

# Effective Corporate Governance

Kao is constantly reviewing its highly transparent corporate governance practices (see p. 265 for the Kao Group's corporate governance initiatives) in order to become Kao, a company with a global presence. As an integral part of these efforts and the foundation of our corporate activities, we act in accordance with the law and ethics, and conduct our business activities with integrity while responding to changes in society. This policy is positioned as the first item—walking the right path—of the “VALUES What we believe in” of the Kao Way, our management philosophy, as the teachings of our founder, and we will continue to steadily carry out our business and environmental, social, and governance (ESG) strategies in accordance with this policy. In this chapter, we will introduce our activities to practice walking the right path, which is the foundation of our corporate culture supporting corporate governance.

## Social issues

Now that the COVID-19 pandemic has affected daily life and what we once took for granted is no longer so, we must be prepared for different ways of working, changes to how employees communicate, and non-face-to-face sales activities that have become the new normal, together with new security risks and the like, and different problems that might arise.

In this fluid situation, we consider it important for the advancement of society to create a framework that enables us to anticipate and respond to change in a timely and appropriate manner, and while preparing for risks, to realize employee-friendly, efficient, highly productive workplaces where all employees are treated equally. As such, we will continue to implement initiatives aimed at preventing harassment of any kind.

## Policies

### **Kao's concept of effective corporate governance** **Walking the right path, the foundation of our corporate culture**

We promote day-to-day activities based on the recognition that walking the right path, which has been handed down from our founder, will enhance the effectiveness of corporate governance. In addition to our corporate governance initiatives (p. 265), we consider it essential that each and every employee supports our corporate activities.

### **Policies**

Kao has set forth walking the right path as the first item of its “VALUES What we believe in” in the Kao Way, and has positioned this walking the right path as the starting point for compliance and a guiding principle for maintaining support and trust from all stakeholders.

We have set the following three points as goals for our activities, and are promoting activities throughout the Kao Group (on a global basis) in order to practice the above-mentioned walking the right path each and every day.

- (1) Ensuring early detection and resolution of legal and ethical violations, and (2) grasping company issues, etc. through hotline responses.

- Continuous growth and promotion of change through educational and self-awareness raising activities to promote an understanding of the BCG among employees.
- Keeping the Kao Business Conduct Guidelines (BCG) and rules related to compliance fresh.



Compliance / Integrity

<https://www.kao.com/global/en/corporate/policies/compliance/>

To ensure that these activities are more thorough and effective, we promote activities focused on mitigating serious compliance risks, while at the same time implementing activities aimed at creating an open workplace where any irregularities discovered are immediately reported to the management and appropriate action is taken promptly.

We will also continue to provide education, including messages from top management, to ensure that each and every employee sees compliance as a personal matter, is aware of the actions specified in the BCG and other regulations, acts with an awareness of compliance risk prevention in their work, and creates a comfortable workplace where they can work with consideration for others.

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## Strategy

### Risks and opportunities

#### Risks

Delays in response to environmental changes can lead to a risk of a company losing its competitiveness. We also believe that failure to leverage diversity also entails the risk of delayed awareness of change.

In the short term, harassment (power harassment and sexual harassment) may arise due to inability to break away from past values and long working hours that are incompatible with diverse working styles; in the medium and long term, the risk of not being able to demonstrate competitiveness ahead of its time by being hesitant to take on new business challenges, even though it sees the needs of social change; and in the long term, we may see human rights and employment risks caused by an inability to respect diverse employees and supply chains.

#### Opportunities

Since our founding, we have promoted corporate activities based on walking the right path (acting in accordance with laws and ethics, and conducting fair and honest business activities), which is one of our core values. As a result, we have received high ratings from society for 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.

In addition, by shifting the concept of compliance and having each and every employee gain the perspective and attitude to take appropriate actions in light of the objectives, we will have an advantage as we

launch new businesses and initiatives in a world of change, leading to new challenges.

#### Strategy

As a strategy for 2030, we will be sensitive to issues that arise in response to changes in the world and society by receiving reports and consultations from employees, identifying risks as early as possible, extracting issues that could become problems for the company, investigating their causes, and taking flexible measures to prevent their recurrence.

