return to a “new normal” after the COVID-19 pandemic was quickly disrupted by Russia’s unjustified war against Ukraine, leading to human tragedies and severe economic challenges in many countries. In such unstable times with increased risks of low growth, large companies operating globally face challenging decisions and trade-offs that could potentially undermine the sustainability efforts of the past. For such difficult decisions, information made available through holistic sustainability reporting can provide valuable support and guidance.

Against this background, I highly appreciate Canon’s continued commitment to sustainability reporting and the opportunity for my commentary. My statement is based on a review of the draft report and intensive discussions with the reporting team. I focus my comment on two main changes compared to last year’s report: 1. The reduced length of the report. 2. Revised material topics covered.

A Shorter Report Separated from the Integrated Report

This year’s sustainability report is about 30 percent shorter than the report from last year. I am pleased to see this considerable reduction of length. This has been mainly realised through Canon’s decision to separate the content of the Sustainability Report from the content of a separately published Integrated Report (see About This Report) (→P01). I acknowledge that two individual reports allow for more target group specific communication. However, some sections from last year’s report were completely moved to the Integrated Report, including disclosures on Canon’s value creation, business plans or product-related impacts. I believe these disclosures would have been important elements in the sustainability report to better understand the interlinkages between the core business activities and sustainability impacts of Canon. They could also show potential conflicts between different sustainability impacts. I therefore suggest the reader to also take a complementary look at those sections in the Integrated Report.

Revised Material Topics

Canon has revised the material topics for this year’s report and provides a clearer specification of material topics along with detailed disclosures. Six “Environmental and Social Materiality Topics” are now specified (→P09–10), while only three broader “Materiality Themes” were identified in the report of the previous reporting period. I think that the four topics that have been specified in this year’s report in the environmental domain are very relevant and closely linked to the sustainability impacts of Canon. Specifically, I like the take-up of the new topic “Biodiversity” which has gained more attention at a global level in recent years, for example through the Kunming-Montreal Global Biodiversity Framework adopted at the United Nations Biodiversity Conference in December 2022.

In the social domain, I see some opportunities for improvement in Canon’s sustainability reporting. While two relevant topics “Human rights and labour” and “Sociocultural support activities” are still in the report, last year’s theme “Creating New Value and Solving Social Issues” is not addressed as a materiality topic in this year’s report. In future sustainability reports, I would like to see continued emphasis on this topic, including disclosures on human impact of Canon’s products and technologies and links to related Sustainable Development Goals (SDGs). Examples could be contributions to healthy lives and well-being (SDG 3) based on Canon’s advances in medical technologies, or the support of safer cities (SDG 11) based on Canon’s developments in security and network cameras. This could help stakeholders to better understand how Canon is contributing to social sustainability through its products and technological innovations.

My Conclusion

Overall, I’m pleased to see Canon’s responsiveness to stakeholder demands on sustainability and the valuable insights in the report on the company’s sustainability impacts and progress. At the same time, I see still work to be done for Canon to pursue with continuity its transparent and holistic sustainability reporting, in order to remain a leader in corporate sustainability.



Sancroft International Ltd.
Chief Executive
and
Global Sustainability Standards Board
Chair (2017–2023)

Judy Kuszewski

It has been at least 25 years since sustainability reporting first became established as a common practice among leading global businesses, and over 20 years since Canon first issued such reports to the public in this spirit. But sustainability reporting has seen a period of upheaval in recent years, reflecting its growing importance to a range of users and stakeholders, including regulators.

Canon's evolving reporting works in parallel with its evolving corporate organisation and management structure, the better to anticipate, respond to and manage sustainability impacts. We saw last year the introduction of an enhanced organisational structure, comprising four core business groups and several global headquarters units, bringing a consistent level of excellence to its operations. This structure allows Canon to bring sustainability expertise as needed – dynamically, flexibly and consistently – into its operations around the world.

In the same way, Canon is seeking to ensure its reporting is fit for purpose, responding to the expressed preferences of stakeholders and ensuring adherence to growing regulations and voluntary reporting standards. This Sustainability Report is, therefore, reimagined as separate but complementary to Canon's Integrated Report.

This presents challenges for reporting organisations such as Canon, as different reports are intended for different audiences. In reality, however, readers of sustainability-related information tend to have broad and varied interests and views, regardless of the reporting organisation's intentions.

Integrated Reporting is usually seen as being primarily intended for providers of financial capital, economic actors making economic decisions on the basis of non-financial information. Yet those who are concerned about sustainability impacts also need to understand how well the company is set up to deliver on its sustainability aims and whether the forward business strategy supports a long-term sustainable company. Too much differentiation risks no audience being sufficiently well informed, no decisions being fully enabled.

The challenge on the one hand is that undifferentiated reports become excessively long and complex, which discourages engagement; and on the other hand that overly-targeted reports are perceived to convey different ideas to different audiences, which can be seen to be confusing and lacking in transparency. I believe the key to success for Canon will be to ensure a high degree of interconnectedness between the various elements that make up its suite of corporate disclosures – enabling readers, whatever their position or background, to understand how Canon takes responsibility for its impacts and how it incorporates this view into its business strategy. Canon's sustainability strategy must be seen as an intrinsic component of its business strategy – yet the boundaries of this sustainability report stop short of its business strategy in important ways. I believe it will be vital in the years to come that Canon's quite sensible efforts to streamline reporting and target it to specific stakeholder needs nevertheless enables this broad and connected understanding of the whole business and its role in sustainable outcomes.

