

# Effective corporate governance 102-15, 102-16, 103-1

We will steadily implement our ESG Strategy by examining our corporate governance system whenever necessary, and conducting fair and honest business activities while acting in accordance with laws and ethics and responding to changes in society. All of this will contribute to creating a global presence for Kao.



Please see the following for corporate governance activities related to our management structure.

- ➔ Kao Sustainability Data Book 2021: Corporate governance
- ➔ Integrated Report 2021: Corporate Governance Initiatives
- ➔ Corporate Governance Report

ESG Keyword

Integrity

Compliance risk reduction

Harassment prevention

Internal reporting systems

BCG

Inclusion in the World's Most Ethical Companies®

## Kao's creating value to address social issues

### Social issues we are aware of

The spread of the COVID-19 pandemic in 2020 led to rapid, dramatic changes in society's needs and in the business environment. In response to this situation, it was vitally important to build a working environment in which every single employee can work enthusiastically while having their own individual personality respected, and to realize the creation of a workplace in which everyone can work as a unified team to respond to the changes that have been taking place.

Given the many reports of data falsification, etc. in the manufacturing sector that have appeared in recent years, *Yoki-Monozukuri* that complies with laws and ethics is becoming increasingly necessary to maintain and improve our competitiveness. In addition, in many cases the improprieties went on for years without being viewed as problematic. We see creation of an open workplace atmosphere, in which improprieties that have been discovered are immediately reported to management and an appropriate response is taken, as a key issue.

At the same time, despite the growing diversity in the workforce, we are also aware of the issue of

management based on out-dated values, and of recent trends in society such as workplace bullying, which may go unnoticed in the new working environment emphasizing remote working that has resulted from COVID-19, and sexual harassment that reflects a lack of concern for others. We believe that preventing this kind of abuse, and creating an employee-friendly, efficient, productive workplace in which all employees are treated equally is very important for the healthy development of society, and we will continue to implement initiatives aimed at the thorough prevention of harassment of all kinds.

### Kao's creating value

We see our mission as contributing to society through *Yoki-Monozukuri*, based on contributing to the SDGs in our business activities with our value of Integrity (behaving lawfully and ethically and conducting fair and honest business activities) handed down from our founder. We will continue to implement *Yoki-Monozukuri* that complies with laws and ethical principles.

We are also creating workplaces with an open

atmosphere that allow talented human capital to fully demonstrate their abilities on an equal standing.

### Risks related to realization of What Kao Aims to Be by 2030

As competition intensifies globally, there is concern regarding growing temptation to commit impropriety, including factors such as difficulty in achieving product differentiation, meeting product launch schedules and delivery timelines, and increasing profit. The risk of harassment is also increasing due to the generational gap in values and growing employee diversity.

### Opportunities related to realization of What Kao Aims to Be by 2030

As a result of conducting our business with Integrity as one of our most important values, we are highly regarded by society in terms of sustainability and compliance. This leads to increasing trust on the part of consumers, shareholders and other stakeholders in our products and our company, and also makes it easier for us to hire and retain talented human capital.

## Contributions to the SDGs



## Policies

We regard our value of Integrity as the starting point of compliance, and promote it as a foundation for earning the respect and trust of all stakeholders.

To ensure greater efficacy of the Kao Business Conduct Guidelines (BCG) that embody Integrity, we are implementing activities focused on reducing serious compliance risks, and activities designed to create an open workplace atmosphere that allows improprieties that have been discovered to be immediately reported to management and an appropriate response to be taken promptly.

Anti-bribery and anti-corruption are clearly defined in the BCG as well, and we have also established the Kao Anti-bribery (anti-corruption) Guidelines, which specify the monetary standards and prior reporting obligations for giving and receiving of entertainment and gifts as well as rules for preventing corruption, including evaluating bribery risks when selecting distributors and renewing distributor contracts.

We are continuing to implement educational and training activities, including the dissemination of messages from senior management, so that every individual employee will recognize their own personal responsibility in relation to compliance, will be aware of the BCG's stipulations regarding how they should act, and will take action based on awareness of the need for compliance risk prevention in their own work, and so that we can realize the creation of an employee-friendly workplace that embodies concern for others.

## Education and promotion

The realization of workplaces with an open atmosphere in which every individual employee is fully aware of the need to prevent compliance violations from occurring, and in which compliance violations that have been discovered are reported immediately and prompt action taken to deal with them, and of employee-friendly workplaces that embody concern for others, forms part of What Kao Aims to Be by 2030.

To realize this vision, we expect every single employee to be aware of the harm that compliance violations can cause and of the impact they can have on the trust that people place in Kao. We expect managers to be aware of the types of compliance risk that could emerge in their own workplace, and to take steps to minimize such risks. We also expect

employees to respect the diversity of the people working together with them in the same workplace, and to recognize the importance of showing consideration for others in the way that you speak and act, in order to realize a workplace environment that is easy to work in. With this in mind, we implement education as appropriate based on the training system outlined below. Through this education, we provide opportunities for employees to enhance their awareness, which in turn can help employees to recognize compliance as being something that is directly relevant to them personally. We also urge employees to make effective use of the compliance hotlines that we provide when they are unsure of the best course of action to take.