To achieve this, we will work on the following:

- (1) We will establish a global legal compliance framework and strive to ensure that each division and region is responsible for the proper conduct of business.
- (2) In the event of a problem, we will promote the operation of an initial reporting framework that promptly reports the problem to head office. We will also improve our framework for receiving reports and consultations from employees and outside the company, so that we can listen to their voices and understand the issues facing the organization.
- (3) In the area of training, we will consider and implement effective training to reduce compliance risks by enhancing management dialogue and raising the awareness of each individual employee.

#### Social impact

- To provide products and services through improved *Yoki-Monozukuri*, including a focus on the environmental perspective, by preventing misconduct and achieving higher-quality results.
- To help bring about clean and enriched lifestyles through providing the above products and services, as well as to help realize the SDGs, such as environmental conservation.
- To maintain and enhance the trust placed on us by our stakeholders, starting with our stockholders and society.

#### Contributions to the SDGs



#### Business impact

- To prevent losses due to fraud and decreased confidence in Kao's products.
- To prevent the spread and prolonged impact of misconduct and minimize damage through early detection and appropriate response.
- To achieve more efficient and higher-quality results and to retain, recruit, and optimize outstanding human capital by creating a workplace where employees can thrive.
- Misconduct will result in losses, erode confidence in Kao's products, and prevent us from attracting talented employees.

# Effective Corporate Governance GRI 2-25, 3-3, 205-2

## Governance

### Framework

Under the supervision of the Board of Directors, the Internal Control Committee manages risks related to effective corporate governance and the ESG Managing Committee manages opportunities. These committees are both headed by the President & CEO.

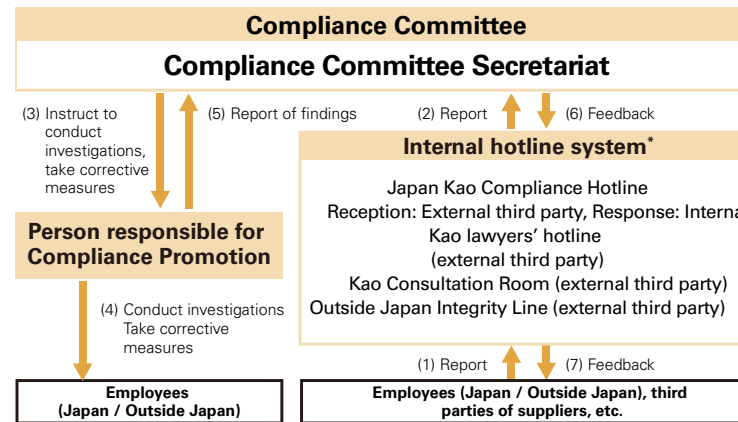
Risk management related to effective corporate governance is handled by the Compliance Committee (which meets quarterly), composed of the heads of each division, and its secretariat (which meets monthly), which prepares policies, annual plans and specific activities to implement these plans, and directs the heads of each division and subsidiary to carry out these activities. As one of the committees reporting to the Internal Control Committee, the Compliance Committee receives an annual evaluation of its activities from the Board of Directors, which leads to actions to improve. The framework for dealing with compliance hotlines involves a shared group compliance hotline, the Compliance Committee, which receives hotline reports, investigation by the Compliance Committee or the people responsible for promoting compliance 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.

The ESG Managing Committee (which meets six times a year) is responsible for managing opportunities related to effective corporate governance. Comprising outside experts, the ESG External Advisory Board

provides advice and suggestions on issues raised by the ESG Managing Committee and offers outside viewpoints to be reflected into management, and the ESG Promotion Meeting executes the strategies.

### Compliance hotlines response system



\* Internal hotline system

- Within Japan: Internal hotline  
 → During business hours  
 External hotline  
 → 12:00 am to 9:00 pm (weekdays)  
 → 9:00 am to 5:00 pm (Saturdays, Sundays and national holidays except year-end and New-Year holidays)
- Outside Japan: External contractors accept hotline calls from all countries in which we operate 24 hours a day, every day

### Rules for initial reporting of violations



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## PDCA (Plan, Do, Check, and Act) cycle to continuously improve compliance

Compliance promotion activities are implemented using the PDCA (Plan, Do, Check, and Act) 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 activities carried out are evaluated, issues are identified and improvements are summarized to formulate plans for the following year and beyond.



