

Dentsu Group Inc.
Special Committee

**Report on Inappropriate Coordination, etc., on Tokyo 2020
Olympic and Paralympic Games¹**

June 9, 2023

Investigation and Review Committee

¹ This document shall be originally prepared in the Japanese language and the Japanese language version shall be deemed the original copy. This English version is for the purposes of reference only. If there are any discrepancies between the original copy of the Japanese language version and the English version, the Japanese language version shall prevail.

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I. Overview of Investigation and Review

1 Background to the establishment of the Investigation and Review Committee

On February 28, 2023, Dentsu Group Inc.² (“**Dentsu Group**”) was accused by the Japan Fair Trade Commission for alleged conduct of bid-rigging in violation of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (the “**Anti-Monopoly Act**”) by one employee of its domestic subsidiary (who belonged to DENTSU INC. in 2018 when the incident occurred) and Dentsu Group as a corporation, in relation to the business of implementation and management of the test events and games at the Tokyo 2020 Olympic and Paralympic Games (“**Tokyo 2020**”), and was prosecuted by a prosecutor of the Tokyo District Public Prosecutors Office on charges of conducting unreasonable restraint of trade under the Anti-Monopoly Act. Dentsu Group takes this situation very seriously and established the Investigation and Review Committee (the “**Committee**”) by Outside Experts on the issues related to Tokyo2020 (the “**Issues**”) under the “**Special Committee**” composed of three independent outside directors to investigate the root cause and receive recommendations for the future such as preventive measures (preventive measures and other proposals for improvement recommended by the Committee are hereinafter referred to as the “**Preventive Measures**”)

2 Purpose of the Committee and items subject to Investigation and Review

The purpose of the Committee is to provide Dentsu Group with inputs from an objective and professional standpoint, in light of the Issues, for Dentsu Group to make decisions to properly develop and implement preventive measures for the future. Taking into consideration this purpose, the following three items were specified as the scope of investigation and review conducted by the Committee based on the commission from the Special Committee (the “**Investigation and Review**”).

- Investigation of the facts concerning the Issues and related matters;
- Analyzing the root cause of the Issues and related matters; and
- Recommendations on the Preventive Measures.

² On January 1, 2020, any and all the businesses conducted by DENTSU, INC until December 31, 2019 (except for businesses related to control or management of the business activities of companies in which DENTSU, INC. held the shares, and businesses related to management of the group) were transferred to Dentsu Successor Preparatory Corporation Inc. (established as of February 12, 2019) through a company split. At the same time, DENTSU, INC. , until December 31, 2019 changed its trade name to Dentsu Group, and the above stated successor company, changed its trade name to DENTSU, INC. and thereby Dentsu Group became a pure holding company of DENTSU, INC. In this report, in principle, DENTSU, INC. until December 31, 2019 and DENTSU, INC. from January 1, 2020 are referred to as “**Dentsu**” without distinction. However, in some contexts, the former may be referred to as “**Old Dentsu**” for the purpose of particularly distinguishing the former from the latter.

The purpose of the Committee is as stated above, and consideration of criminal/civil liability of relevant individuals and consideration of existence/non-existence or extent of obligations for payment of surcharge under the Anti-Monopoly Act is not included therein. In particular, whether or not the Issues constitute a criminal offense should be determined through fair proceedings and judgments in the pending criminal proceedings. Accordingly, the scope of the Committee's Investigation and Review is limited to matters considered necessary or helpful in investigating the cause and considering recommendations on the Preventive Measures in relation to the Issues.

3 Structure of the Committee

In order to ensure the objectivity and expertise of the Investigation and Review, the Committee is composed of the following.

Chairman	Masayuki Ikegami	Attorney-at-law (Sawayaka Law Office; former Superintending Prosecutor of The Osaka High Public Prosecutors Office, former Justice of The Supreme Court)
Member	Kenji Kawai	Attorney-at-law (Tokyo Liberte Attorneys At Law; former President of The Sendai High Court)
Member	Toshihiko Itami	Attorney-at-law (Nagashima Ohno & Tsunematsu; former Head of the Osaka High Public Prosecutors Office)

The following attorneys-at-law assisted the Committee in the Investigation and Review.

Assistant	Takashi Yano	Attorney-at-law (Takashi Yano Law Office; former prosecutor of the Osaka District Public Prosecutors Office)
Assistant	Miya Miyama	Attorney-at-law (City-Yuwa Partners; former prosecutor of the Tokyo District Public Prosecutors Office)
Assistant	Daisuke Fukamizu Taichi Wakiya Yuma Yada Shunsuke Hanya Koichi Ishimoto Misaki Sumida Naoki Miura	Attorneys-at-law (Nagashima Ohno & Tsunematsu)

	Koki Yamamoto	
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4 Period for the Investigation and Review

The period for the Investigation and Review by the Committee is from February 28, 2023, to June 9, 2023. The Committee held in total 10 committee meetings during this period. All of the Committee members and all or a part of the assistants were present at those committee meetings, and no relevant individuals from Dentsu Group were present.

5 Method of the Investigation and Review

(1) Collection and review of materials

In the Investigation and Review, the Committee collected a wide range of materials it deemed necessary and reviewed their contents. The materials collected and analyzed by the Committee include various materials, which are considered to assist the Committee in their analysis of the Issues, such as (i) internal materials of the Dentsu Group and its affiliates (the “**Dentsu Group, etc.**”), (ii) the data published on the structure and activities of the Dentsu Group, etc. and the Bureau of Olympic and Paralympic Games Tokyo 2020 Preparation (later changed to a public interest incorporated foundation due to reorganization; hereinafter referred to as the “**Organizing Committee**”) and (iii) the guidelines³ prepared and published by the Criminal Division and the Antitrust Division of the U.S. Department of Justice from the perspective of clarifying the focus on evaluation efforts on corporate compliance in investigations of corporate crimes, and various materials, etc.⁴ prepared and published by the Japan Sports Agency from the perspective of examining the governance system, etc. of Organizing Committees, etc. of large-scale international or domestic competitions.