### Compliance training system

Region	Theme	Target group	Objective	Frequency
Globally common	New Employee Orientation	New employees	Study our compliance approach and the BCG	On joining
	Manager training	Japan: New managers Outside Japan: Managers	Group work to build managers' awareness for compliance risk reduction	Japan: At time of promotion to manager Outside Japan: Every 3 years
	Trainings by division leaders	Managers / Non-Manager employees	Division leaders directly communicate the message to employees to make compliance relevant to them personally	Once every 2 years (alternate each year between Japan / outside Japan)
	BCG refresher test + compliance awareness survey	Executives / Managers / Non-Manager employees	Revisit the BCG and identify divisions with high compliance risks	Once every 2 years (alternate each year between Japan / outside Japan)
	Compliance Awareness Month	Managers / Non-Manager employees	Periodically revisit and review the importance of compliance	Once a year (in October)
	BCG Casebook	Managers / Non-Manager employees	Study the BCG using specific cases	Revise after revisions to the BCG
	Compliance case studies	All employees	Study compliance points to keep in mind through cases at Kao and other companies	Japan: Every month Outside Japan: Twice a year (April, October)
Japan	SCM Division (1) Basic course (2) Leading staff level summary training	(1) Employees in their third year (2) Leaders	(1) Study compliance and BCG content that should be given particular attention in SCM (2) Division work using specific cases	(1) Third year at the company (2) At time of promotion
	Executive training sessions	Executive officers and above	Learning about legal and compliance risks from a management perspective	Once a year
Outside Japan	Integrity Workshop	New employees	Study the BCG's content using examples related to each topic and in a group discussion format	Once within 3 years from joining the company

Employees take compliance training designed to learn their role when those roles change significantly, including when they join the company, when they are promoted to managerial positions, and when they assume responsibility for subsidiaries outside Japan.

In addition, all employees participate in the training organized by the leader of their division and take a BCG refresher test to periodically give them opportunities to review and maintain their awareness for compliance. One month of the year is also designated as Compliance Awareness Month, and the importance of thoughtful words and actions as well as an open organizational culture is communicated among other topics. Education related to laws and ordinances is planned and conducted by designated managing divisions.

## Collaboration and engagement with stakeholders

The BCG clearly states the need for gaining understanding and support for the BCG among vendors as well and encouraging conduct based on this.

We believe that there is a serious risk that compliance violations by suppliers can lead to quality issues and loss of trust in Kao products, and so we are implementing initiatives that prioritize focusing on suppliers of raw materials, contract manufacturers, and contractors engaged in product manufacturing on Kao Group premises.

In particular, because suppliers' failure to safeguard employees' human rights, leading to dissatisfaction, is a major factor in compliance violations, we are promoting measures to prioritize respect for human rights. The specific initiatives being implemented are outlined below.

- On an annual basis, we ask suppliers to collaborate with human rights surveys such as Sedex, and the results of such surveys are an important factor that we take into account when choosing suppliers.
- The annual meetings that we hold with suppliers include presentations on the content of our BCG, and also lectures by experts on topics relating to compliance.
- We provide explanations of the Kao Group's policy on human rights, etc., at the Supplier Crisis Management Meetings, which are held every two years.
- We implement on-site auditing of raw materials suppliers, etc. that covers respect for human rights.

## Framework

We have set up the following framework to implement the PDCA cycle for compliance, and to respond appropriately to reported incidents. The PDCA cycle framework consists of policies, an annual plan and specific activities to implement these devised by the Compliance Committee, comprising division leaders and other members, and its secretariat, with directives for implementation given to persons responsible for divisions and subsidiaries. The activities are evaluated by the Board of Directors among others, and the evaluations are used to inform improvement activities. The framework for responding to reported incidents involves a shared group hotline, the Compliance Committee, which receives hotline reports, investigation by the Compliance Committee or the person responsible for compliance promotion at subsidiaries, and the necessary corrective measures taken to resolve matters.

