Efforts to develop shared values with suppliers have started with procurement departments in China taking the lead. Since June 2012, all procurement personnel have received basic CSR education and training in conducting checks using a 10-point checklist. Armed with this, procurement personnel are now visiting the front lines of ethical procurement at all suppliers operating in China. This initiative is in addition to the CSR self-checklist and the visits by expert teams.

Presented in this report are the challenges facing individual suppliers and the sense of mission that drives the procurement personnel involved in Fuji Xerox’s new initiative.

- Year in which Fuji Xerox launched ethical procurement ....................... 2007
- Items in the expert team checklist .................................................. 132
- Number of companies visited by an expert team per month .............. About 2
- Items in the procurement personnel basic checklist ................................. 10
- Number of companies visited by procurement personnel per month ...... About 17
  (Average for July-December 2012)

*QCD: Quality, cost, and delivery
What Is Supplier Engagement?
Ethical procurement generally refers to presenting suppliers with set procurement standards that incorporate CSR themes and then having suppliers undertake compliance activities. At Fuji Xerox, we take a different approach: we share goals and develop shared values with suppliers by deepening mutual understanding. We call this approach “supplier engagement.” When the action plan was proposed in 2007, President Yamamoto (then executive vice president) said that the basic approach must be to pursue win-win relations with suppliers and that implementation of the program must not be dictated by the convenience of Fuji Xerox. To achieve the required QCD, reliable supply, and flexible adjustment of manufacturing systems, it is absolutely essential that supplier capacity be raised and cooperative relations developed. There is no benefit for Fuji Xerox if we fail to develop shared values that strengthen both Fuji Xerox and its suppliers. Supplier engagement is based on this philosophy.

Past Activities and Challenges
In 2007, Fuji Xerox held a series of informational meetings for suppliers. These started in Tokyo and were later taken to overseas manufacturing centers in Incheon (South Korea), Shanghai (China), and Shenzhen (China). Beginning with the collection and analysis of self-checklists from primary suppliers, the program was expanded in 2008 to include on-site visits by expert teams of four or five staff members from the department of procurement, personnel, general affairs, legal affairs, and CSR departments. Aiming to implement necessary frontline improvements, the expert teams formulated the following three-point policy: (1) Involve the managers at suppliers, (2) Conduct on-site visits to confirm the responses contained in self-checklists, and (3) Help suppliers understand that they benefit by achieving improvements through dialogue.

Expert team visits revealed two challenges in particular. First, it became clear that the CSR activities needed to be integrated into daily procurement processes. When ethical procurement is viewed as something separate from daily business operations, confirmation and elimination of gaps between the real situation and report result of self-check are delayed. This problem is especially evident in China, which accounts for about 90 percent of our total manufacturing output. The creation of shared values becomes difficult without mutual understanding and trust, realistic plans, and a real sense of accomplishment. The second challenge relates to our own human resource constraints. The number of sites that expert teams could visit during a given period of time was limited, and this created a problem of speed.

Expansion into an All-FX Program: Mobilizing Procurement Personnel
Faced with these two challenges, we eventually concluded that procurement personnel had to be mobilized. Initially, we also considered strengthening the expert teams, but Tomoyuki Matsuura, general manager of the Centralized Materials Management Department in Japan, had a different idea. “Procurement personnel have an important responsibility as the ‘face’ of Fuji Xerox to our suppliers. Instead of taking a narrow approach to the scope of their responsibilities, they should lead the entire process of procurement by taking a bird’s-eye view of suppliers and the entire industry. Their vision should include CSR in addition to QCD. Procurement personnel have the most information on the current conditions and challenges at our suppliers. In light of this fact, they must be charged with new responsibilities: to create stronger ties with suppliers to spot problems quickly and report them to the company. This will set us on a very sound course.”

This is how the decision was made to send procurement personnel to perform on-site visits and checks (basic visits) of all supplier facilities in China. It would take expert teams more than ten years to perform such visit, but we calculated that procurement personnel could complete the process within two years.