However, I have been privileged to have followed Canon in its sustainability journey for many years, and the progress demonstrated in this report is very encouraging. I would like to highlight two areas in which I believe Canon has made particularly important advances in recent years:

- Canon's human rights and responsible sourcing activities have progressed rapidly in recent years. This report demonstrates real progress in implementation against the company's policies, in line with international good practices.
- Canon's KPIs and targets show ambition where it is most important and target efforts in a way that can drive real improvement in outcomes. For example, the target to increase male employees' uptake of parental leave is, in my opinion, far more impactful than any such policies aimed at female employees, encouraging a more equal lived experience and corporate culture. Similarly, Canon's targets to eliminate specific types of workplace accidents altogether, together with efforts to instil a culture of health and safety, can help enable real-world improvements to the lives of workers.

Canon's attention to the GRI Standards has driven its focus on materiality themes. As a result, Canon's identified material topics are aimed at where Canon has a direct hand in environmental and social impacts, and importantly, where Canon's improvement efforts can make a real difference. Such clear thinking, well-integrated into Canon's business strategy, can only be seen as positive.

Third-party Review Process

Introduction

As part of Canon’s ongoing efforts to improve its sustainability reporting for stakeholders, Canon seeks the advice of external experts to review and comment on its sustainability report. This process aims to:

- Provide a means both to advance Canon’s commitment to sustainable development and to check expectations and perceptions of progress with respected external experts
- Support the achievement of accountability through the sustainability report
- Help foster dialogue between Canon and its stakeholders while supporting good accountability practice

Judy Kuszewski and Dr. Justus von Geibler have supported Canon’s reporting every year for over a decade, through dialogue with Canon leadership and detailed, challenging review of concepts and draft contents as they are developed, as well as written commentary which is published in this report.

Basis for the commentators’ opinions

Using the Global Reporting Initiative (GRI) Sustainability Reporting Standards and the UN Sustainable Development Goals (SDGs) as background, the commentators challenged Canon on:

- **Materiality** – The topics of greatest importance to Canon’s business and to its stakeholders; where Canon’s most significant impacts are produced, and where Canon can make the most difference to the issue.
- **Relationship between sustainability impact and strategy** – How to ensure readers do not lose valuable context related to Canon’s core business strategy.
- **Clarity and complexity** – How to link together multiple reporting processes for various audiences, while maintaining a coherent overall sense of Canon’s business and capability.
- **Audience needs** – Canon should take care not to assume too much about the limits of specific audience’s expectations and needs for information.

Judy Kuszewski and Justus von Geibler are well-informed, independent sustainability professionals with a keen interest in engaging with Canon and supporting the transparency and accountability of its reporting. They are not auditors or assurance providers.

What Canon and the commentators discussed

Through the video conference process and written submissions, the commentators and Canon staff discussed reporting expectations, key areas of interest and impressions of the draft Canon report.

The main topics of discussion included the following, with Canon participants’ responses and views shown alongside:

Topics	Third-party comment	Canon views
Canon’s social and environmental materiality themes	Canon has revised its approach to materiality following the GRI Universal Standards, resulting in a more specific and focused set of identified topics linked to the impacts on people and the environment associated with its business activities. This strengthens focus on the most significant impacts in a positive way. However, there are some trade-offs, such as a potential mismatch between the issues considered of greatest significance to society broadly versus those where Canon has more capability to make a difference. Additionally, the increased focus may be seen by some readers as a loss of emphasis on topics they are interested in. Canon should explain its thinking clearly and ensure readers are guided to sources of information that may not be included in the Sustainability Report. Canon should consider presenting a unified materiality analysis in the future, which covers both the Sustainability and Integrated Reports. It could then be shown where the deeper analysis of the issues is presented between the various reports, while continuing to show a coherent, well-connected picture across all reports.	Canon reviewed material topics in the environmental and social fields based on the revised GRI Standard 2021, taking into account the positive and negative impacts of our activities on the environment and society, as well as the potential and tangible impacts, and identified six material topics, of which four topics were identified as the most important topics last year. We disclose the material topics along with the concept of selecting the most important topics and the positioning of items listed other than materiality as well as the identification process of materiality (→P09–10). In addition, based on discussions with commentators, in order to ensure that readers can access information of interest smoothly, we have devised ways to direct readers to the integrated report for information on business activities such as technologies, products, and services that are not included in this year’s report.
The role of business strategy in sustainability reporting	Canon’s decision to separate the Sustainability Report from the company’s annual Integrated Report means that some contents previously reported alongside its sustainability information are no longer reported in this way. Notably, this includes value creation, business development plans and product-related impacts, which has been decoupled from sustainability disclosures altogether. Sophisticated readers will understand that sustainability cannot be separated from core business activities in this way. Canon will need to ensure the linkages between documents are clear, and the messages are aligned, so that readers can see how Canon’s evolution as a business supports and is reflected in its ongoing sustainability performance.	In the past, Canon provided a wide range of information required for the integrated reports and the sustainability reports in one volume, but this year, the company decided to separate the two volumes in order to further enhance the information tailored to the interests of readers. The Sustainability Report provides detailed and comprehensive information on sustainability, focusing on the materiality of the environmental and social fields. On the other hand, our business strategies and other value creation initiatives are disclosed in the Integrated Report. As we continue to publish content that aligns with the objectives of both reports, we will strive to convey to readers without misunderstanding Canon’s initiatives to contributing to a sustainable society.
Various specific comments related to clarity, structure and sign-posting	The commentators discussed with Canon numerous questions and observations on individual disclosures or presentation matters that may offer improvements	This year, it was necessary to significantly revise the content of the report, including separating of the contents of reports and responses to the revised GRI Standards. In consultation with commentators, we made various improvements, including how to communicate the relevance of the Integrated Report, how to structure and express the pages so that they are easily accessible to readers, and the disclosure of information in line with global sustainability trends.

Dr. von Geibler’s and Judy Kuszewski’s full statements can be seen at “Third-Party Opinions.” (→P88–89)