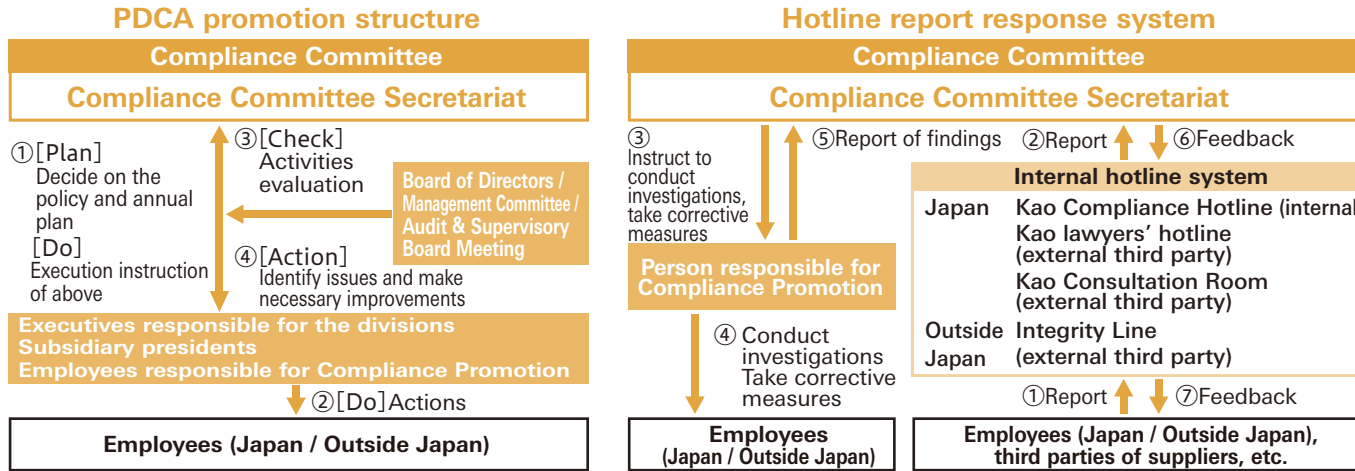
We have also put in place a framework for encouraging individual units at the worksite level to report compliance violations and suspected compliance violations, thereby contributing to early resolution of issues, by clarifying the rules governing initial reporting of compliance violations and suspected compliance violations.



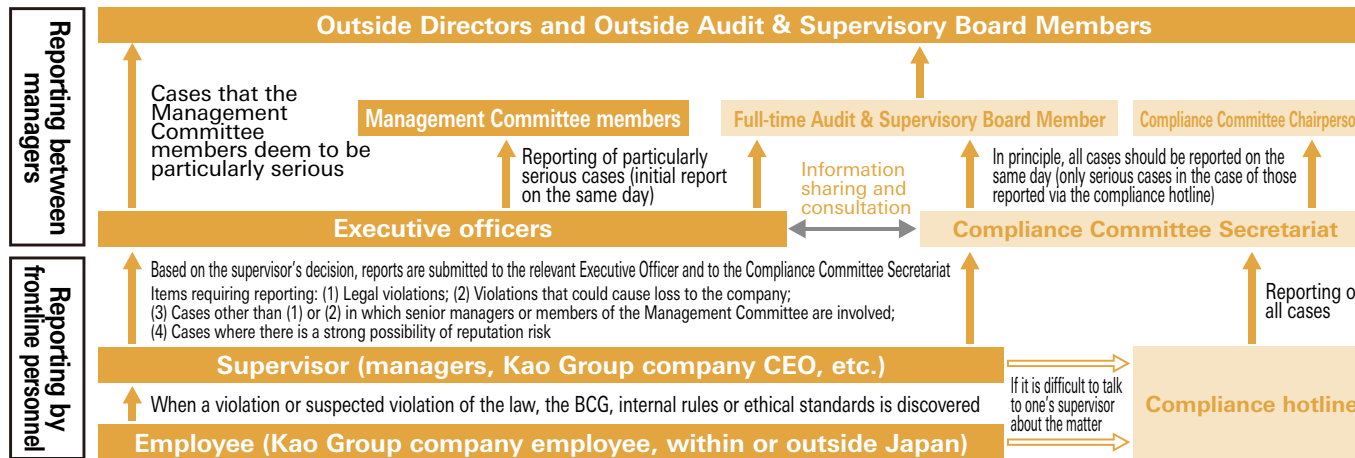
→ p. 18 ESG promotion structure

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## PDCA promotion structure and response process for compliance hotline reports

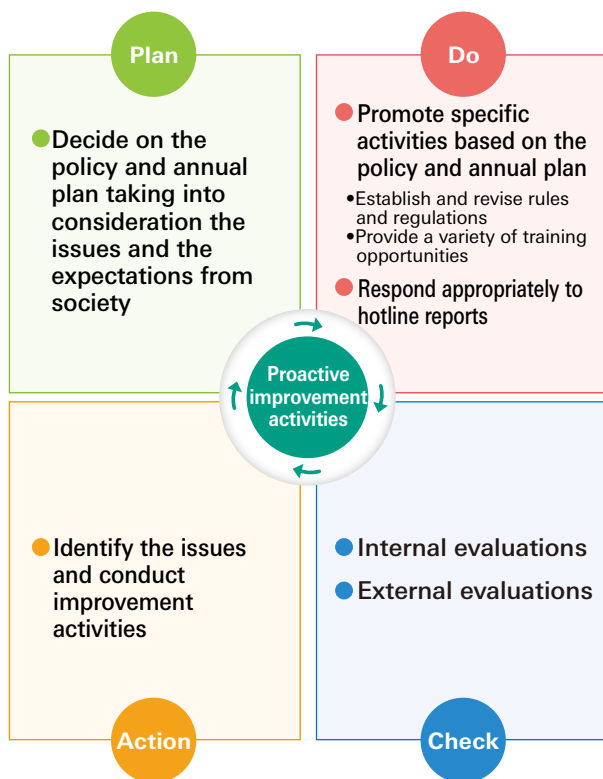


## Rules for initial reporting of violations



## PDCA cycle to continuously improve compliance

Compliance promotion activities are implemented using the PDCA cycle shown below. The Compliance Committee creates the policy and annual plan, and the Compliance Committee Secretariat breaks it down into specific activities that are then implemented. The implemented activities are evaluated, and identified issues and improvements are reported to inform the planning to be drafted from the following year onward.



