

Third-party Opinion



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Impact Matters

The consequences of global challenges such as climate change, the Covid-19 pandemic, supply chain interruptions and related growing inequalities are increasingly obvious and critical. Urgent action is needed, as the latest report of the Intergovernmental Panel on Climate Change (IPCC), released in February 2022, highlights: With further delays of collaborative global action we will miss the short and rapidly closing window of opportunity to secure a liveable future. Since governments cannot solve these challenges alone, global companies like Canon are expected more urgently than ever to proactively contribute to the achievement of global sustainability goals.

Against this background, I have reviewed the draft material of Canon's integrated report for 2021 with special attention to concrete action and changes of real-world impacts. I would like to focus my comment on two main changes that I observed compared to last year's report.

Newly Established Human Rights Policy and Sustainability Headquarters

This year's report provides evidence that Canon has, in response to increasing societal demands, created new policies and a new organizational structure for sustainability in 2021. They include the "Human Rights Policy" (→P77) and the "Sustainability Headquarters" (→P21). I highly welcome these important achievements rooted in Canon's continuous efforts to integrate sustainability thinking into the company. The section on "Human rights" (→P77–81) provides a new analysis of human rights risks for the Canon Group including a specification of Canon's responses. With regard to supplier-related risks, the international standard of the Responsible Business Alliance has been adopted in Canon's Supplier Code of Conduct (→P81). I expect these policies and new structure to improve the sustainability impacts over time.

To help stakeholders to understand Canon's performance in the reporting period and over time, performance data time series are of particular importance. With regard to economic performance and a number of environmental topics, such as greenhouse gas emissions, the report already provides such time series. For other topics, such a data basis could be meaningful in future reports. Particularly, I would like to see similar time series on the circularity of overall material use in the company, and also for more social metrics, for example on cases of reports that are related to human rights. In the current report, the interested reader has the opportunity to review the valuable "Data Summary" section in the report (→P134–137), and specifically look at the available time series related to employment figures.

More Detailed Information on Strategies

This Canon report offers deeper insights into the corporate strategy. I highly appreciate more detailed disclosures on four specific strategies, addressing business, intellectual property rights, human resources and finance, jointly presented in the last part of the section on "Policies and Strategies" (→P35–48). They provide more granular information on the implementation strategy of the New Phase of the Excellent Global Corporation Plan in its first year. Especially in the section "Business Strategy" (→P35–42), I like the more detailed specification of the contributions to the UN Sustainable Development Goals (SDGs) for each corporate group, which refer to the more specific target level of the SDGs. At the same time, I see options to further improve this strategy section. A specification and overview of short- and mid-term management targets of the strategies and a similar structure of the individual strategy descriptions could support the reader's understanding. Also, I would welcome to see stronger consideration of sustainability trends as business opportunities or risks. This could accelerate the integration of sustainability thinking in the company.

With this year's report, Canon has once again succeeded in significantly improving the quality and credibility of the integrated report. It shows Canon's role as a proactive contributor to the achievement of global sustainability goals. I congratulate Canon and its reporting team for their continued effort and great accomplishments.

Third-party Opinion



Sancroft International Ltd.
Chief Executive
and
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Chair

Judy Kuszewski

Canon has understood for many years that the purpose of a corporation goes beyond the making and selling of products and services, beyond the provision of jobs for workers and income for investors. Fundamentally, Canon improves people's lives – through technical excellence, convenience, creativity, innovation, accessibility and partnership, among many other qualities. The *kyosei* philosophy encapsulates this attitude to service of society's needs.

This Integrated Report represents the most recent expression of Canon's evolution and journey toward integration of sustainability ambition and business strategy. I congratulate Canon for the seriousness with which it takes this activity, as well as the significant progress this report demonstrates, including:

- A coherent new corporate structure, comprising four core business groups, augmented by several global headquarters units, bringing a consistent level of excellence to its operations
- An expanded focus on the respect for human rights in Canon's operations and supply chain, building on previously established activities, but with a fresh vitality and attention to international best practices
- The confidence to address core elements of business and financial strategy alongside its economic, social and environmental ambitions – recognising and respecting the symbiosis that exists between all these elements as well as its readers' and stakeholders' concerns for them all.

A consequence of Canon's recent organisational restructuring into the four major business groups is the clarity this brings to the breadth of activities, products and services the group provides and the ways in which it seeks to add value in the future. From a sustainability perspective, this lays bare the reality of Canon as a technology provider, above and beyond its historical emphasis on certain types of products. Technology is characterised by ingenuity and flexibility, by finding new ways to use resources and not being bound by past practices or preconceived ideas.

The very flexibility of technology, however, brings risk as well as opportunity, including in sustainability terms.

For example, imaging technology can enhance security and efficiency in the community, but it can alternatively be used to strengthen the surveillance capabilities of state actors in ways that may not be benign. Resource-efficient materials and solutions can lower the in-use environmental footprint of products, but this may also serve to drive product obsolescence that in turn leads to unnecessary waste. The fact is that the impacts of technology depend largely on how they are put to use. Their potential impacts may be positive or negative – but it is of fundamental importance that we understand these impacts clearly; we cannot otherwise know which ones are most compelling or consequential, and which ones most powerfully drive business value.

