

Stance on Compliance Expert Panel Discussion

<http://www.cosmo-oil.co.jp/eng/sustainable/07/sp/meeting.html>

Toward Making Compliance Rewarding

Cosmo Oil has reflected on the 2006 refinery accident and series of legal violations and is undertaking company-wide efforts to prevent any recurrences. We welcome the participants in this panel discussion—experts with a profound knowledge of compliance, CSR management, and corporate communications—for their opinions on specific measures to make our compliance activities more effective.

Initiatives in Response to the Accident and Legal Violations

Tanaka: Today we will focus mainly on the Cosmo Oil Group's compliance, talking with two experts as well as with Cosmo Oil Managing Director Naomasa Kondo.

Prior to this discussion, Managing Director Kondo briefly explained the background of the refinery accident as well as the series of legal violations. He also updated us on efforts to prevent recurrences, namely, the rebuilding of the safety control system, strengthening of adherence to corporate ethics, and strengthening of checking and monitoring functions at production sites. Starting with our two experts, what were your impressions of the accident and series of legal violations?

Mizuo: I believe there were two contributing factors. First, ensuring stable supplies took priority over safety. The second factor was the rationale that the area of operations involved was a highly specialized niche field and thus nobody would understand what was taking place. I suspect that compliance lacked genuine substance and had not truly

taken root in the minds of the people involved. You might say this situation was tantamount to plowing a field but forgetting to sow the seeds.

Gohara: Having reflected deeply on last year's events, I'm sure every measure possible has been employed. Among all these measures, however, what were the really critical points? Compliance cannot be sustained unless you think about it intently.

Tanaka: Regarding the awareness of compliance by each individual, isn't it likely that the larger an organization, the more difficult it becomes to make people aware that compliance is a matter of personal responsibility?

Mizuo: In the case of Cosmo Oil, the ethics of engineers are especially important. In this regard, I want to stress two points. The first is commitment from the top. Basically, top management should make a commitment to all employees to work with integrity. The second is action from the bottom up—how are workers in the field involved? I believe that only when these two points converge will a culture of safety and compliance initially be realized.

Panel members (photo, from left)

Junichi Mizuo

Specially Appointed Professor,
Graduate School of Tokyo Institute of Technology
Faculty of Economics, Surugadai University
Professor, Surugadai University Graduate School
Head of the Institute of Economics, Surugadai University
While employed at Shiseido, Co., Ltd., Professor Mizuo participated in the creation of a corporate ethics committee, the first such committee to be established by a Japanese company. At Surugadai University, he subsequently formulated so-called "marketing ethics," a blend of theories and practices in marketing and business ethics. Professor Mizuo currently conducts CSR-focused research.

Nobuo Gohara

Professor, Toin University of Yokohama Law School
Director, Compliance Research Center,
Toin University of Yokohama
Professor Gohara has been in his present position since 2005 after serving in the Tokyo Special Investigations Department of the Tokyo District Public Prosecutors Office and as a Deputy Chief Prosecutor of the Nagasaki District Public Prosecutors Office. He has authored *The Power to Adapt to Society's Demands*, which proposes ways of achieving compliance.

Risa Tanaka

Editor-in-Chief, *Senden Kaigi* magazine
After working in an advertising company, Risa Tanaka entered Senden Kaigi Co., Ltd. in 1993. Ms. Tanaka was appointed to the current post of Editor-in-Chief in 1996. Since 2003, Ms. Tanaka has concurrently served as Editor-in-Chief of *Kankyo Kaigi* and *Ningen Kaigi* magazines. An expert in advertising and publicity strategy and marketing trend analysis, Ms. Tanaka is a member of government and administration committees on publicity evaluation, serves as an advisor, and is active as a judge for a range of advertising award competitions.

Naomasa Kondo

Managing Director, Cosmo Oil Co., Ltd.



Gohara: As for the commitment of top management, it is imperative to clarify their reasoning on where to attain a balance between stable supplies versus safety.

Kondo: The current reasoning of top management regarding this matter is that no arbitrary decisions will be made when it comes to safety. The relevant supervisory authority must be contacted no matter how small the issue. When maintenance or repairs are required, operations will be halted and maintenance or repairs will be performed properly. This rationale has been scrupulously established and communicated throughout the Company.

Supervisory authorities do offer some flexibility regarding the application of laws in cases where the common good is concerned. This has led to the creation of a relationship whereby we proactively make the necessary confirmations with authorities while striving to assure safety.

Gohara: A crucial approach is to objectify safety not only through our own decisions but also through collaboration with authorities as well.