### Plan / Do

We have established the Compliance Committee, chaired by the Representative Director and Senior Managing Executive Officer, and comprised of representatives of relevant divisions and affiliated companies.

This committee meets every six months to review the following activities and devise promotional measures to mitigate serious compliance risks and ensure Integrity.

1. Decide the activities policy to ensure Integrity
2. Finalize the establishment and revision of the BCG and other internal compliance-related rules and regulations
3. Decide on the annual plan for educational and awareness-raising activities to instill and establish Integrity within and outside Japan
4. Confirm the operation and response status of compliance hotlines

We also propose necessary amendments to compliance-related rules and regulations and make an annual activities report to the Board of Directors.

The Compliance Committee has a secretariat led by the Compliance Department. At the secretariat meeting held each month, members of the secretariat confirm and review the appropriateness of responses to all reports made to compliance hotlines both within and outside Japan. They also draft and implement plans for specific activities and promote activities in accordance with decisions by the Compliance Committee.

### Check Internal evaluations

#### • Opinions from the Board of Directors

Summary reports are made quarterly to the Management Committee on compliance incidents including incidents reported to the compliance hotlines, in addition to which the Management Committee summary reports and annual activities reports are also made to the Board of Directors.

The Board of Directors monitors and evaluates these activities, and its evaluation and opinions are used to improve the activities through the PDCA cycle.

#### • Issues identified from compliance hotlines

Reported incidents are regularly analyzed, and steps are taken based on identified trends, such as making necessary changes to the framework, conducting in-house education and promoting awareness.

#### • Issues identified from risk surveys

We conduct a risk survey that includes compliance risks every year, and identify risk areas and specific risk scenarios based on the results, after which we take the necessary steps while coordinating with the relevant divisions.

#### • Activities that involve listening to employees' opinions

The Compliance Committee Secretariat creates opportunities for dialogue with employees of the group companies within and outside Japan when visiting them to conduct training and on other occasions. Comments concerning current compliance activities are received, along with requests and proposals for new activities.

#### • Employee survey

A survey is conducted every other year on such things as the open atmosphere of various organizations by the Compliance Committee.

#### • New initiatives aimed at invigorating and reforming the corporate ethos

As part of the objectives and key results (OKR) adopted in 2021 as a new strategy to energize our employees, we clarify what individual employees should be seeking to achieve and become, get employees to set targets for themselves through a repeated process of dialogue with supervisors and colleagues, and encourage them to challenge themselves.

Within the OKR, we also set targets for activities aimed at helping to realize employees' vision of what each organization should be. Through this process of goal-setting and regular dialogue, which has replaced conventional opinion surveys, we are promoting the solving of problems and improvement of the corporate ethos within each organization, and strengthening the links between employees.

## External evaluations

### • Feedback from third-party organizations, external evaluation organizations, etc.

By answering socially responsible investing (SRI) questionnaire items that incorporate societal expectations and exchanging information with other companies, we incorporate items where we have not yet taken action into the next year's activities as necessary.

## Mid- to long-term targets and performance

### Mid- to long-term targets

1. Contribute to *Yoki-Monozukuri* through a commitment to Integrity and prevent incidents of damage
2. Minimize damage by creating workplaces with an open atmosphere that allows improprieties to be reported at an early stage and the appropriate response to be taken
3. Maximize utilization of human capital by ensuring that people's language and conduct are considerate of the other person's position and by creating workplaces in which all people are able to work on an equal standing

### 2030 long-term targets

- Establish and maintain our legal compliance structure within and outside Japan to ensure consistent *Yoki-Monozukuri*
- Conduct activities focused on high-risk areas to efficiently prevent serious compliance violations
- Clarify the reporting rules and make them well-known and followed to promote early reporting and appropriate handling of improprieties
- Establish our policy related to harassment prevention and other necessary internal regulations, and make them well-known and followed, to realize workplaces where people find it easy to work

### Anticipated benefits from achieving mid- to long-term targets

#### Business impacts

- Avoid incidents of loss due to improprieties and reduced trust in Kao products
- Minimize damage by avoiding expanding or prolonging impacts by discovering improprieties at an early stage and taking an appropriate response
- Realize high-quality outcomes more efficiently and retain, hire and fully utilize talented human capital by creating work-friendly workplaces for employees

#### Social impacts

- By preventing improprieties and realizing higher quality outcomes, provide products and services through improved *Yoki-Monozukuri* including a focus on the environment
- Contribute toward the realization of clean, enriched lifestyles and toward the achievement of the SDGs, including those relating to environmental conservation, etc., through the provision of the products and services outlined above
- Maintain and improve the trust placed in us by stakeholders starting with shareholders and society

## Performance in 2020

### Performance

#### 1. Activities to reduce compliance risks

##### Legal compliance structural reorganization

We have clarified the managing division for promoting compliance with approximately 250 laws and ordinances that apply to our worksites in Japan. For 45 laws and ordinances of particular importance, in 2020 we prioritized confirmation of whether the implementation status of the managing division's legal compliance plan was appropriately monitored. We have also put in place a framework for global compliance.

