

# Third-Party Comment

Web page <http://www.cosmo-oil.co.jp/eng/sustainable/06/comment.html>

## Upon reading the Cosmo Oil Group Sustainability Report 2006



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The fact that Cosmo identified some violations of laws and regulations after the accident occurred at the Chiba refinery shows the presence of sound ethics and governance in the company. To take preventive action, Cosmo focuses on thorough "Compliance and Awareness Improvement." I absolutely agree with their conclusions and their clear goals. However, I believe it is still a very important issue to describe how to concretely realize such goals and to integrate them into the construction of "Fair and Better Working Environment."

It is generally said that compliance is apt to be vertical governance. It also has the risk of increasing morale hazard\* because it can create an illusion among workers that safety could be guaranteed just by following laws and rules rigorously. In the Sustainability Report 2005, I wrote, "The only thing that can truly control the huge science and technology including that for oil or IT is the sense of reverent awe for something greater than human intelligence." This means that to achieve the awareness improvement mentioned above, Cosmo must let virtues such as the "sense of reverent awe" and "modesty" take root in the employees and corporate culture, which, as a result, increases the corporate value as human and organizational capital.

Since 2005, Cosmo have reformed and reinforced their governance system. Corporate ethics, CSR (Corporate Social Responsibility), internal control, and internal audits separately enhance the governance but cannot be distinguished from the corporate value point of view. Cosmo, of course, must not only conform to the new company act and financial products exchange act which are enacted recently, but must also get rid of duplicated functions except those clearly requiring double-checks, in order to refine the governance (or management) comprehensively. The explanation of the governance in the

report does not show any bottom-up communications, so I propose that they be made visible. The consolidated mid-term environment plan seems to be going well, but I regret that there was no information provided regarding approaches to renewable energy. I would like Cosmo to make a challenge to the quantitative goals of technology development and new renewable energy resources.

From a brief description of Cosmo's approach to sociality, I feel that it is substantial. It is wonderful for Cosmo to be incorporated into the SRI universe, but I will add that such position cannot be maintained without continuous performance improvement and disclosure.

My overall impression of the report is that Cosmo has drastically reviewed various activities. However, stakeholder engagement is becoming a global trend. I believe that Cosmo must first grasp expectations from stakeholders through a variety of engagements and realize such expectations by the main business, which is really the foundation of CSR—Corporate Social Responsibility. For this purpose, the virtues and culture mentioned before are important.

The report includes many cross-references to their website, which is a significant improvement about which I feel very good. However, the website is not yet completed, so I would like Cosmo to upgrade it as soon as possible. It is agreeable that the data section, which was accompanied until last year's report, has been transferred on the website. I expect that the transferred data on the website will become easier to read with more information added.

Finally, Cosmo seems to be making efforts to present information numerically—making data visible. Still, I hope that Cosmo enhances the disclosure of more numerical data including the penetration of compliance, the degree of which is being measured.

\* Morale hazard differs from moral hazard.