(2) Data forensic investigation

Based on the materials that were collected and reviewed initially in the Investigation and Review, the Committee selected 8 related persons from the Dentsu Group, etc. as subjects of the data forensic investigation, and reviewed some of the data extracted from the business clouds

³ For example, see the following website for the “Evaluation of Corporate Compliance Programs” (revised in March 2023; hereinafter referred to as the “**Compliance Guidelines**”).
<https://www.justice.gov/criminal-fraud/page/file/937501/download>

⁴ For example, see the following website for the “Guidelines on the Governance System of Organizing Committees, etc. of Large-Scale International or Domestic Competitions” formulated in March 2023.
https://www.mext.go.jp/sports/content/20230329-spt_skokusai-000028879_02.pdf

corresponding to such subjects (2,238 documents in total).

(3) Interviews

The Committee held a total of 47 interviews with 39 officers and employees of the Dentsu Group, etc.

(4) Discussions with executive officers, etc.

The Committee held a total of 7 discussions with 7 executive officers, etc. of the Dentsu Group, etc. (including former officers, etc.) in the root cause analysis and examination of the Preventive Measures.

(5) Exchanging opinions with an expert in business administration

In conducting the Investigation and Review, the Committee exchanged opinions with Prof. Akie Iriyama, who is an expert in business administration⁵ (Professor, Graduate School of Business Administration, Waseda University⁶), for a total of 4 times, and the result was reflected in the root cause analysis as well as the recommendation of the Preventive Measures.

6 Nature of the Report and Matters to be Noted

At the request of the Special Committee, the Committee prepared this report (the “**Report**”) for the Dentsu Group to disclose to the public.

The Report contains expressions and descriptions that consider the protection of the privacy of the individuals concerned and the protection of trade secrets of the companies concerned, etc. In addition, in the Report, descriptions of the fact findings conducted by the Committee concerning the Issues are omitted.

Since several parties involved are outside the Dentsu Group, etc. concerning the Issues, in order to sufficiently secure the accuracy of the fact findings, originally, it would be necessary to comprehensively evaluate the relevant evidence, including the evidence outside the Dentsu Group, etc. As mentioned in 5 above, the Committee has conducted fact-finding based on various materials and interviews, however the fact findings conducted by the Committee were, in principle, based only on the evidence obtained through the voluntary cooperation of the Dentsu Group, etc.,

⁵ The main work of Professor Iriyama is “Management Theory of the World Standard.” (December 2019, Diamond Inc.)

⁶ Professor Iriyama is also an outside director of Septeni Holdings Co., Ltd., a subsidiary of Dentsu Group.

and such fact findings are one-sided from the viewpoint of the Dentsu Group, etc. The Issues are under criminal proceedings and the Committee concerned that a publication of such fact-finding may cause unnecessary misunderstandings, consequently, such publication may have an undue influence on the criminal proceedings; accordingly, the Committee considered that such an undesirable situation should be avoided.⁷ For this reason, the Committee reached the decision described above.

II. Relevant facts (a summary of the charged facts)

It was indicted as follows: From around February 2018 to July 2020, Employee A, an assistant director of the Sports Bureau of Dentsu, as part of his work for Dentsu regarding the Tokyo 2020, conspired with six officers and employees of other advertising companies and an employee of the Organizing Committee to agree, considering the requests of each vendor, on which vendors would bid for each of (i) the services agreement for planning the test events, (ii) the services agreement for implementing the test events, and (iii) the services agreement for implementing the Tokyo 2020 games (the agreements in (ii) and (iii) were to be executed with each vendor under the agreement in (i) above); and the vendors for the agreements under (i) through (iii) were allocated in accordance with the agreement reached by Employee A and others.

We understand that the prosecutors indicted Employee A and other individuals, and Dentsu Group and other companies in accordance with the dual criminal liability provisions, on the grounds that the officers and employees of the relevant companies, including Employee A, as part of their companies' work, collaborated in obtaining the agreements in (i) to (iii) above, by mutually restricting and conducting business activities in a manner contrary to the public interest, thus constituting "unreasonable restraint of trade" under the Anti-Monopoly Act by substantially restraining competition in the field of trade related to (i) to (iii) above.

⁷ Article 47 of the Code of Criminal Procedure provides that, in principle, documents relating to lawsuits shall not be made public before the commencement of a trial, and this provision is construed to prevent defamation of the persons concerned in lawsuits or undue influence on lawsuits (Supreme Court, July 18, 1953, Criminal Cases (*Keishu*) Vol.7, No.7, at 1547). In light of this purport, it is appropriate to omit the fact findings concerning the Issues conducted by the Committee.

III Root-cause Analysis of the Issues

1 Essential Problem in the Issues

(1) Organizational culture with an excessive “client first” emphasis

As the main problems in the Issues, there were problems that several employees of Dentsu were involved in an inappropriate coordination alleged as bid-rigging, at the time of the Issues, many employees were seconded from Dentsu to the Organizing Committee, part of whom were involved in the selection of vendors for Tokyo 2020, including the test events and exposed to various information, and despite this, Dentsu has not developed or implemented the systems and procedures required from the perspective of management of conflicts of interests, such as the establishment of information barrier, and Dentsu handled related information very loosely. It is needless to say that all of the problems mentioned above are serious, and that it is necessary to consider preventive measures, including the development of related systems, rules and procedures, the strengthening of educational systems for employees and the disposition of related persons.