##### Analysis of the root causes for cases requiring particular attention, and thorough implementation of strategies to prevent reoccurrence

In regard to cases where the same type of compliance violation occurs repeatedly, we have launched initiatives for analyzing the root causes, and for implementing thorough measures to prevent reoccurrence.



→ p. 152 Our initiatives: Activities to reduce compliance risks

#### 2. Activities to foster and establish compliance awareness

##### Amending the BCG Casebook

The BCG Casebook is intended to facilitate understanding of the BCG, which was revised in April 2019. The content has been revised with the addition of cases that have occurred within the Kao Group over the past few years that relate to the various topics addressed by the BCG. To ensure thorough dissemination of the Casebook throughout the Kao

Group as a whole, the content has been translated into local languages, and made available to employees through posting on the intranets of individual group companies, etc.



→ p.152 Our initiatives: Revision of the BCG Casebook and utilization of compliance-related rules

##### Compliance education activities

- Implemented harassment prevention training  
In line with the coming into effect of laws relating to workplace bullying, harassment prevention training has been implemented for all employees in Japan via e-learning.
- Implemented online compliance lectures by the Compliance Committee Chairperson
- Implemented compliance training as part of new manager training in Japan
- Implemented BCG refresher tests and related opinion surveys outside Japan
- Implemented online compliance training for managers at several worksites in Thailand
- Established October as Compliance Awareness Month as in past years, displayed Compliance Awareness Month posters and communicated other information



→ p. 153 Our initiatives: Compliance education / Compliance Awareness Month

#### 3. Compliance promotion system development

With the following measures, we have put in place a system designed to reduce risk by detecting compliance-related problems at an early stage and appropriately resolving them.

- Serious compliance incidents are regularly reported to the Compliance Committee, the Management Committee, the Audit & Supervisory Board Members, the Board of Directors and other groups, and the appropriateness of the response evaluated.
- We have commenced implementation of the Rules for Operating Compliance Hotlines, to strengthen trust in the compliance hotlines and enable employees to use them with peace of mind. In line with the amendment of Japan's Whistleblower Protection Act, in order to ensure more thorough protection of whistleblowers' right to confidentiality, we have worked to spread awareness of the fact that trying to find out the identify of whistleblowers, and treating whistleblowers badly, are prohibited.



→ p. 154 Our initiatives: Compliance hotlines

#### 4. Evaluation activities

- Outside Japan, we conducted a compliance awareness survey to measure how well-established compliance activities are, and the atmosphere at workplaces.
- We identified issues and conducted improvement activities through information exchanges with other companies and responses to external evaluation survey.



→ p. 155 Our initiatives: Evaluation activities

## 5. External evaluations

In 2020, Kao was again recognized as one of the World's Most Ethical Companies®.



→ p. 155 Our initiatives: Fifteen consecutive years on the World's Most Ethical Companies® 2021 list

### Reviews of performance

#### Issues and response measures concerning mid- to long-term targets

##### 1. Contribute to *Yoki-Monozukuri* through a commitment to Integrity and prevent incidents of damage

Besides promoting initiatives to foster legal compliance, so as to reduce the incidence of serious compliance violations, starting from this year we have also been implementing thorough steps to analyze the underlying causes of incidents requiring particular attention that could be associated with serious compliance violations, and to prevent reoccurrence. There have been cases where problems have reoccurred even when activities were implemented that involved getting the relevant units to internalize the need for an effective response by getting them to consider concrete response strategies, and so we will continue to identify key issues that we need to focus on.

##### 2. Minimize damage by creating workplaces with an open atmosphere that allows improprieties to be reported at an early stage and the appropriate response to be taken

Despite giving instructions regarding the need for prompt reporting when a compliance case is identified, there have been cases where reporting has been delayed, and so we have taken even more thorough steps to ensure widespread awareness of and compliance with the rules regarding initial reporting.

##### 3. Maximize utilization of human capital by ensuring that people's language and conduct are considerate of the other person's position and by creating workplaces in which all people are able to work on an equal standing

With regard to workplace bullying, etc., although we have implemented initiatives that focus on preventing reoccurrence, incidents have continued to occur, including some quite serious cases. In response, we have taken thorough steps to formulate and implement measures to analyze the underlying reasons behind cases requiring particular attention, and strategies to prevent reoccurrence, as noted in Item 1 above, and we have revised and strengthened these measures where necessary.

Through measures of this kind, we have worked to enhance awareness of the issues in units where cases had occurred, and to promote the implementation of response measures. We have also worked on prevention by implementing educational and other preventative measures in units where there is a possibility that similar incidents could occur.



## Our initiatives

### Activities to reduce compliance risks

To reduce serious compliance risks, we continued upgrading our legal compliance structure in 2020 following steps taken in 2019, and took appropriate actions for serious compliance risks not covered by our legal compliance activities.