### Plan / Do

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

This committee meets every three months to review the following activities and devise promotional measures to mitigate serious compliance risks and ensure we are walking the right path.

1. Establish a policy of activities to ensure we are walking the right path.
2. Decide to establish or revise internal rules related to compliance, such as the Kao Business Conduct Guidelines (BCG).
3. Establish an annual plan for education and awareness-raising activities within and outside Japan to promote and establish walking the right path.
4. Confirm the operation and response status of the Compliance Reporting and Consultation Hotline.

We also propose necessary amendments to compliance-related rules and regulations and prepare an annual activities report to the Board of Directors through the Internal Control Committee.

The Compliance Committee has a secretariat with the Compliance Department at its center. At the monthly secretariat meeting, the suitability of responses to all reports made to the compliance hotlines within and outside Japan are to be shared before the meeting takes place and then checked and reviewed. In addition, based on the decisions made by the Committee, plans for specific activities are formulated in conjunction with promotions for them. After the Compliance Committee holds a meeting, they also draft and implement plans for specific activities and promote activities in accordance with Compliance Committee decisions in the following month.

### Check

#### Internal evaluations

##### • Opinions from the Board of Directors

The Board of Directors receives an annual activity report in the form of a report on the activities of the Internal Control Committee.

The Board of Directors also monitors and evaluates these activities. This evaluation and feedback are used for improvement through the PDCA (Plan, Do, Check, and Act) cycle.

##### • Issues identified from compliance hotlines

At the monthly secretariat meeting, themes that may represent emerging issues for the company are identified based on the trend of incidents for that month, and any necessary action is taken, including framework changes, internal education and awareness promotion.

##### • Issues identified from risk surveys

We conduct an annual risk survey, including compliance risks, and use the results to identify risk areas and specific risk scenarios, and then take the necessary steps in collaboration with the relevant divisions.

##### • Compliance awareness survey

The Compliance Committee conducts biennial surveys of Group companies within and outside Japan regarding the openness of each organization, etc. Based on the organizational culture trends we identify from these surveys, we create opportunities to hear more about specific workplace situations, and take any action required.

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

As part of the Objectives and Key Results (OKRs) introduced in 2021 as a new employee motivation measure, all employees express their personal vision of what they want to be. Then, through repeated dialogue

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with their superiors and peers, they set goals and move swiftly towards them.

Within the Objectives and Key Results (OKRs), we can also set targets for activities designed to help employees realize their vision of what each organization should be. Through this process of goal setting and regular dialogue, which has replaced conventional opinion surveys, we promote solving issues and improving the corporate ethos within each organization and strengthen the bonds between employees.

## External evaluations

- **Feedback from third-party organizations, external evaluation organizations, etc.**

By responding to Socially Responsible Investment (SRI) questionnaires that incorporate societal expectations, and by sharing information with other companies, we will incorporate items on which we have not yet taken action into next year's activities as appropriate.

## Education and promotion

What Kao Aims to Be by 2030 includes creating workplaces with an open atmosphere in which each employee is fully aware of the need to prevent compliance violations, and in which any compliance violations that are discovered are immediately reported and promptly dealt with. The result will be employee-friendly workplaces where employees care for others.

To achieve this, each employee must be aware of the consequences of violating compliance, such as incurring damage to and loss of trust in Kao. In addition, managers must be aware of compliance risks that may arise in their own work areas and to take measures to reduce them. Furthermore, in order to create a workplace where everyone can work with peace of mind, employees must be aware of the importance of

accepting the diversity of co-workers and of speaking and acting with consideration for others. With this in mind, we carry out education as appropriate based on the training system outlined as follows. Through this education, we provide opportunities for employees to enhance their awareness, which in turn can help them to recognize compliance as 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.

Kao Group 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, we provide all employees with regular opportunities to review compliance, as well as training from the leader of their division and BCG refresher tests to raise awareness on an ongoing basis. In addition, the Chairperson of the Compliance Committee and the person responsible for the division send out an annual compliance message to communicate the importance of speaking and acting thoughtfully, as well as maintaining an open organizational culture and so on. Education related to laws and ordinances is planned and conducted by designated managing divisions.