Dentsu has built its current position in the advertising industry by becoming close with its clients, identifying their true intentions that even the clients themselves are not aware of, continuing to deliver results that exceed their expectations, and building strong relationships of trust with clients. While this proactive attitude toward work has become a source of Dentsu's competitiveness, it also tends to cause Dentsu to think that the results justify everything, and it may also cause employees to have tunnel vision or become short-sighted at work. At the root of the problem in the Issues, the Committee considers that there have been an organizational stance or organizational culture in which accomplishing results and objectives was so emphasized that there was a lack of consideration for such risks, which may have led to Dentsu having an excessive “client-first” bias.

(2) Inadequate awareness of compliance risks

It can be pointed out that, in conjunction with the problems mentioned in (1) above, those involved in the Issues and management personnel lacked adequate awareness of compliance risks. This is reflected by the fact that issues that occurred in other companies and organizations (the Linear Issue⁸) during the same period or in close proximity to the Issues were not considered as potential issues for Dentsu itself. In addition, even the issues that occurred at Dentsu (the Olympic

⁸ A bid rigging issue involving the construction of the Linear Chuo Shinkansen ordered by JR Tokai. At the time of December 2017, it was widely reported that major general contractors were suspected of adjusting orders in the bidding for construction related to the Linear Chuo Shinkansen and that they were being investigated.

Logo Issue⁹, the Overwork Issue¹⁰, the Digital Advertising Misconduct) were regarded as a local issue and were not linked to an improvement in awareness of compliance in general.

(3) Significant lack of consideration for fairness and transparency of procedures

Likewise, it can be pointed out that, in conjunction with the organizational stance of having an excessive “client-first” bias, Dentsu significantly lacked consideration for the fairness and transparency of procedures. This is evident in the fact that (i) measures to appropriately manage risks from the perspective of conflicts of interest associated with the secondment of Dentsu personnel to the Organizing Committee (such as establishment of information barriers) were not implemented, (ii) the Organizing Committee did not reexamine the changes in risks associated with its becoming more like a public institution over time, and (iii) the changes in risks associated with the change in the selection method of vendors were not reexamined even after the selection of vendors for test event planning services was decided to be conducted through competitive bidding method using the comprehensive evaluation method, instead of the single tendering method originally envisaged.

2 Factors Behind the Development of an Organizational Culture with an Excessive “Client First” Emphasis

The organizational Culture with an excessive “client-first” bias, which was pointed out in 1 above, was by no means attributable solely to individuals’ qualities and personalities; rather, it is a problem that was attributable to patterns of thinking and behavior formed and established within the organization of Dentsu (or the Sports Bureau); in other words, it is the issue of organizational culture¹¹.

⁹ Employees of Dentsu, who had been seconded to the Organizing Committee since August 2014, were determined to have acted improperly in the selection procedures for the emblem selection competition in Tokyo 2020, and in October 2015, these employees resigned. In December of the same year, an investigation report on the said improper acts was published by the Organizing Committee.

¹⁰ In December 2015, a situation occurred in which a young female employee at Dentsu lost her life, and this became a social problem after being recognized as an occupational accident. In November 2016, the “Dentsu Labor Environment Reform Headquarters” was established to ensure thorough compliance with laws and regulations, to improve the working environment, and to eliminate excessive labor. In this case, Dentsu was prosecuted for Labor Standards Act violations and was sentenced to a fine in October 2017.

¹¹ The organizational culture is a set of balanced or established values, way of thinking and behavior in an organization. The organizational culture is balanced or established in a way that external environment surrounding the organization, various systems that constitute the organization and operation of such system, and experiences as an organization such as success or failure, etc. affect members of the organization as signals and these signals are shared or repeated in the organization.

Conceptual Image of Organizational Culture¹²



In order to analyze the root causes of the Issues and to harness the analysis for future improvements, it is necessary to analyze factors that have caused the organizational culture with an excessive “client-first” bias which has been balanced and established within the organization. In doing so, we have focused on what those factors are, and listed and analyzed what we believe to be important factors in creating this organizational culture as follows:

- (1) Characteristics of business: Due to the nature of the advertising business, it is likely to consider meeting client requirements to be a top priority to produce results, and a similar environment exists in the sports area as well**

Due to the nature of the business in the advertising industry, while conducting so-called

¹² This figure was created by the Secretariat of the Committee based on the understanding of the organizational culture in the Report.

“relationship sales¹³,” it is important to build strong relationships of trust with clients by enhancing their expertise and achieving results. In addition, although it has been pointed out that there have been recent changes, it is often said that advertising agencies to win orders from clients in the form of entrustment of the entire projects without substantial engagement of the clients. Similar situations also exist in the sports areas as well. Due to this type of business, many of Dentsu’s employees are strongly aware that “they should do everything they can for their clients, which leads to Dentsu’s profits,” and that “they must do everything.” Such characteristics of business are also considered to be a factor that fostered an organizational culture with an excessive “client-first” bias.

(2) Purpose and corporate philosophy: The management philosophy emphasized the resolution of issues faced by clients

Including the situation around the time of the Issues, Dentsu’s corporate philosophy and its explanations have been emphasizing resolving its clients’ issues; i.e. delivering results. In contrast, there have been insufficient explanations emphasizing that compliance and implementation of appropriate processes are major premises on how to resolve clients’ issues. Such corporate philosophy, etc. are also considered to be a factor that fostered an organizational culture with an excessive “client-first” bias.