#### Reinforcement of our legal compliance structure (Enhanced monitoring of promotion activities)

In 2018, we reorganized our legal compliance structure to place responsibility for legal compliance with executive officers in charge of divisions. Specifically, we decided on the divisions in charge for promoting legal compliance with the some 250 laws and ordinances that apply to worksites in Japan. For 45 laws and ordinances of particular importance among the 250, we drafted an annual compliance promotion plan, required a report on its implementation and monitored compliance promotion activities.

To ensure the function of the legal compliance structure in Japan, in 2020 we confirmed whether the activities by divisions in charge targeting the important laws and ordinances were appropriately monitored by other divisions and organizations. In addition, for compliance with overseas laws and ordinances, we exchanged opinions with local persons responsible for legal affairs on how to build systems to gauge activities in individual countries and regions.

#### Analysis of the underlying reasons for cases requiring particular attention, and examination of strategies to prevent reoccurrence

As there have been cases where the same type of compliance violation occurs repeatedly, we have identified cases where there is a possibility of the same type of case occurring in other units, as well as cases involving legal violation issues or internal controls issues, classifying these as cases requiring particular attention, and we have undertaken analysis of the underlying reasons why the problem emerged within the unit where it occurred, as well as drawing up strategies to prevent reoccurrence. These matters are discussed from multiple perspectives as meetings of the Compliance Committee Secretariat, and feedback is provided to the unit where the problem occurred regarding the suggestions made, so that reoccurrence prevention can be implemented thoroughly.

Furthermore, where there is a possibility that a similar violation might occur at another unit or another subsidiary, reoccurrence strategies will also be implemented at that other unit or subsidiary.

#### Revision of the BCG Casebook and utilization of compliance-related rules

The BCG serve as our code of conduct for practicing the Kao Way, our corporate philosophy. The content is regularly revised based on expectations from society, our circumstances and other factors, and was revised

in April 2019.

In 2020, the BCG Casebook, which brings together case studies relating to the revised BCG in question-and-answer format, was compiled in Japanese, English and 17 other language versions, and was shared with all group companies.

The BCG explicitly defines anti-corruption compliance regardless of the identity of the other party and bans facilitation payments, which are payments of small amounts made to individual government officials. Making political donations is also prohibited in the BCG and in the Donation Guidelines. Moreover, the Kao Anti-bribery (anti-corruption) Guidelines, which describe the approval procedures and rules for giving and receiving of entertainment and gifts and notification procedures relating to invitations to government officials, have been adopted, including at the group companies outside Japan.

In addition to the above, the Kao Guidelines for Avoiding Conflicts of Interest have also been adopted at the group companies both within and outside Japan, and require approval or notification in situations of individuals having involvement in competition or transactions with group companies, investments in companies that engage in such competition or transactions, financial loans and so on with group companies, and close relatives engaging in such acts.

#### Annual confirmation

Once a year, we confirm the submission of reports to the Compliance Committee Secretariat regarding

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matters pertinent to the Guidelines for Avoiding Conflicts of Interest and the Anti-bribery (anti-corruption) Guidelines with respect to members of the Board of Directors, the Audit & Supervisory Board Members, officers and employees.

In addition, we investigate the function of the Anti-bribery (anti-corruption) Checklist used when selecting new cross-border distributors and new intermediaries or renewing contracts with existing ones.

## Compliance education

To deepen employees' understanding of the BCG and other compliance-related rules and regulations, we hold classroom-based training for new employees, newly appointed managers, and group company employees (including managers) outside Japan. In addition, a BCG refresher test is given every other year to check knowledge of BCG content.

In 2020, we conducted online educational programs in Japan and Thailand, using group discussions to bring up cases of compliance violations that could potentially arise at participants' worksites, the causes of such violations and countermeasures, to make the compliance content personally relevant to participants.

### Implementation of harassment prevention training

We have for many years now positioned workplace harassment as an important compliance risk. With the coming into effect in June 2020 of the revised Act on Comprehensive Promotion of Labor Measures, and Stabilization of Employment of Employees, and Enrichment of Their Working Lives (also known as the Law against Power Harassment), employers are under an obligation to take all necessary measures to prevent

workplace bullying, and starting from late June 2020, we have been using e-learning to provide harassment prevention training for all employees (with around 26,000 employees having received this training).

### Lectures by the Compliance Committee Chairperson

Compliance lectures on the topic of "Sharing an Awareness of Risk Based On Front-line Case Studies, and What Professionals Need to Be Doing," by the Compliance Committee Chairperson have been provided online to six divisions and Kao Group companies. Besides aiming to foster an awareness of risk by introducing case studies of recent compliance violations and encourage employees to implement compliance even more thoroughly, the lectures also explained the approach that management needs to take in order to cultivate an open, healthy organizational culture (a total of around 500 people have viewed these lectures).

### Compliance training linked with the Kao Way

In coordination with training on the Kao Way which constitutes our management philosophy, online training has been implemented for managers at several worksites in Thailand in which the managers identify compliance risks that have a high risk of emerging at their individual workplaces, and then engage in group discussion to consider the reasons behind these compliance risks, and the countermeasures that can be adopted (total number of participants: approximately 200 people).