## Kao Compliance Training

Region	Theme	Target group	Objectives	Frequency
Globally common	New Employee Orientation	New employees	Learn about Kao's approach to compliance and BCG	Upon joining the company (written pledge)
	Training for managers	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
	Training 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	Directors, Audit & Supervisory Board Members and Executive Officers / Managers / Non-manager employees	BCG re-learning and identification of divisions with high compliance risks	Once every 2 years (alternate each year between Japan / Outside Japan)
	Compliance message	Managers / Non-manager employees	Regularly reinforce the importance of compliance	Every year
	BCG Casebook	Managers / Non-manager employees	Study the BCG using specific cases	Review after BCG revisions
	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	(1) Basic Course (2) Leading staff level summary training	(1) Employees in their third year of employment (2) Leaders	(1) Learn about the compliance and BCG details that need special attention when operating a Supply Chain Management (SCM) (2) Learn through specific cases	(1) Third year of employment (2) At the time of promotion
	Directors, Audit & Supervisory Board Members and Officers Training Sessions	Executive officers and above	Learn about compliance risks from a management perspective	Every year
Outside Japan	Integrity Workshop	New employees	Learn the content of the BCG in a group discussion format, with examples related to each of the points	Once within 3 years of joining the company



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## Collaboration with stakeholders

The BCG makes it clear that it encourages its business partners to understand, empathize with, and act on the BCG.

We believe that there is a serious risk that compliance violations by business partners 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 business partners engaged in product manufacturing on the Kao Group premises.

In particular, because business partners' 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.

1. At the annual meeting with business partners, we explain Kao's procurement policies, including compliance, and introduce our compliance hotline.
2. Understanding social needs through external questionnaires and implementing necessary activities

Each year, based on responses received on external questionnaires, we recognize and grasp changes in society through the content of the questions, and establish and pursue activity goals for the following year based on those changes.

3. The compliance hotlines are staffed by an outside clinical psychologist and an independent attorney-at-law who is not a legal counsel and is independent of the Kao Group. While only the number of cases is reported us on a monthly basis, each hotline understands the content and provides the necessary counseling. As they are external parties who listen directly to the voices of our employees, we have a regular opportunity, once or twice a year, to exchange

views with them on the concerns they have about our organizational culture in response to the content of the employee consultations.

## Risk management

With regard to the risk and opportunity assessment process, the Legal examines possible risks and opportunities at Kao and conducts risk and opportunity assessments based on the opinions of personnel in charge of each division implementing internal initiatives and external experts, which are then approved by the Internal Control Committee and the ESG Managing Committee, respectively.

The compliance risk identification and assessment process is as follows:

### • Grasping business issues from compliance hotline cases (including reports through the management line)

- (1) Report monthly at the Compliance Committee Secretariat meeting;
- (2) Identify cases requiring particular attention and closely monitor the causes and measures to prevent recurrence;
- (3) Exchange issues at the quarterly meetings of the Compliance Committee;
- (4) Share the situation at the Managing Executive Officers meeting in the month following the committee meeting;
- (5) Determine the applicability of serious compliance violations during the fiscal year.

### • Compliance awareness survey for understanding organizational culture

- In the risk identification process for K25, which is conducted by the Risk and Crisis Management Division, risk items are presented from the perspective of compliance activities and integrated as enterprise-wide risks.

## Targets and metrics

### Mid- to long-term targets and 2022 results

#### Mid- to long-term targets

1. Contribute to *Yoki-Monozukuri* by committing to thoroughly instill walking the right path and prevent incidents from occurring.
2. Minimize damage by creating an open workplace that enables early reporting and appropriate response to misconduct.
3. Maximize the utilization of human capital by ensuring that we speak and act with consideration for the position of others and by creating a workplace that is equal and easy to work in for all employees.