(3) Management approach: The faithful approach toward compliance in general has not been sufficiently demonstrated

Although many members of Dentsu’s management appear to have understood the importance of compliance, they have not disseminated such messages so frequently, and they have not sufficiently shown the importance of compliance by taking concrete actions or through the design and operation of various systems in the organization. As a result, the management has not sufficiently demonstrated a faithful approach toward compliance in general. Such attitude of the management is also considered to be a factor that fostered an organizational culture with an excessive “client-first” bias.

(4) Success/failure (i): A sense of pride and mission based on past performance

Up to now, Dentsu has built its current position in the advertising industry by becoming close with its clients, identifying the true intentions that even the clients themselves were not aware of,

¹³ Relationship sales refers to sales methods that emphasize communication with clients and focus on building strong relationships with clients and prospective clients.

continuing to deliver results that exceed their expectations, and building strong relationships of trust with clients. In the field of sports, Dentsu has the experience of managing numerous large-scale domestic and overseas competitions, managing venues, conducting public relations, holding events and conducting operation of sponsorship sales¹⁴. With the backdrop of these successful events, employees of the Sports Bureau appear to have strong pride, and even a type of arrogance that only they possessed the experience and know-how which were necessary for leading events to success. In particular, they had a strong sense of mission for Tokyo 2020 that “they must accomplish it.” These pride, arrogance and sense of mission, which were based on their past achievements, are also considered to be a factor that fostered an organizational culture with an excessive “client-first” bias.

(5) Success/failure (ii): Lessons from the past misconduct not sufficiently learned

At the time of the Issues, Dentsu was under intense scrutiny from the public through the Olympic Logo Issue, the Overwork Issue and the Digital Advertising Misconduct in relation to its attitudes for compliance. Nevertheless, Dentsu failed to learn from these experiences and utilize them for the future. Particularly, with respect to the Olympic Logo Issue, despite it being an issue with which employees seconded from Dentsu were involved, Dentsu did not take any particular preventive measures. With respect to the Overwork Issue and the Digital Advertising Misconduct, although several powerful measures were taken, basically, such measures were designed to address only identified issues. Also, we believe that the management stance was inadequate in learning from the scandals of other companies including other industries and enhancing risk management so that Dentsu would not commit similar misconducts.¹⁵ The situations mentioned above are also considered to be a factor that fostered an organizational culture with an excessive “client-first” bias.

(6) Human resources (i): A closed human resources system that defers to frontline staff and operation of such system

At the time of the Issues, based on the “frontline first” principle, the personnel matters at the frontline were deferred to the “Bureau” of the organization, and personnel transfers beyond the

¹⁴ Such experience includes, for example, the 9th World Aquatics Championships Fukuoka 2001 (2001), the FIFA World Cup Korea Japan 2002 (2002), FIFA Club World Cup (2005 and thereafter), the 11th IAAF World Athletics Championships (2007), Tokyo Marathon (from 2007 to 2010), the 52nd World Table Tennis Championships (Team Tournament) (2014), etc. Furthermore, Dentsu contributed to the solicitation activities of the Nagano Olympic Games (1998) and the Tokyo Olympic Games (2020).

¹⁵ The Compliance Guidelines also point out that “Prosecutors may credit the quality and effectiveness of a risk-based compliance program that devotes appropriate attention and resources to high-risk transactions, even if it fails to prevent an infraction. Prosecutors should therefore consider, as an indicator of risk-tailoring, “revisions to corporate compliance programs in light of lessons learned.”, and that “**Lessons Learned** – Does the company have a process for tracking and incorporating into its periodic risk assessment lessons learned either from the company’s own prior issues or from those of other companies operating in the same industry and/or geographical region?”

Bureau were difficult without the agreement of heads of both the former and the new Bureaus. In addition, the handling of any problem that occurred was basically deferred to the frontline as well. Especially in the field of sports, employees should have felt negatively about transferring the relevant individuals to other Bureaus because there was a need for a high level of expertise, it was extremely important to build personal relationships with related persons (See (1) above), and employees themselves often strongly desire to be in charge of work related to sports. The closed human resources system based on frontline principles is considered to have made it difficult in the frontline to incorporate new perspectives and values, while values and behavioral patterns that were biased have been penetrated. The above-mentioned situations are also considered to be a factor that fostered an organizational culture with an excessive “client-first” bias.

(7) Human resources (ii): An evaluation system biased toward “results”

At the time of the Issues, Dentsu’s personnel evaluations consisted of a “performance evaluation” and an “skill/attitude evaluation,” and 90% of the total points were allocated to the “performance evaluation.” In light of such score allocation, we believe that the criteria for personnel evaluations are also significantly biased toward “results.”¹⁶ Such evaluation criteria that are biased towards “performance” and their application may have led to a business mindset of seeking “results” or “implementation of the client’s purpose” rather than implementing appropriate processes and these are also considered to be a factor that fostered an organizational culture with an excessive “client-first” bias.