When we consider risk and opportunity, therefore, it is important to focus on the impacts, both positive and negative, associated with a business's activities, in addition to its strategy, capability and intent. In this respect, I believe Canon's reporting may be clearer in the future. I would encourage Canon to explain more concretely how the risks and opportunities identified are associated with specific impacts to people and planet, and to expand the scope of risk and opportunity beyond Canon itself. This is in line with global best practice, including the forthcoming European regulations on sustainable investment, which stipulate that 'sustainable' business activities must not only contribute to particular sustainability objectives, but must also avoid doing significant harm to other sustainability objectives. This can only be achieved through a careful and transparent analysis of impacts.

Canon has been especially effective in its use of the UN Sustainable Development Goals (SDGs), particularly in linking Canon's specific strengths and capabilities with the most important societal needs. I believe this can only help deliver clarity of purpose while strengthening the management of Canon's impacts. A more challenging next step would be to go beyond the high-level goals to link Canon's business strategy to the more specific targets contained within the goals – for example, considering Goal 11 (Sustainable cities and communities) not only in its broadest sense, but also through the most relevant sub-targets, such as sustainable urban transport, civic participation and disaster resilience.

Canon's sustainability and integrated reporting efforts have been ongoing for years, but remain an emerging field – exactly as it is for other major global businesses – and in this sense will never be 'finished'. I thank Canon once again for its constant efforts to improve not only its transparency but its performance toward sustainable business and good corporate citizenship.

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.

* Judy Kuszewski and colleagues at Sancroft International provided professional advice and assistance to Canon in relation to human rights-related risks and Canon’s response. This work is unrelated to her third-party comment and facilitation role regarding the Canon Report.

Basis for the Commentators’ Opinions

- **Materiality** – The topics of greatest importance to Canon’s business and to its stakeholders.
- **Integration into business** – Demonstrating that Canon’s sustainability priorities are fully embedded into the business operations.
- **Clarity and complexity** – How to implement integrated business and sustainability strategy with simplicity in a large multinational organization.
- **Risk and responsibility** – Canon should embrace its role as a technology provider and the responsibility it has to encourage ethical, sustainable use of its products and solutions.

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
Increasing integration of sustainability in business strategy	Canon’s new streamlined and coherent corporate structure provides a platform to drive collaboration and consistency in its sustainability integration, which is evident throughout the report. The development of the Global Headquarters functions, including the Sustainability Headquarters, should be a high priority for achieving this.	Canon established the Sustainability Headquarters in May 2021 and is strengthening its efforts toward the realization of a sustainable society (→P21). This year’s report shows the relationship between business activities and sustainability in more concrete terms, such as by introducing each business group’s contribution to the SDGs at the target level (→P35–42).
Looking forward as well as looking to history	The Canon Report covers the company’s extensive history and development, but this risks being excessively backward-looking. Future reports should balance this with looking ahead, including medium- and long-term targets. There is a challenge in talking about the future when the technology, policy, market and business environments remain uncertain. However, this uncertainty can itself be a compelling sustainability theme, particularly its relation to such topics as climate change, which demand both long-term commitment and medium-term progress.	Canon has enhanced its history and strategy pages to help readers better understand our past initiatives, but from now on we will consider the overall balance, including the future. In the area of climate change, which is of high public interest, we have shown our goals for 2030 and 2050, and included as much information about our planned approach to achieving these as currently possible. We have also strengthened disclosure in accordance with TCFD (→P32). We will continue to disclose information on sustainability that meets the needs of society and our stakeholders.
Validating and refining the material topics and relationship to the SDGs	Canon should consider investors’ views when assessing material topics for inclusion in the report as well as in Canon’s strategy and goals. This may provide important insight into integration of sustainability with business strategy.	Canon conducts surveys to identify changes in stakeholders’ interests when formulating new management plans or when there are major changes in society. We also review our current initiatives through dialogue with stakeholders such as investors and ESG experts, and will continue to make further improvements in the future.
Conveying clear and rational strategy	Each of the four business lines presents its own business strategy, with additional strategies pertaining to intellectual property, human resources and other cross-business issues. These sit alongside the material issues analysis, with little connection between them. There is good opportunity to simplify and connect this content to improve the clarity and effectiveness of Canon’s integrated strategy.	The intellectual property, human resources, and financial strategy pages have been newly created for this year’s report to provide more integrated understanding of Canon’s business activities (→P43–48). Based on discussions with commentators, we will strive to convey Canon’s integrated strategy in detail in the future.
Strengthening the approach to human rights risk and responsibility	Canon has significantly increased the depth and detail provided on its commitment to human rights in the supply chain and related activities. This is an important achievement, which will help Canon remain on track to meet ever-increasing global best practice obligations in relation to one of its core material impact issues.	In October 2021, Canon established the Canon Group Human Rights Policy as part of its human rights initiative based on international standards. In addition to that, Canon also conducted human rights due diligence and implemented a grievance mechanism (→P77–81). We will continue to take these activities further and strengthen our efforts in respect for human rights.

Judy Kuszewski’s and Dr. von Geibler’s full statements can be seen at “Third-party Opinions.” (→P138–139)