### New manager training

Training similar to the above has also been implemented as part of new manager training in Japan.

Many participants offered feedback such as, "Through the discussions, I was able to think deeply

about the compliance risks that could occur in our workplaces and how to prevent them, and I want to put these ideas into practice back in my workplace." (Total number of participants: approximately 330 people)

### Implementing the BCG refresher test at overseas subsidiaries

The BCG refresher test and compliance survey are held in Japan and outside Japan in alternate years. This year, the BCG refresher test and compliance survey were administered to overseas subsidiaries. Besides providing an opportunity to reflect on the content of the BCG, this also gave the participants an opportunity to submit their own views on compliance activities in the Kao Group and to reflect on the situation in their own workplace.

## Compliance Awareness Month

At Kao, we have designated October as Compliance Awareness Month, with the aim of encouraging employees to view compliance as something that is directly relevant to them, and hold various activities to instill compliance awareness within and outside Japan.



The Compliance Awareness Month poster displayed at worksites in countries and regions

In 2020, the message from the Compliance Committee Chairperson was “Working together, respecting each other, united as ONE TEAM,” and we conducted activities to realize an enthusiastic workplace atmosphere by building awareness for workplace communication that gives consideration to others’ feelings.

The message from the Compliance Committee Chairperson was disseminated via the company intranet and displayed on posters as in past years. Posters with compliance messages were also created by regional leaders and company presidents globally and communicated along with case studies.

## Employees’ voice

### Working to enhance compliance awareness

#### Gwendolyn P. Glover

Manager, Human Capital Development (HCD)  
Kao Specialties Americas LLC



Both in October, which is Compliance Awareness Month, and throughout the year, it is vitally important to enable employees to gain a real-time understanding of our compliance culture by making compliance training fun and engaging, focused on elevating compliance management at Kao Specialties Americas LLC. Our founder’s reference to “Good fortune” is reflected in the way that we empower our team members with the necessary knowledge and awareness to conduct themselves with Integrity while operating globally as ONE TEAM!

## Compliance hotlines

According to the needs of each country and region, group companies have established either both internal and external compliance hotlines or only external hotlines.

In operating the hotlines, after confirming the caller’s wishes, companies take steps to respect the individual’s privacy and strive to the maximum extent possible to ensure that callers suffer no retaliation or disadvantage as a result of their good-faith consultation. In principle, companies also receive the caller’s consent when an investigation of related parties is conducted. Anonymous inquiries are accepted, but callers are encouraged to identify themselves to facilitate proper investigation.

In 2020, there were 304 reports made to the hotlines (including group companies outside Japan), which also encompassed reports from management lines. Of these, excluding reports which are still being dealt with, or where their details have not been reported, just over 50% of the total were minor in nature and ultimately resolved or closed through responses from the secretariat or in face-to-face meetings with the caller. The remainder, just under 40%, were handled with measures such as warnings to the person in question based on investigations of the matter, including face-to-face meetings with multiple relevant persons.

Further breakdown of the reports received reveals that items related to harassment, including workplace bullying, represented roughly 30% of the total, while items including those related to miscommunication at workplaces, working conditions and employment, represented around 40%. Together, these two categories comprised approximately 70% of reports.

No particular trends were observed in the

organizations, worksites or occupations to which callers belonged.

### Response framework in Japan

In Japan, we have established internal compliance hotlines operated by the Compliance Committee Secretariat and external hotlines operated by outside lawyers and clinical psychologists. Internal hotlines and external hotlines operated by lawyers accept reports and consultations not only from our employees but also from related parties including business partners. Not only can employees make reports anonymously, we also operate a hotline where it is possible to leave feedback.

### Response framework outside Japan

We set up the Integrity Line, operated by an outside service provider, at the group companies outside Japan. The Integrity Line is able to receive calls 24 hours a day, 365 days a year in the home country language. Most group companies have established internal compliance hotlines in which the company’s HR manager or other representative handles inquiries. In 2020, we publicized the hotlines at group company compliance seminars and during Compliance Awareness Month.

## Response to compliance violations, and legal violations in 2020

Under “Walking the right path” in the Kirei Lifestyle Plan announced in April 2019, we set the indicator of zero serious compliance violations.

These serious compliance violations refer to compliance violations that significantly impact management and result in significant loss to our corporate value. They are decided

based on the malicious nature of the violation (importance / seriousness of the legal infraction, intent, continuity, organizational nature), the internal and external impacts of the violation, and deliberation by the Compliance Committee and the Management Committee, and reported to the Board of Directors.

There were no such serious compliance violations to which the above applied.

In addition, through our participation in committees, working groups, etc. of trade associations, we convey opinions that could influence enactment and revision of laws to the government. Apart from membership fees to these trade associations, it was verified that no donations were made regarding political campaigns or organizations, lobbying, trade associations, tax-exempt entities or other groups whose role is to influence political campaigns or public policy and legislation in 2020.