#### 2030 long-term targets

- Establish and maintain our legal compliance framework within and outside Japan to ensure consistent *Yoki-Monozukuri*.
- Conduct activities with a focus on high-risk areas to effectively prevent serious compliance violations.
- Clarify reporting rules to encourage early reporting of misconduct and appropriate responses, and ensure that these rules are widely known and thoroughly understood.
- Establish harassment prevention policies and other necessary internal rules to create a comfortable workplace, and ensure that all employees are aware of and comply with such policies and rules.

# Effective Corporate Governance GRI404-2

## 2022 results

### 1. Compliance risk mitigation activities

#### Legal compliance structural reorganization

We have clarified the lead division responsible for promoting compliance with the approximately 250 laws and ordinances that apply to our business in Japan. With the aim of reducing serious compliance risks, appropriate measures have been taken in 2022, mainly by the relevant divisions, in the areas of (1) ensuring an appropriate working environment (prevention of unpaid overtime), (2) prevention of harassment, and (3) operation of a hotline framework that enables employees to feel safe about asking for help.

#### Analysis of underlying causes in cases requiring particular attention, and thorough implementation of policies to prevent recurrence

We identify organizational issues raised by whistleblowing that require particular attention, thoroughly investigate the cause of each incident, summarize each incident, confirm measures to prevent recurrence, and work as an organization to improve the issue.

### 2. Educational activities to promote and establish compliance awareness

- We have conducted a new type of compliance training for newly appointed managers in Japan to discuss compliance risks that can arise when objectives and key results (OKRs) management methods are ineffective.
- We have conducted BCG refresher tests and awareness surveys outside Japan.
- Since April, we have disseminated compliance messages, including a message from the Chairperson of the Committee, and since September, messages

from the heads of each functional division and the President & CEO of Group companies outside Japan, as well as other information provision.

- We have distributed compliance case studies monthly in Japan and twice a year outside Japan via the company intranet to promote understanding through specific case studies.

**P169** Main initiatives: Compliance message

### 3. Development of the compliance promotion framework

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 matters were reported to the Board of Directors and other relevant bodies on a quarterly basis through reports from the Compliance Committee, the Executive Officer Committee, the Audit & Supervisory Board members and the Internal Control Committee, and responses were evaluated for appropriateness.
- We comply with the Rules for Operating Compliance Hotlines to build trust in the compliance hotlines and enable employees to use them with peace of mind. In preparation for the implementation of the revised Whistleblower Protection Act in June 2022, we reaffirmed our commitment to fully protect the confidentiality of whistleblowers and informants, and not to seek out or retaliate against them.

**P170** Main initiatives: Compliance hotline operational status and 2022 regulatory violations

### 4. Evaluation activities

- Conducted an awareness survey on the level of penetration of compliance activities and workplace culture outside Japan.
- Identified issues and planned improvement activities through information exchange with other companies and responses to external surveys.

### 5. External evaluation

The company was named one of the World's Most Ethical Companies® for its activities also in FY2022.

**P171** Main initiatives: Seventeen consecutive years on the World's Most Ethical Companies® 2023 list

## Reviews of 2022 results

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

#### 1. Contribute to *Yoki-Monozukuri* by committing to thoroughly instill walking the right path and prevent incidents from occurring.

In addition to promoting strict legal compliance activities to reduce serious compliance violations, we identify organizational issues triggered by whistleblowing that require close attention. We are promoting activities to encourage a sense of direct connection on the part of the division where the incident occurred, by making the division responsible for investigating the causes in depth, summarizing the incident, and confirming measures to prevent recurrence. Going forward, we will identify priority issues and continue responding to them.

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## 2. Minimize damage by creating an open workplace that enables early reporting and appropriate response to misconduct.

Although we have instructed our employees to report compliance matters promptly when they occur, there have been instances of delayed reporting, so we have reinforced awareness of and compliance with the initial reporting requirement.

## 3. Maximize the utilization of human capital by ensuring that we speak and act with consideration for the position of others and by creating a workplace that is equal and easy to work in for all employees.

With respect to power harassment and other forms of harassment, we make targeted efforts to prevent recurrence. Specifically, we have identified organizational issues that require particular attention, starting with whistleblowing as described in 1., and the divisions where such incidents occurred have themselves conducted in-depth investigations into the causes of the incidents, ensuring that measures to prevent recurrence are formulated and implemented.

