

# Realization of the Kao Corporate Philosophy 102-12, 102-15, 103-1

The Kao Way embodies our corporate philosophy and is the foundation for our corporate culture and business activities. It is the source of our unique corporate identity and forms the essence of our corporate brand. As our cornerstone, the Kao Way provides consistency to Group activities, aligning our mission, purpose, culture, growth strategy and day-to-day decisions. Kao Group companies and members share the Kao Way not as a manual or set of rules but as a foundation from which we are able to determine both the meaning of our work and the concerns we share.

## Kao's creating value to address social issues

### Social issues we are aware of

Since our foundation, our reason for existing has always been to enrich the lives of consumers and contribute to society through our core value of *Yoki-Monozukuri*. *Yoki-Monozukuri* is the word we use to communicate our strong commitment to providing products and brands of excellent value for consumer satisfaction. The “*Yoki*” in *Yoki-Monozukuri* literally means “good” or “excellent.”

Although our purpose and corporate identity have not changed, over the years our understanding of what constitutes a “*yoki*” product, brand or business has evolved. As explained in the Kirei Lifestyle Plan, we believe that to live our value of *Yoki-Monozukuri* we must not only develop high-quality products at reasonable prices that meet the needs of consumers around the world, but also manage our business so that we are “*yoki*” for the environment and a positive presence in the societies we serve.

### Kao's creating value

We believe that by strengthening our corporate identity as a values-driven company committed to enriching lives through *Yoki-Monozukuri*, we will not

only be able to grow our group business by meeting the needs of consumers and customers, but also support economic growth in the regions in which we operate. In addition, we believe that our commitment to *Yoki-Monozukuri* promotes technological innovation in the consumer goods and chemicals industries and enables us to contribute to the sustainability of the natural world.

### Risks associated with achieving our goals for 2030

By 2030, we aim to create a corporate image of a company with a global presence. We understand that to achieve this goal we must develop a unique corporate identity and earn the respect and trust of all our stakeholders. We consider employees to be an especially important stakeholder in achieving this goal. Without the trust, creativity and passion of employees who embrace our corporate philosophy and align their actions with our core values, we will not be able to earn the trust of external stakeholders or achieve our goal of becoming a positive presence in the global society by 2030. Therefore, we believe that it is critical to invest in communicating our corporate identity to employees to further establish

the Kao Way as a “common language” across the Kao Group.

### Opportunities associated with achieving our goals for 2030

The Kao Way is based on the values of our founder, Tomiro Nagase, who established Kao in 1887. The Kao Way was translated into various languages in 2004 and established as a framework for developing our global corporate culture the same year. These early efforts created a strong foundation for global communication of the Kao Way. We believe that this foundation will enable us to further strengthen our corporate identity and the values-based corporate culture required to achieve our 2030 goals.

### Contributions to the SDGs



## Policies

We believe that the best way to strengthen our unique corporate identity is not to enforce a uniform set of behaviors on employees but rather to create the opportunity for each member of Kao to reflect on his or her own values and how they connect to the Kao Way. It is critical to our internal branding strategy that employees are empowered to make their own connections between the abstract language of the Kao Way and their day-to-day business decisions.

To support this, we conduct workshops at workplaces across the Kao Group where participants can freely discuss what the Kao Way means to them and how they can practice it in their daily work. These workshops strengthen each team's sense of ownership of the Kao Way and facilitate employee resonance with our corporate identity.

We provide a standardized level of basic information and training on the Kao Way. However, leaders across Kao Group divisions and companies are also encouraged to customize Kao Way sessions to align with their particular business and organizational challenges. The Kao Way Coordinating Office at our Head Office provides program materials and advice to leaders who wish to design customized workshops.

## Education and Promotion

The Kao Way was published in 2004, and Kao Way communication activities have been conducted on an ongoing basis since then. Kao Way communication activities have three goals, with programs designed to address each goal.

### Objective No. 1: Fostering understanding of the Kao Way

The first goal is to achieve a basic understanding across the Kao Group of the content of the Kao Way and the importance of the corporate philosophy in our management.

### Objective No. 2: Leadership development

The second goal is leadership development, which we define as helping managers find a leadership style that is both based on the Kao Way and authentic to them. Managers drive our business forward, and as such they must have a strong sense of ownership of the Kao Way and be able to explain their decisions using language from the Kao Way. They must also acquire the habit of referring back to the Kao Way when faced with business challenges and difficult choices.