At the same time, as there were some legal violations that did not meet the above-mentioned criteria for public notification, we strove to prevent reoccurrence by having the appropriateness of the reoccurrence prevention strategies formulated by the units where the violations occurred examined at meetings of the Compliance Committee Secretariat, etc.

There were a total of ten cases, including both cases within and outside Japan, that resulted in punitive dismissal or being asked to resign as punishment for misconduct by individual employees such as theft, embezzlement, harassment or violent behavior.

There have also been compliance violations resulting from the change in the working environment caused by the shift to remote working during the COVID-19 pandemic. With this in mind, we have used the company intranet, e-mail messages and online training to spread awareness of the key points to note in order to prevent these types of violations.

## Fifteen consecutive years on the World's Most Ethical Companies® 2021 list

In February 2021, Kao was recognized as one of the World's Most Ethical Companies® 2021 by the U.S.-based think tank Ethisphere Institute. We have been named to the list 15 straight years since the award's inception in 2007. We are the only Japanese company, and the only manufacturer of fast-moving consumer goods and chemicals in the world, to be honored for 15 consecutive years.

Selection of companies for the list is based on the evaluation of five factors: (1) Corporate Ethics and Compliance Program; (2) Corporate Citizenship and Responsibility; (3) Culture of Ethics; (4) Corporate Governance; and (5) Leadership, Innovation and Reputation.

This recognition reflects the fact that the spirit of Integrity passed down from our founder continues to be implemented by all Kao Group members in day-to-day operations through practice of the Kao Way and the BCG.



## Evaluation activities

In 2020, we conducted a compliance awareness survey outside Japan to measure how well established compliance activities are and the atmosphere at workplaces (with approximately 7,000 employees being surveyed).

Also in 2020, we exchanged information about compliance activities with three companies and responded to questionnaires on SRI and the like from eight vendors and institutes. Through these responses, we reviewed our identification of issues and future-oriented response, and will incorporate these into our 2021 activities.

## Sharing our insights on compliance with outside groups

In 2020, the Executive Officer holding the position of Senior Vice President of the Legal and Compliance gave online lectures on the topic of Kao's Corporate Governance Initiatives: Focusing on the Operation of the Board of Directors for the International Corporate Counsels Association (in April 2020), at a Governance Seminar hosted by ProNed Inc. (in October 2020), and for the Legal / Regulatory Committee of the Japan Soap and Detergent Association (in November 2020).

In addition, in June 2020 he gave a lecture at Doshisha University on the role of corporate legal affairs, including matters relating to compliance and corporate governance.

## Stakeholder engagement

### Raising awareness within Kao, and related issues, as seen from the Kao Consultation Room



**Yoko Nohara**

Chairperson,  
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(Kao Consultation Room  
provider)

In our role as the provider of the Kao Consultation Room, Kao's external consultation service, our center has for many years now been listening to the concerns of Kao employees and offering our opinion from an expert external viewpoint. Up until now, when concerns have been expressed, the usual approach has been for Kao's first step to be to listen to a diverse range of views, before making a final decision.

In 2020, although Kao introduced working from home in the final week of February in response to the COVID-19 pandemic, I heard a Kao employee expressing annoyance that Kao had been slightly slower to adopt home working than another major

corporation. This really brought home to the kind of attitude that characterizes a company which is always aiming to be number one. Many Kao employees felt that they were lucky to be working at a company that really put into practice its management philosophy of valuing employees.

In 2019, Kao ranked first in the list of the 100 Best Companies Where Women Actively Take Part published in Nikkei Woman magazine. In December 2019, Kao launched its new next-generation beauty solution, which cares for the skin by applying an ultra-thin artificial membrane to the skin surface. This was good news for people concerned about their skin. Reflecting these achievements, in 2021 Kao was selected as one of the World's Most Ethical Companies® for the 15th consecutive year.

Many of the people who join Kao do so because they are confident that "this company is capable of growth," and these employees will be very proud to see how well Kao is doing now. At the same time, however, the vast majority of Kao employees have come to see the company's success as being only natural, and one can sense that a generation gap has emerged.

This can be seen, for example, in the cases of gender-based harassment that are related to preconceived ideas about the roles that each gender should play. In one case, an employee resigned from the company with the comment that "Although most of Kao's

products are used by women, I got the strong impression that men were dominant in the workplace. It was not pleasant to see external evaluations of Kao that praised the company for promoting women's empowerment." With the coming into effect in June 2020 of the Law against Power Harassment, workplace bullying has come to be seen in a more serious light. Although Kao has put a serious effort into combating workplace bullying, there are still people in the company who do not have sufficient awareness of the seriousness of workplace bullying, take the attitude that they cannot do their work properly if they are worried about running foul of anti-bullying rules, take an overbearing attitude toward their subordinates, and want to carry on doing things their own way. If some employees continue to take the attitude that "Because we are a first-rate company, there are unlikely to be any serious problems," then there will be an increased risk of employees bringing lawsuits against the company.

The current COVID-19 pandemic has made communication difficult. We need to think about whether interpersonal relations at the company are characterized by people being able to express their views freely regardless of what position they hold. I believe that employees will place more trust in a company that doesn't ignore employees' real views than in one that only responds to outside pressure.