(8) Communication/psychological safety (i): Organizational pride in thinking it is special

The “*Oni Jussoku* (10 Strict Working Rules),”¹⁷ which has long been considered as a code of conduct for Dentsu employees, includes the following tenet: “If you are working on a task, don’t give up; even if it kills you, don’t give up until you have completed your goal...” Although this is just a kind of principle to keep in mind, we believe that Dentsu has actually demanded a strong results-oriented attitude. Furthermore, some Dentsu employees have a strong sense of pride, or even excessive pride that they are performing a special job. Such pride, or even excessive pride was also seen in daily communication. Specifically, communication such as “We are special,” “We

¹⁶ According to Dentsu, because an “ability/behavioral evaluation” tends to be subjective, Dentsu gives greater weight to a “performance evaluation,” which can be easily understood objectively. Of course, the fact that greater weight is placed on the performance evaluation is not automatically problematic in and of itself, but we believe that the current weighting overly biased towards performance.

¹⁷ In light of labor issues, Dentsu announced on December 9, 2016, that it would stop including “*Oni Jussoku* (10 Strict Working Principles),” which had been considered as a code of conduct for employees, in its employee handbook from FY2017 (“Dentsu says farewell to ‘*Oni Jussoku*’ with a target of having employees take at least 50% of their paid leave,” Nikkei Shimbun, published on December 9, 2016.)

are responsible for making the event a success,” “We must do everything by ourselves” and “The Olympic Games can only be done by Dentsu,” was seen in business communication. Regarding the work related to the Tokyo 2020, a sense and expression that “only Dentsu could organize.” was often seen, and such self-perception and the communication based thereon may have weakened the practice of their thoughts and actions from the viewpoint of compliance. Such a point is also considered to be a factor that fostered an organizational culture with an excessive “client-first” bias.

(9) Communication/psychological safety (ii): Psychological environment where it is difficult to speak up

There was an individual involved in the Issues who proceeded with the bid-rigging without consulting with Legal and Compliance or utilizing the whistle-blowing system, even though they had compliance concerns regarding the alleged bid-rigging. The possible background to this may be that, there were closed human resources system within the Bureau and homogeneous tendency resulting from such human resource system, and in light of the size of the business handled by the Sports Bureau and the significance of the impact on the business of Dentsu, there was a psychological environment in which it was difficult to raise issues frankly for fear of putting the brakes on the progress of the project, depending on the stage of the project.¹⁸ In this way, the existence of a psychological environment in the Sports Bureau that made it difficult to frankly express opinions that could potentially put the brakes on the project contributed not giving the organization a chance to stop itself and this is also considered to be a factor that fostered an organizational culture with an excessive “client-first” bias.

(10) Organizational positioning: Relative weakness of corporate divisions, including Legal and Compliance

There was a common understanding that Dentsu had continued to grow due to the driving force and energy of the frontline staff and this limited the involvement of Legal and Compliance in the business processes on the frontline.¹⁹ In addition, we believe that the compliance promotion activities by Legal and Compliance were limited. At the time of the Issues, the Legal Division Compliance Management Department was designated as the section in charge of compliance and was supposed to “promote the compliance system.” However, the actual situation was that most of its work was for dealing with specific cases involving disciplinary action, and it did not make

¹⁸ Considering the fact that personnel changes were basically not made across the divisions to the Bureau (see (6) above), it is assumed that there was a psychological environment in which it was difficult to raise this kind of issue, especially with superiors.

¹⁹ See II-B “Autonomy and Resources” in the Compliance Guidance.

sufficient effort to proactively promote compliance, such as discussing the establishment and revision of policies and procedures and the promotion of compliance education. Furthermore, Legal and Compliance may have been chronically understaffed.²⁰ In this way, the fact that the structure and roles of Legal and Compliance were not commensurate with the strength of the business units is also considered to be a factor that fostered an organizational culture with an excessive “client-first” bias.

(11) Policies and procedures (i): Weak risk management systems

As far as we can observe from the status of the management of the compliance risks that emerged with respect to the Issues, specifically the risks of violations of the Anti-Monopoly Act, and the risks associated with conflicts of interest between Dentsu and Organizing Committee for employees seconded to the Organizing Committee (from FY2014 until at the time of the Issues), we believe that the risk management system was weak. For instance, in FY2017, “Violations of the various industry laws (including the Anti-Monopoly Act)” was one of “the most important risks.” However, Dentsu was only aware of the need to comply with the Construction Industry Law and the Worker Dispatching Law. With respect to the Anti-Monopoly Act, there was a lack of internal rules, etc. and no measures, including training we taken until FY 2017. Such weakness of the risk management system is also considered to be a factor that fostered an organizational culture with an excessive “client-first” bias.

(12) Policies and procedures (ii): Lack of adequate policies and operational procedures

The “Dentsu Group Code of Conduct” states that, among other conducts, “We will conduct our business under fair competition in any market. We will avoid any conflicts of interest and take appropriate actions.” However, by the time of the occurrence of the Issues, no specific policies or procedures had been in place to comply with the Anti-Monopoly Act. In addition, even though Dentsu seconded its employees to the Organizing Committee and they had a relationship of placing/receiving a work order, Dentsu had hardly considered establishing policies or procedures concerning communication between the seconded employees and Dentsu from the viewpoint of conflicts of interests (e.g., restrictions on contact and establishment of information barrier, etc.). The lack of adequate specific policies and procedures to secure the Code of Conduct, as mentioned above, is also considered to be a factor that fostered an organizational culture with an excessive

²⁰ The Compliance Guidelines also state “Funding and Resources – Has there been sufficient staffing for compliance personnel to effectively audit, document, analyze, and act on the results of the compliance efforts? Has the company allocated sufficient funds for the same? Have there been times when requests for resources by compliance and control functions have been denied, and if so, on what grounds?”

“client-first” bias.