### Objective No. 3: Cultivating organizational culture

The third goal is cultivation of our organizational culture. We communicate the Kao Way and our heritage to impress upon employees that we have always been a values-driven company committed to enriching lives through *Yoki-Monozukuri*. We also

encourage employees to communicate globally across functions to share their ideas about how we can continue to exist as a purpose-driven organization.

# Realization of the Kao Corporate Philosophy 103-2

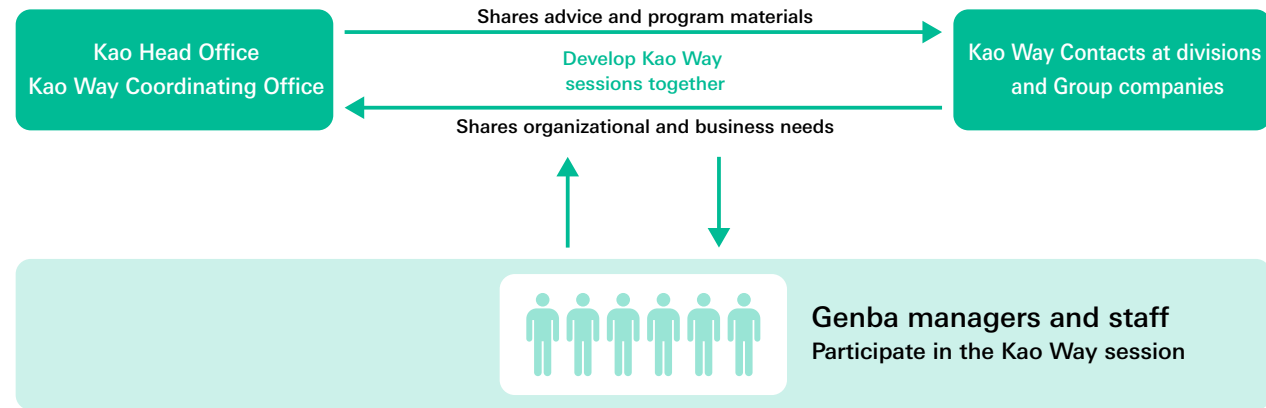
## Framework

We believe that managers play a key role in developing talent and cultivating a corporate culture based on the shared values of the Kao Way. In accordance with this belief, divisions and group companies are positioned as the owners of Kao Way communication activities.

The Kao Way Coordinating Office supports managers within and outside Japan by maintaining a network of Kao Way contact persons at divisions and group companies. These “Kao Way contacts” share organizational and business needs with the Coordinating Office and work with it to develop programs customized for their division and company. The Coordinating Office communicates its priorities and strategy with the members of this network at an annual global meeting, and remains in frequent contact with them throughout the year.

The Kao Way Coordinating Office reports to the Senior Vice President of Corporate Communications. It presents an annual report on its activities to the Corporate Committee, and the content of this report is shared with the Board of Directors.

### Framework for promoting Kao Way activities



## Mid- to long-term targets and performance

### Mid- to long-term targets

We intend to continue communicating the Kao Way globally in order to strengthen our unique corporate identity and develop values-based leadership across the Kao Group. By more firmly establishing our corporate philosophy as a “common language” across the Kao Group globally, we expect to strengthen employee resonance with our corporate identity and, as a result, earn the respect and trust of all stakeholders.



### Expectations from achieving our mid- to long-term targets

#### Business impact

Realizing our goals will result in more efficient use of employee time and more thorough, creative and brand-consistent use of our group assets. Although it is difficult to directly measure the return on investment of corporate culture and values communication, research findings show that investing in a corporate brand in this way is correlated with stronger financial performance.

#### Social impact

Strengthening values-based leadership and employees’ resonance with our unique corporate identity heightens our ability to practice our core value of *Yoki-Monozukuri* on a global scale, creating innovative value for consumers and at the same time contributing to the environment and becoming a positive presence in the societies we serve.

## Performance in 2019

### Performance

We have focused on activities to communicate the Kao Way globally for 15 years. As a result of these efforts, we have achieved a strong level of shared, group-wide understanding of the Kao Way, with manager recognition for the importance of values-based leadership.