Boiling Down the Checklist to 10 Points: “One Fact Tells Much”
Using procurement personnel to enhance supplier engagement is not a simple task as they cannot be expected to review all 132 points contained in the expert team checklist in the course of daily operations. On the other hand, oversimplifying the checklist could compromise the whole purpose of the initiative—to go after discrepancies between the real situation and what has been reported. Time and again, expert teams in China consulted with the Centralized Materials Management Department in Japan on the criteria to be assigned to procurement personnel. What emerged was a 10-point checklist that allows an objective, fact-based assessment of the current status of CSR. Armed with this 10-point checklist, procurement personnel would be tasked to dig deeper during on-site visits with the aim of gaining a fuller understanding of the current situation. Procurement personnel would not be expected to conduct rigorous on-site investigations. Rather, they would convey their impressions and concerns to the team of experts who would then use the input to work toward necessary improvements.

In June 2012, meetings for all procurement personnel were held in Shanghai and Shenzhen where Japan’s Centralized Materials Management Department and expert teams for China worked together to provide basic education on such subjects as the importance of CSR, the background and significance of the on-site visits and checks by procurement personnel, and their role and responsibilities in ethical procurement. With the completion of basic training, the program was ready to launch.
Raising the Awareness of Procurement Personnel

The start of basic on-site visits witnessed a marked change in the awareness of procurement personnel, leading them to appreciate that CSR was directly linked to QCD. It quickly became clear to them that achieving QCD required the development of close relations with suppliers and the willingness to work together to achieve necessary improvements. This required procurement personnel to gain better knowledge of a supplier’s management philosophy, employee working conditions, and safety measures, and to ensure that accurate operational information and appropriate control were in place. Investigating the heart of procurement offered many opportunities for personal growth. Liao Bixiang, procurement officer at Fuji Xerox China Procurement Service, explains the advantages of the program saying, “Supplier CEOs listen intently to what we have to say. Our job is to ensure a reliable flow of high-quality products from suppliers. This means we have to really understand the management philosophy of the supplier CEOs.”

This initiative has also uncovered new challenges. With an simplified checklist, some procurement personnel could not get to the root of potential problems that later emerged as real problems. Matsuura explains, “We are not expecting everything to change overnight. When we see differences in performance among procurement personnel, though, we want to know why. Procurement personnel have to ask themselves, ‘What issues were uncovered in a basic on-site visit?’ They also have to develop to the point where they can say, ‘This is the challenge this supplier faces.’ Until they get to that point, procurement personnel will have to do a lot of thinking on their own while also consulting and cooperating with the expert teams.”

Some suppliers fear that revealing internal problems will have a negative effect on future business. This means procurement personnel have to gain experience and develop skills to be able to give appropriate advice to suppliers. It is only by achieving mutually beneficial improvements that suppliers’ trust can be gained.

Reconsidering the Significance of the Initiative

Basic on-site visits carried out by procurement personnel are just one of several trial-and-error programs being pursued.

Ethical procurement poses some fundamental questions about our corporate stance. Hisatoshi Nabetaka, director of Fuji Corp. Precision Products (Shenzhen), a supplier of Fuji Xerox of Shenzhen, says, “A visit and check conducted by an expert team from Fuji Xerox is completely different from so-called audits by other companies. In the case of Fuji Xerox, there is a very strong feeling that they want to work with us to make improvements. We always welcome their expert advice on how to make improvements that will strengthen our competitive position.” The real issue is how to share the expertise of the expert teams and how to strengthen the cooperative relation between procurement personnel and expert teams. By drawing on the talents of all employees, it becomes possible to achieve fundamental improvements in operational processes and thereby to realize supplier engagement in its ideal form.

While there are many challenges, Fuji Xerox will continue to work with suppliers to reach the goal of ethical procurement.

10-Point Checklist for Basic Visit by Procurement Personnel

1. Waste management: Are the waste collection areas clean?
2. Are toilets clean?
3. Are opinion boxes in place?
4. Environmental certification (ISO 14001): Is the site certified?
5. Fire extinguishers (check minimum of three places): Check validity period and operation
6. Are maps of emergency exit routes displayed?
7. Emergency exits: Are emergency exits free of obstacles?
8. Are workers equipped with protective gear (earplugs, goggles, gloves)?
9. Are Safety Data Sheets available for chemicals in use?
10. Dormitory emergency exits: Are emergency exits free of obstacles?