### Employees' opinions

#### Compliance Promotion Initiatives at KAO INDONESIA CHEMICALS



#### Sally Sinaga

General Affairs,  
PT KAO INDONESIA CHEMICALS  
(The author is the second person from the left.)

It is not easy to promote compliance activities in language that is both engaging and easy to understand. We use the aphorism in our training and present winners of the Integrity Training Test with a

mug emblazoned with Kao and compliance logos, and display banners showing compliance messages with the winners' photos and comments in the office. We also appreciate the commitment and effort of all KIC employees, and strive to act as a true compliance model. We would like to bring fresh ideas and contribute to Kao's success and sustainability so that our employees' awareness of compliance will keep rising. We will act with integrity while smiling all the time, and of course, maintaining our security and health.



# Effective Corporate Governance GRI 205-2

## Main initiatives

The BCG serves as our code of conduct for practicing the Kao Way, our corporate philosophy. The content is reviewed annually based on societal demands and the company's own situation, and was last revised in April 2019.

To disseminate BCG's content, we have created the BCG Casebook, a collection of BCG-related case studies in a Q&A format in Japanese, English, and 17 other languages, and share it with related companies.

The BCG explicitly states that it prohibits bribery regardless of the affiliation of the other party, and prohibits facilitation payments, which are small payments made to individual government officials. The BCG and the Donation Guidelines also prohibit political contributions. We have also implemented "Kao Anti-Bribery Guidelines," including those for Group companies outside Japan: Specifically, the Guidelines make it mandatory to set standards for providing entertainment / gifts and for the amount of money received and to report in advance; and they specify measures to prevent bribery, such as assessing bribery risks when selecting business partners and renewing contracts. In 2022, there were no violations related to corruption or bribery within the Kao Group.

Our marketing and advertising activities include fair content and appropriate statements based on facts, avoid exaggerated statements concerning our impact on society and the environment, and take into consideration a wide range of people, including those who could be considered socially vulnerable. We also ensure that information relating to competitors and competing products is not provided to consumers.

In addition, with respect to harassment, we state to the effect that we will not tolerate any harassment of employees or other business associates. Such

harassment includes language or conduct that undermines or insults human rights and personalities.

In addition to the above, Kao has introduced the "Kao Guidelines for Avoiding Conflicts of Interest" for Group companies within and outside Japan. The Guidelines stipulate that permission or notification must be obtained in cases where a person is personally involved in competitive or trading activities with Kao Group companies, invests in companies that engage in such activities, borrows money from or lends to Kao Group companies, or has a close relative involved in such activities.

In October 2021, the Money Laundering Policy was introduced in the Kao Group to clarify its anti-money laundering stance. There were no violations on this matter in 2022.

### Annual confirmation

Once a year, we reiterate the Kao Guidelines for Avoiding Conflicts of Interest and the Kao Anti-Bribery Guidelines to the executives and employees, and check the status of notification of applicable matters to the Compliance Committee Secretariat.

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.

### Expenditures to trade associations and political organizations

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, we have confirmed that we have not

made any contributions to political campaigns, political organizations, lobbying activities, trade associations, tax-exempt organizations or other groups that play a role in influencing political campaigns or public policy or legislation.

### Expenditures to trade associations and political organizations

Unit: million yen

	2020	2021	2022
Trade associations	498	485	436
Lobbying activities	0	0	0
Political contributions	0	0	0
Total	498	485	436

### Expenditures to major trade associations

Unit: million yen

	Expenditures
Japan Soap and Detergent Association (JSDA)	39
Der Verband der Chemischen Industrie	28
Personal Care Products Council	25

### Compliance message

To encourage employees to view compliance activities as directly relevant to them, top management sends out compliance messages to promote compliance activities within and outside Japan.

In 2022, the Chairperson of the Compliance Committee's message was "By having the acuity to notice when something is wrong and the courage to speak up, we can protect one another and make the work environment more vibrant and healthier!" With this message, we promoted activities to achieve a vibrant workplace culture by increasing our sensitivity to signs of discomfort in workplaces that are not adapting to changes in society and by raising our voices.