Internal Communication Crucial for Creating Employee Awareness

Tanaka: Managing Director Kondo will now convey specific initiatives being undertaken in fiscal 2007.

Kondo: With a view toward the accident and legal violations of the previous fiscal year, I believe we are continuing to make progress in establishing a framework for the prevention of any recurrences. We are very much aware of the necessity to put our heart and spirit into these efforts in fiscal 2007. We must ask ourselves such questions as whether we are putting off compliance and instead setting our sights on immediate profits, whether our common sense has diverged from that of society, and how can we properly assure open communication. It is imperative that we share problems and forge excellent relationships with our partners, including the construction and maintenance companies operating within our refineries, the dealers in our sales operations, and government authorities. I would like to focus mainly on these issues in fiscal 2007.



Tanaka: I believe that communication within the Company will become increasingly vital to putting one's heart and soul into these efforts. In reality, however, it is common for companies to have various gaps when it comes to internal communications.

Mizuo: Socrates stated: "Communication first begins with dialogue with oneself. Communication starts from introspection of oneself." If you are unable to have such self-communication, there is no way you can convey your thoughts to another person. I believe this is the source of communication in terms of managing subordinates as well.

Kondo: If on-site supervisory personnel who convey policies are unable to clearly explain policies themselves, the listener will not understand the policies and will have a sense of being pushed. To prevent such a situation, promoting a constant awareness through dialogue is vital.

Gohara: In the past, an ideal supervisor was considered to be someone who never commented on subordinates' actions and then firmly shouldered responsibility for these actions. However, in reality, it is impossible to take responsibility when allowing someone to act as they please. Such a stance may have been acceptable in times of relatively gradual change. However, in the current age of drastic societal and environmental changes, decisive leadership has become essential.

A tremendous sense of unity is realized when a supervisor directly visits the front lines to instruct subordinates on what needs to be done. It is extremely important that people believe they are recognized by their superiors who can see the good job they are doing.

Mizuo: Organizations with so-called old-style management—characterized by shouting, evading responsibilities, provoking others, looking the other way, failing to provide instruction, and being apathetic—will not be capable of achieving open communication. Today, it is essential to practice "servant leadership," in other words, management that supports the growth of subordinates. In Japan, when a problem arises cultural taboos may hinder open discussion of the issue. I believe such an obstruction within Japanese organizations is the most significant factor behind communication problems.

Gohara: Concerning this problem, the fact that Cosmo Oil's helpline functioned as intended is an extremely rare case. Conversely, you might also say that there is room for further reflection because the helpline was the only way this issue could be communicated.

Tanaka: I would like to ask Managing Director Kondo if he personally has sensed any change in awareness within the Company as a result of initiatives taken following the accident.

Kondo: Yes. Following the accident and the legal violations, questionnaire surveys and other methods show extremely high figures

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in terms of awareness of compliance and assurance of safety compared with in the past. However, communication still tends to be one-way, so I feel there is still much work to be done.

Tanaka: Beyond that, are there any recommendations for further improving the approaches currently being taken?

Mizuo: At Shiseido, in 1997 I established the first corporate ethics committee among all Japanese companies. However, bringing



together a group of 20,000 employees nationwide would have been an impossible task for me alone. Therefore, I enlisted a total of 411 male and female co-workers ranging from young employees to experienced personnel as so-called "Code Leaders" in order to promote the establishment and permeation

of "The Shiseido Code" at each work site. By way of such grassroots efforts, we strived to achieve a self-reinforcing consciousness of compliance. At Cosmo Oil as well, in addition to the vertical lines between the Refinery Compliance Committee and respective departmental personnel in charge of promoting compliance, I would very much like to see Cosmo Oil consider methods that enable the functioning of horizontal and diagonal lines as well.

Gohara: It goes without saying that obeying laws and regulations is of paramount importance. However, to further raise the level of compliance across the organization, instead of merely directly adhering to current laws and regulations, these laws and regulations should be internalized. When necessary, reviews that also encompass internal regulations should be carried out and responses made to new demands taking into consideration actual on-site conditions. I believe that this represents the next stage of compliance.

CSR and Brand Communication

Tanaka: I have received suggestions on how to take CSR to the next stage. However, in listening to the variety of opinions from the general public, it is apparent that people are especially conscious of whether

a company's CSR befits its corporate image. The sense of consistency between what is communicated and what the company does is now being questioned.

Gohara: To undertake CSR with unity as a company, collaboration is essential not only within a company but also with companies that can be considered quasi-internal entities, such as affiliates in the same corporate group and dealerships. For example, at the front lines, such as affiliated service stations, they directly face a host of problems that arise from societal changes. For this reason, it is important to ascertain and solve these issues in a practical and down-to-earth manner.