In 2019, we continued to focus on the three goals of establishing understanding for the Kao Way, developing leadership and fostering an organizational culture to practice *Yoki-Monozukuri* globally. Regionally, priority focus areas in 2019 were the Consumer Products Business in the Americas and EMEA, the Consumer Products Business in Southeast Asia and the Chemical Business in the Americas.

In 2019, The Kao Way Coordinating Office identified the following three priority issues to address.

- 1 Strengthen the ability of Kao Group leaders to communicate mid-term business goals and financial targets in a way that links them to our corporate philosophy.
- 2 Make further efforts to ensure that companies newly joining our group incorporate the Kao Way while also preserving their original and distinct organizational cultures.
- 3 Collaborate with internal and external partners to establish methods of assessing corporate culture across our group and measuring the success of our communication efforts.

### Observation of progress made

For 1: At annual global meetings, executive training sessions and venues where mid-term business plans are discussed, we used corporate storytelling methods to help Kao Group leaders to deepen their

understanding of the Kao Way and re-visit the importance of linking financial targets to our corporate purpose.

For 2: We communicated the spirit of our founding and unique qualities at post-merger integration sessions for two companies joining our group (Oribe Haircare and Washing Systems International).

For 3: We implemented a collaborative identity and strategy communications audit in one region of our overseas Consumer Products Business with an outside researcher who specializes in global corporate communications and qualitative data analysis. Based on the results of this project, we intend to continue collaboration with outside researchers on assessing the success of our values and philosophy communication activities.

Going forward, we will continue to focus on these priority issues.

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## Our initiatives

### Toward achieving our objectives

#### Objective No. 1: Establishing understanding for the Kao Way

We implement the following programs to promote a consistent level of understanding of the Kao Way group-wide: an orientation for new members of the Kao Group in global regions; an induction workshop for mid-career hires to Kao in Japan; employee visits to the Kao Eco-Lab Museum (Group Wakayama Complex in Western Japan) to provide information on ecology-conscious technologies; and employee tours of the Kao Museum (Group Sumida Complex in Tokyo) to communicate our history.

The Kao Way Coordinating Office also maintains an intranet website that provides employees within and outside Japan with basic information on our history and corporate philosophy.

#### Performance in 2019

- Kao Museum: 2,555 employee visitors
  - Events for employees
  - Guided visits for employees: Held 4 times for 38 employees
  - Guided visits for employees' families: Held 5 times for 87 people
- Kao Eco-Lab Museum: 952 employee visitors (excluding employees accompanying business partners on work-related visits)

Events for employees  
Guided open-participation museum visits: Held 6 times for 71 people  
Guided visits and trainings for individual departments: Held 27 times for 525 people

- Intranet views of the Kao Way: 12,168 views
- Global new employee trainings: 783 participants (global excluding Japan)
- Mid-career new employee trainings (Japan): 125 participants
- New employee trainings (Japan): 540 participants

#### Objective No. 2: Leadership Development

To develop leadership based on the Kao Way, we implement the Kao Way Dialogue, a program to promote dialogue between managers and members focused on the three values in the Kao Way. From 2018, we combined this program with Compliance training.

#### Performance in 2019

A total of 140 participants in the Consumer Products and Chemical businesses in the USA (54), Malaysia (39) and Vietnam (47) joined this program in 2019.

In 2019, we also implemented a similar one-day workshop for future leaders in the Supply Chain Management function who were visiting Japan for training. A total of 21 people participated in this program.

In 2019, we also strengthened collaboration with the Human Capital Development Department and implemented a customized program to develop values-based leadership for future global leaders. A total of 19 people participated in this program.

#### Objective No. 3: Corporate Culture Development

To strengthen our corporate identity as a consumer-centric values-driven company committed to our mission to enrich lives, we provide opportunities for those in leadership roles to discuss the Kao Way at annual global meetings, strategy conferences and other events. For those in non-leadership positions, we provide opportunities to discuss the Kao Way in their workplace.

#### Performance in 2019

Managers: A total of 548 managers from the Americas Consumer Products Business participated in these sessions held in Germany, the USA and Canada.

Non-managers: A total of 124 employees in non-managerial positions from the Asia Consumer Products Business participated in these sessions held in Vietnam and Malaysia.

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