(13) Training system: Compliance training was not adequately implemented

Against the background that, among other reasons, the weak risk management systems (see (11) above) and the relative weakness of corporate divisions (see (10) above), compliance training related to the Anti-Monopoly Act for employees and seconded employees had not been adequately implemented by the time the Issues occurred. In addition, it is desirable to conduct compliance training on a risk basis²¹, and while we believe that at least providing training related to the Anti-Monopoly Act for employees in the Sports Bureau and employees seconded to the Organizing Committee was sufficiently reasonable from a perspective of risk basis, the necessary compliance training was not implemented. Such a fact is also considered to be a factor that fostered an organizational culture with an excessive “client-first” bias.

(14) Whistleblowing system: The compliance hotline was not fully utilized, and frontline compliance issues were not identified

Dentsu established a whistleblowing system so called “D-EAR” in 2003 and then changed its name to “compliance hotline” in 2014. It has operated it to date by establishing an in-house contact point and external contact point. However, the number of whistleblowing reports is small, and, in terms of the content, there were few reports that raised potential compliance issues related to Dentsu’s business, and the compliance hotline has not been fully utilized as a flag for such issues. Accordingly, it seems that the whistleblowing system may not have functioned effectively, and such fact is also considered to be a factor that fostered an organizational culture with an excessive “client-first” bias.

(15) Monitoring: Weak internal audit function

The resources for Dentsu’s internal audit are insufficient, and, together with the weak risk management system (see (11) above), Dentsu seems to have failed to conduct internal audits on a risk basis in a sufficiently thorough manner. The fact that the monitoring function of internal audits was so weak that functions of checks and balances on the front lines did not work sufficiently is also considered to be a factor that fostered an organizational culture with an excessive “client-first” bias.

²¹ The Compliance Guideline also state: “Risk-Based Training – What training have employees in relevant control functions received? Has the company provided tailored training for high-risk and control employees, including training that addresses risks in the area where the misconduct occurred? Have supervisory employees received different or supplementary training? What analysis has the company undertaken to determine who should be trained and on what subjects?”

(16) Disciplinary system and assigning responsibility: Employees may have understood that they would not be subject to any disciplinary action as long they achieved results

How a company treats officers and employees violating compliance is a strong message to other officers and employees as an indication of the company's approach and stance. For example, the Compliance Guideline points out the importance of appropriately administering disciplinary actions against violators from the perspective of ensuring the effectiveness of a compliance program and fostering a compliance-oriented organizational culture (Culture of Compliance)²². In this respect, related individuals were not subject to any personnel measures including disciplinary actions in the Olympic Logo Issue and it appears that this fact became a message that Dentsu allows such actions and attitudes that are problematic in terms of compliance if they are performed to make a project success. The operation of such disciplinary and personnel systems may also be a factor that fostered an organizational culture with an excessive "client-first" bias.

IV Recommendations on Preventive Measures

1 Introduction

The attitude with an excessive "client first" bias was developed as a result of a situation where several factors and systems have interacted with each other and have been balanced or established over a long period of time, as described in III-2 above, and it is rooted in the organizational culture. Consequently, this problem cannot be resolved by either short-term or symptomatic measures due to so-called path dependence²³. If the improvement is not focused on the issues of values and organizational culture behind the problem, even if certain measures are taken against problems about the Anti-Monopoly Act and conflicts of interests to a certain extent, another compliance issue might arise. In order to remedy such problem rooted in the organizational culture, it is essential that, based on the ideas of a strategic design of the organizational culture with a reasonable amount of time and strong management commitment, comprehensive and continuous reforms should be

²² For instance, it is pointed out that "Accountability – What disciplinary actions did the company take in response to the misconduct and were they timely? Were managers held accountable for misconduct that occurred under their supervision? Did the company consider disciplinary actions for failures in supervision? What is the company's record (*e.g.*, number and types of disciplinary actions) on employee discipline relating to the types of conduct at issue? Has the company ever terminated or otherwise disciplined anyone (reduced or eliminated bonuses, issued a warning letter, etc.) for the type of misconduct at issue? Did the company take any actions to recoup or reduce compensation for responsible employees to the extent practicable and available under applicable law?"

²³ Path dependence means a situation where it is often difficult to make discontinuous changes due to historical background and structure. In other words, once habits and behaviors have been established, it is usually not easy to initiate a major change because such habits and behaviors constrain to some extent the evolution or direction of change based on the process and the environment in which the habits and behaviors were developed. (Akie Iriyama, "World Standard Management Theory" on page 292.)

implemented, not only in respect of intangible elements such as personnel or awareness, but also in respect of tangible elements such as the organizational authority or personnel system. We strongly hope Dentsu's management to, with conscious of its duty to establish an internal control system properly, achieve comprehensive and continuous reforms by taking advantage of the following recommendations with a long-term vision.

2 Reform compliance awareness based on strong management commitment.

(1) Update of Corporate Philosophy and Code of Conduct

The corporate philosophy and the code of conduct directly demonstrate, both internally and externally, the attitude required by the company to achieve its significant values and objectives, and they are collectively referred to as the face of the company. Therefore, it is necessary to consider updates with respect to them as a part of reforms related to compliance awareness based on strong management commitment. Specifically, based on the lessons learned from the Issues, the corporate philosophy and the code of conduct should include words expressing the importance of securing the trust from the stakeholders and community, and not only promotional expressions²⁴. In addition, instead of making a top-down decision on the contents, it is desirable to get officers and employees widely involved (to ensure inclusiveness) in making decisions through a persuasive process.