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In addition, the message from the Chairperson of the Compliance Committee was posted on the intranet and on posters, case studies were sent out by each Regional Head and each President & CEO of companies outside Japan, and from 2022, compliance messages and other communications were sent out by the Heads of Functional Divisions in Japan.



## Compliance hotline operational status and 2022 regulatory violations

Kao has established compliance hotlines inside and outside the company, or only outside the company, according to the needs of each country and area (see diagram on p. 163 for details).

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 a proper investigation.

In addition, as noted above, we have clarified the rules for initial reporting of compliance violations and suspected compliance violations and established a framework for receiving reports from individual units at the *Genba* level.

In 2022, we revised the Rules for Operating Compliance Hotlines, which govern the policies and responses of the compliance hotlines to protect whistleblowers and prevent adverse treatment of whistleblowers, and conducted training for those who respond to consultations on points to note when doing so.

In 2022, there were 488 reports made to the hotlines (including group companies outside Japan). Although the number of cases has increased from the previous year, we recognize that this is due to factors such as increased familiarity with the compliance hotline and increased employee awareness. The breakdown of the content of the reports was as follows: approximately 30% related to harassment such as power harassment; approximately 40% related to communication problems in the workplace and working conditions; and approximately 20% related to violations of laws and ordinances. Together, these three categories accounted for approximately 90% of the reports. Violations of laws and regulations include many that are discovered during internal control inspections.

No particular trends were observed in the organizations, worksites or occupations to which callers belonged.

Under walking the right path in the Kirei Lifestyle Plan (KLP) announced in April 2019, we set an indicator of zero serious compliance violations.

These serious compliance violations refer to compliance violations that have a significant impact on management and significantly damage corporate value. Based on the egregiousness of the violations (materiality / significance of the violations of laws and ordinances, intentionality, continuity and organizational nature of the violations) and the impact of the violations both internally and externally, we will seek opinions at the Compliance Committee Secretariat Meeting, Compliance Committee and Audit & Supervisory Board Members Hearings, make decisions based on deliberations at the Management Board, and report the results to the Executive Officers Committee and the Board of Directors.

For the judgement, all cases reported by the compliance hotlines and management lines are reviewed at a weekly meeting to identify issues that should be recognized as concerns for the Company. Based on the discussions at the weekly meeting, at the monthly Compliance Committee Secretariat meeting the Committee identifies matters that may recur or become widespread throughout the Company as requiring particular attention, while obtaining third-party assessments and recommendations from outside attorney-at-law who attends the meeting as an advisor. We also identify potential serious compliance violations among violations of laws and ordinances. The department where an incident occurred will investigate its cause and background, as well as measures to prevent recurrence, and present a summary report at the Compliance Committee meeting. After a process of receiving evaluations and recommendations from each committee member with respect to the report, a final verdict is made on compliance violations that have a significant impact on management and significantly damage corporate value. There were 488 compliance

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reports and consultations in 2022. Of these, 264 were investigated due to material concerns relating to noncompliance, while 212 cases were subject to some form of corrective action or recurrence prevention, including review of business processes, organizational awareness-raising, and verbal warnings to the individual involved. These matters were discussed and reviewed at meetings of the Compliance Committee Secretariat, the Compliance Committee, and the Management Board and no serious compliance violations as outlined above were found.

In addition, there were six cases of power, sexual, and other forms of harassment by individual employees, one case of conflict of interest (side job during ordinary business hours), and a total of 15 cases within and outside Japan in which employees were dismissed or took advisory retirement due to misconduct such as embezzlement, theft or violence in business, smoking or drinking during working hours, and fraud relating to salary payment.

Compliance violations are divided into three categories: (1) those that need to be addressed as organizational issues; (2) those that require improvement of individual awareness; and (3) those that are discovered during the PDCA (Plan, Do, Check, and Act) cycle of control activities. The Company strives to prevent recurrence by reviewing the adequacy of remediation efforts at meetings of the Compliance Committee Secretariat meeting or the Compliance Committee.

