

## Third-Party Opinion



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In May 2019, the NGK Group, whose business plays an important role in supporting Japanese industry, will mark the 100th anniversary of its founding. I admire the fact that it has been able to consistently fulfill society's expectations for stable production, all while continuing to grow over so many years. I specialize in CSR research, which looks at the various management systems that underlie corporate sustainability, and it is from that perspective that I read the NGK Report 2018. Based on this, I would like to discuss the CSR operational strengths and challenges of the NGK Group.

The first area to consider is corporate governance. Although NGK has an Audit & Supervisory Board, it also has a Nomination and Compensation Advisory Committee that has a majority membership comprised of outside directors and where executive personnel and individual compensation matters are discussed outside of the Board of Directors. Also, directors and Audit & Supervisory Board members are given a survey, which is used in evaluating the effectiveness of the Board of Directors. These factors ensure free and open discussion takes place among the Board of Directors. In addition to all of this, hearings are convened by Audit & Supervisory Board members and outside directors in order to glean information from relevant people within the company, a hotline has been established to receive information about unethical or illegal behavior involving company executives, and a Business Ethics Committee is in place to oversee its operation. All of this and more contributes to outstanding corporate governance, which is more robust than any other leading company.

The second area to look at is compliance and risk management systems. The NGK Group is truly a global enterprise, with an overseas sales ratio of 72.6%, and as such, faces major risks from various competition and anti-corruption laws and regulations, which are applied extraterritorially and which stipulate large fines and punishments. The NGK Group thus operates a PDCA cycle that involves the Compliance Subcommittee underneath its CSR Committee drawing up various rules and regulations based on the NGK Group Guidelines for Corporate Behavior, and these are then taught to employees, monitored, and revised as needed. Also, with regard to major risks, the Group as a whole has formulated business continuity planning (BCP) and conducts regular operational training. The compliance and risk management systems in place are very thorough, and I feel that the incorporation of a PDCA cycle keeps these systems within a positive feedback loop.

The third area to look at is communication with employees. When employees are kept aware of important issues and a healthy and transparent corporate culture is fostered, I believe companies can handle any risks which might arise. The NGK Group carries out an extremely diverse range of employee training, with compliance training being particularly emphasized. In addition, the Group undertakes serious efforts to foster a healthy and transparent corporate culture through such initiatives as CSR Talk Live, where top management and employees are able to engage in direct dialogue with one another.

The fourth area to consider is social contribution activities. Here, special attention needs to be given to the NGK International House and scholarship fund which, for many years, have helped enable students from around the world to come and study in Japan. This demonstrates strong human concern and generates significant goodwill.

The NGK Group does have challenging areas, however, where more work is needed, as is made evident by an incident in January 2018, which involved a delivery test discrepancy. I would like to see NGK use this as an opportunity to improve its management systems and structures even further. While this of course will involve quality-related challenges, there are other areas where further improvements should be expected, including compliance with overseas laws and regulations like the EU's GDPR (General Data Protection Regulation) that will need to be addressed as the NGK Group expands further overseas, and response preparations for massive compound disasters that will accompany projected megathrust Tokai earthquakes and Nankai Trough earthquakes. If it maintains steady improvement of its compliance and risk management systems, I believe this will help the NGK Group continue its growth for the next 100 years.