(2) Redefining concepts such as “client first” and “success”

In addition to updating the corporate philosophy and the code of conduct (see (1) above), such updates should also be reflected in the actual management behaviors and organizational operations, and in doing so, concepts such as “client first” and “success” should be redefined. It is necessary to clarify that, as a lesson learned from the Issues, the true meaning of “success” and “client first” can never be obtained without compliance. Based on such clarification, it is necessary to instill and embody the redefined concept into the organization by repeating the dialogue throughout the entire organization under the leadership of the management.

²⁴ In this regard, from around the end of 2022, Dentsu group seems to have been considering the incorporation of “Integrity (the behavior of acting with honesty and consistency, without compromise, and the observation of high morals, ethical principles and values)” into its corporate philosophy and management philosophy, with such incorporation being led by the Representative Director, President and CEO of Dentsu.

(3) Management’s continuous commitment: Ensuring consistency of words and behaviors

It is imperative for the management, based on its full recognition of the organizational culture with an excessive “client first” bias and the risks associated therewith, to increase the sensitivity to compliance risks, give greater consideration to fairness and transparency in business execution, and simultaneously make efforts, in a sincere manner, to disseminate such attitudes to employees (not only Dentsu Group and Dentsu but also the entire group). The management should always demonstrate that it has the primary responsibility to foster a sound organizational culture, and the management should also formulate strong messages for officers and employees to encourage them to change their mindset, such as having an attitude of emphasizing compliance, with the awareness that Dentsu Group and its affiliates are always seen by society. Since the message that emphasizes compliance is not persuasive unless it is accompanied by specific actions or measures, the management should consider to take the following measures:

- ① position compliance enhancement as one of Dentsu’s most critical issues, strengthen the Legal and Compliance Division’s authority and devote sufficient personnel and physical resources to the foregoing (see 4(1) below);
- ② ensure that members of key projects include the Legal and Compliance Division personnel (see 3(2) below); and
- ③ provide guidance to the management and managerial employee on what points they should proactively confirm when receiving critical business reports and how they should respond to issues raised by employees in a productive way and strengthen training therefor (Strengthen leadership training that focuses on compliance and integrity²⁵) (see 4(3) below).

(4) Ensuring the effectiveness of functions for the supervision of management

Dentsu Group transitioned its governance structure to a company with three committees (nomination, audit and compensation) (“**Three Committees**”) in March 2023. A company with Three Committees, which is an organizational structure designed to separate the supervisory function from the executive function, can be regarded as the corporate governance model in Japan that most emphasizes the functions related to the supervision of management. Thus, this transition can be evaluated as a positive effort to strengthen the functions related to the supervision of management. As a matter of course, it is strongly expected that the Board of Directors and the Three Committees will exercise their monitoring function, including the appropriate operation of the right to appoint and dismiss the representative executive officer, so that strengthening of the

²⁵ Integrity means “honesty,” “sincerity,” and “high-mindedness.” Integrity refers not only to compliance with laws and regulations, but also to the attitude or sense of values that autonomously pursue the practice of high morals and corporate ethics.

functions related to the supervision of management will not be a pie in the sky.

(5) Ensuring the effectiveness and transparency of measures to prevent recurrence (such as monitoring and forums for dialogue with stakeholders and external experts)

The management's long-term commitment is essential to the overall reform of the organizational culture. Therefore, to ensure that the management's long-term commitment is sufficiently secured, it is desirable that the Board of Directors and the Three Committees shall endeavor to ensure the appropriate persons are constantly appointed to the management, including the Representative Executive Officers, and that they substantially exercise their functions related to the supervision of management toward the overall reform of the organizational culture. In addition, the reform of the organizational culture should include the transformation of what is "normal" and such reform should be implemented on a cross-divisional basis. For this reason, given the highly closed and homogeneous nature of the organization, there is a limit to what internal stakeholders alone can realize in such reform of the organizational culture. Accordingly, Dentsu should, with the support from outside experts, comprehensively assess the actual status of the current organizational culture of Dentsu Group and its affiliates, as well as material risks that Dentsu currently faces in various business areas and other factors, in order to realize transparent discussions that are supplemented with specialized knowledge related to governance, management and economics. It will also be necessary to develop a mechanism for monitoring progress and effectiveness.

3 Strengthening risk management system

In light of the type of order-taking practices often found in the advertising industry, taking into consideration the type where the entire work is outsourced to a subcontractor, Dentsu should realize its position, i.e., that there could be a significant risk, as well as a major discretion, and, therefore, should be fully aware of the need to implement risk management on its own initiative. However, as stated in III. 2(11) above, it must be said that Dentsu's risk management at the time of the Issues was weak. In this regard, we believe that, based on the understanding that risk management is a dynamic process, thoroughly reviewing as to whether the specific risk management process is soundly functioning in each process (risk identification; risk assessment; determination of countermeasures according to assessment; reflection of countermeasures in organization and procedures; implementation of countermeasures; monitoring of implementation; effectiveness evaluation; and necessary improvement, etc.) and strengthening overall risk management system are essential issues.

(1) Assessment and strengthening of risk management system based on the holding company structure

After the occurrence of the Issues, the structure of risk management formulated for Dentsu Group, as well as the structure of Dentsu's enterprise-wide risk management, have dramatically changed through the transition to a holding company structure. Therefore, it is essential to continuously verify whether the organizations engaged in risk management and authority of such organizations, and related procedures are clear and effectively function across the entire group, and to strengthen the system and procedures as necessary.