## Seventeen consecutive years on the World's Most Ethical Companies® 2023 list

In March 2023, Kao was recognized as one of the World's Most Ethical Companies® 2023 by the U.S.-based think tank, the Ethisphere Institute. We have

been selected for 17 consecutive years since the award's inception in 2007. We are the only Japanese company, and the only consumer goods and chemicals manufacturer in the world, to have been selected for 17 consecutive years.

This award is based on the following five axes: (1) efforts in corporate ethics and legal compliance; (2) responsible activities as a corporate citizen; (3) ethical corporate culture; (4) corporate governance; and (5) leadership, innovation, and reputation in the community.

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



## Sharing our insights on compliance with outside groups

To help develop future corporate legal talent, the Head of Legal volunteers his time to lecture at universities and graduate schools on corporate legal affairs and corporate governance. In 2022, lectures on general corporate law were given to law students at two universities (in June and September) and lectures on corporate law and compliance were given to graduate

schools in September and on corporate governance in November.

We also wrote and published the book "The Why and How of Corporate Legal Affairs" in March. Topics such as compliance and sustainability have also been covered, in an effort to convey the excitement of work from a legal perspective not only to those in the legal profession, but also to a wide range of working adults. In conjunction with the book, we also did an online presentation in July to an audience of approximately 1,000 people on the mindset and skills necessary to be a law department leader in management.

# Effective Corporate Governance

## Stakeholder engagement

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### Building trust with the Compliance Committee and others

A secretariat was established as a subordinate organization of the Compliance Committee, and

#### **Kao's response to the views expressed last year**

In addition to preventive awareness-raising activities, at the Compliance Committee Secretariat monthly meeting, trends and awareness of concerns based on calls to the compliance hotlines are shared to see if there are signs of "illegal activities that must be happening," and cases that may recur or spread throughout the Company as those that require particular attention are identified. We view these cases as the seeds of compliance violations in the Company, and we continue activities to prevent serious violations from occurring. Divisions where violations have actually occurred are asked to consider the causes of the violations and measures to prevent recurrence, including a review of their operations, and to submit a summary report to the Compliance Committee to promote an understanding that the problem is their own. The committee's multi-faceted assessments and recommendations are then used as the basis for improvement activities in the *Genba*.

secretariat meetings are held once a month, with supervising members from the Compliance Department and other divisions. In FY2022, as in FY2021, I participated in the Secretariat meetings as an advisor and contributed the stakeholder engagement section to the Sustainability Report published last year.

In last year's article on stakeholder engagement, I pointed out that, in general, if there are causes that compel compliance violations to occur, then these causes must be eliminated to prevent recurrence, and the Compliance Committee (Secretariat) must discover and dig deeper into the underlying causes (true causes) that lie behind cases of compliance violations.

For FY2022, we have divided alleged compliance violations into three categories: (1) those that should be addressed as organizational issues; (2) those that require improvement of individual awareness; and (3) those that are discovered during the PDCA (Plan, Do, Check, and Act) cycle of control activities. Of these, (1) those that should be addressed as organizational issues often have their root causes hidden within the division concerned, making it particularly important for that division to take the initiative in addressing them. Therefore, the Compliance Committee (Secretariat) requires the relevant divisions to analyze the causes and background of an incident and, based on such analysis, to formulate measures to prevent recurrence. This requires them to recognize that this is an issue that must be proactively addressed by their own divisions. The causes and background of an

incident analyzed by the relevant division and the preventive measures formulated are then critically reviewed by the Compliance Committee (Secretariat) in order to verify from an objective point of view the causes and background analyzed by the relevant division and to ensure that the preventive measures are indeed effective.

However, it is difficult to deal with matters where the Compliance Committee (Secretariat) is not aware of the problem, even if there is an organizational problem. Organizational problems are often latent in the way work is done in each division, which is individually optimized and familiar to each employee, and there is a high bar to clear even if employees are expected to report such issues. In 2022, a compliance message from top management entitled "The power to recognize when something is not right and the courage to speak up—Protect our colleagues and change our workplaces" was displayed on posters. These posters were put up at every workplace to encourage employees to improve their workplaces by "speaking up" through reporting and other means. Keep in mind that employees will only speak up if they trust the Compliance Committee (Secretariat). We expect to gain even more trust in the Compliance Committee (Secretariat) through continued confidence-building activities.