Tanaka: There is a tendency for CSR and communication to be pursued under idealistic theories that presume everything will proceed smoothly. On the other hand, what points that are prone to failure with regards to compliance or CSR management should we be looking out for?

Gohara: I believe that compliance should not necessarily be equated with adherence to the law. Rather, in a broader sense, compliance should be thought of as something that responds to the demands of society. The basic direction of compliance is no different than CSR.



However, the difference between compliance and CSR is methodology. CSR traditionally practiced up to now by a large number of Japanese companies was meant to appeal to their good side—often much like advertising in order to demonstrate their positive initiatives. However, this CSR

approach lacked a methodology that tangibly shows what as well as how issues were to be solved. In this respect, I am referring to tangible "full-set compliance" broken down into five elements for solving specific problems one by one. This approach goes beyond fulfilling just legal obligations and extends to finding solutions to social problems as well. Steady efforts in this area are what I believe will bring about genuine CSR.

Mizuo: Some management representatives may say that their companies are not yet up to the level where they can undertake CSR. However, they have clearly mistaken social contributions for CSR.

Tanaka: What you're saying is that it is important that a company prioritize the tasks that should be undertaken and solve one issue at a time.

Gohara: An actual crisis is a situation where CSR is demanded in a true sense. Such a crisis situation is precisely when a company's methods of functioning and its responsibility to society become apparent as problems. These problems can never be remedied by only considering legal responsibilities. In this type of situation, relationships with the media are also likely to be adversarial. However, if a company considers the nature of the media and the conscious way in which they act, then common ground can be found that will enable the establishment of collaborative relationships with the media.

It is important not only to simply convey information but also to fulfill responsibilities for providing explanations. Companies must regard transparency and responsibilities for providing explanations as going hand in hand.

Tanaka: Certainly, crisis situations are a time for showing one's true character. I have a sense that it would also be beneficial to focus on the challenges of further CSR communication. In that Cosmo Oil is concentrating on brand communication as well, I would like to ask your impressions of CSR from a brand perspective.

Mizuo: I believe that in the future publicizing CSR efforts will account for a large proportion of corporate advertising. I am talking about the concept of a "visionary brand." It will be important to establish a structure whereby CSR is first firmly established as a base, on top of which are the dreams, aspirations, and visionary concepts conveyed to consumers, employees, and society.

Tanaka: Because I work in the advertising industry, I am especially pleased to see that corporate efforts to appeal to society through



advertising and promotions lead to the upholding of ideals and making good on one's promises. Company employees and affiliated personnel can also become key persons for public relations and promotions. Thus, I think that it is exceedingly important that these personnel share the same perspectives in disseminating information outside the company.

Compliance Directed toward the Realization of "Filling Up Your Hearts, Too"

Tanaka: I believe Cosmo Oil's unwavering commitment in terms of the "environment," "people," and "integrity" represents a significant achievement to date. With a solid foundation steadily being put into place, can you now tell us about the expectations of Cosmo Oil as a progressive company in CSR and as a leading company?

Gohara: I think that a perfect score of 100 points for compliance is probably not possible. Because Cosmo Oil caused an accident, there is a tendency to say they should do this or do that. However, in attempting to take such steps and implement compliance thoroughly from the top down, adverse side effects will undoubtedly appear. It will thus be necessary to maintain compliance at the most appropriate level while keeping a close watch out for any adverse side effects.

Mizuo: The sustainable development of a company goes hand in hand with the development of employees. With this in mind, ensuring employee satisfaction is a crucial task. It will also be important to promote employee satisfaction to raise levels of customer satisfaction.

Tanaka: Speaking of employee satisfaction, I believe Cosmo Oil has commenced a campaign focusing on service station workers.

Kondo: That's correct. "Filling Up Your Hearts, Too" is our slogan that refers to CSR and compliance initiatives being implemented on the front line of sales, as mentioned earlier by Professor Gohara. We have recently begun to implement initiatives at Cosmo Oil service stations that encompass the ways customers are greeted and the other responses that should be taken to ensure customer satisfaction.

Gohara: That's really terrific!

Mizuo: In promoting CSR on a Group and organizational basis, it is essential for everybody, including affiliated partners, to work toward the same objectives. In this sense, I think Cosmo Oil's approach is truly outstanding.

Kondo: Today, we have had an extremely meaningful discussion. In the future as well, by continuing to promote the spread of CSR and compliance to each Company employee, we hope to be a company that realizes the slogan "Filling Up Your Hearts, Too" for our stakeholders. We ask for your continued guidance. Thank you.

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