(2) Introduction of a project-based risk management system

Given that Dentsu develops a diverse range of highly specialized businesses, from the perspective of implementing real-time risk management in each project, it is also worth considering introducing a project-based risk management system in addition to enterprise-wide risk management. For example, it is possible to add officers and employees of the Legal and Compliance Division to the member of a project that meets certain criteria to conduct a risk assessment at the initial stage of the project and the time when there is any change in any plan or structure of the project²⁶. In order to ensure the transparency of operation, it is also possible to ensure that, while the project is in progress, the Legal and Compliance Division personnel can constantly check internal and external communications regarding the project so that they can actively give opinions, escalate, or consult outside experts as necessary without waiting for reports or consultations from frontline staff.

(3) Strengthening the monitoring function

In addition to appropriate risk management, it is important to prevent the occurrence of misconduct by periodically monitoring whether operations are implemented in accordance with the relevant risk management, finding the violation status appropriately and making improvements. In the future, it will be necessary to set up priority audit items corresponding to the contents and degree of the relevant risks and conduct audits at an appropriate depth and frequency and in a timely manner on the basis that appropriate risk management takes place. To this end, in addition to improving human resources by increasing the number of employees in charge of internal audits, it

²⁶ In addition, in order to ensure traceability and accountability for risk management, it is desirable that the process and results of risk assessment, etc., are verbalized or documented in some way. As in the Issues, if a project progresses to a certain degree, the impact of the "escalation of commitment" (being dragged by the previous decision-making or policy) may arise, and the control may not be effective. In this regard, it should be noted that risk assessment, at the time of the commencement of the project and the time when there is any material change in the structure, is particularly important.

is worth considering the enhancement of physical resources such as by introducing technology such as process mining tools²⁷ to establish a mechanism for real-time monitoring in order to develop a more effective auditing method. Further, it is also necessary to implement practical approaches such as maintaining and improving an environment where it is easy to make a notification through efforts to promote awareness of the whistleblowing system, enhance the educational and training systems, increase reporting channels, and so on.

(4) Reform of the secondment system and information barriers

In the event of a secondment of an employee, not to mention that the necessity and propriety of the secondment should be examined with the company where the employee is to be seconded, measures should be taken to appropriately manage the handling of the employee to be seconded and risk of conflicts of interest. According to Dentsu, it is working to formulate the “Sports Business Guidelines,” which stipulate basic guidelines, basic principles, and rules for the conduct of “sports businesses” with a high degree of high public exposure/nature, such as international or domestic competitions in which public funds are invested by national or local governments, as a cross-sectional project involving related internal departments. It is strongly desired that these guidelines will be concrete and effective, and implemented appropriately, and whether it is necessary to formulate similar guidelines for businesses other than “sports businesses” will be considered.

(5) Learning lessons from past failures at an organizational level

In order to continuously improve the risk management system, it is vital to learn effectively from past failures experienced by Dentsu itself and other companies. The Issues should be used as an opportunity to thoroughly learn from past failures and lessons learned from them at an organizational level. If Dentsu fails to focus on the issue of the sense of value or organizational culture behind the problem that came to light instead of locally addressing the problem, even it may be able to address issues relating to conflicts of interest and the Anti-Monopoly Act to a certain extent, it may cause another compliance-related incident. The management should clearly declare a farewell to past attitudes and explore the design and operation of processes that actively encourage learning lessons at an organizational level, such as by actively providing a forum for communication to learn from past failures and lessons learned from them at an organizational level.

²⁷ This means a system that extracts logs of business activities, and visualizes, analyses, monitors and otherwise processes them across a company-wide system to present directions for business improvement and take any other related actions.

4 Strengthening Legal and Compliance Functions Based on the Needs of the Times

(1) Strengthening the resources and authority of the Legal and Compliance Division

In order to foster a sound risk culture (an organizational culture that affects the awareness, thinking, and behavior of officers and employees regarding risks) as an organization from hereon, strengthening the legal and compliance functions will be an urgent issue, and it is necessary to secure sufficient human and physical resources that can effectively fulfill that role. To this end, the most pressing issue is not only to secure a sufficient number of personnel but also to train and assign “management and legal human resources” (persons with expertise in management, legal affairs, and compliance) who can engage in discussions that are constructive in terms of quality and can do so on equal footing with the business divisions, which tend to have a stronger voice.

(2) Development of internal rules and operational procedures

In light of the identified Issues, it is necessary to develop (i) internal rules and operational procedures related to the Anti-Monopoly Act, including bidding and contract procedures, and (ii) internal rules and operational procedures according to risks from the viewpoint of conflict of interest management when officers and employees are seconded to outside organizations. Of course, it is not sufficient to simply establish internal rules and operational procedures once, rather, it is necessary to review and revise them constantly and improve them in a timely manner in response to changes in risk conditions (e.g., changes in business activities, business environments, regulatory environments, etc.). In addition, it may be necessary to create an environment in which internal rules and operational procedures can be easily accessed by those to whom they are applicable when they want to refer to them and to devise ways to make the necessary information accessible to those concerned in relation to the risks.

(3) Strengthening education and training systems

It is necessary to strengthen new leadership education that emphasizes compliance and integrity and is conscious of implementing them for management and managers, including through the use of outside experts. In addition, appropriate education should be provided for the purpose of ensuring that officers and employees correctly understand the contents of the matters stipulated in the above-mentioned internal rules and operational procedures and providing useful information such as the concepts underlying such matters and specific situations in which they are applicable. It should be noted that such education should be designed and constructed using a risk-based

approach (to whom such education and training should be provided and the content should also be considered using a risk-based approach, and they may be either uniformly implemented or each position or division may decide the content or whether or not it will implement them). In addition, efforts should be made to evaluate and ensure the effectiveness of the education and training system.

5 Revision of the personnel system with an awareness of incentives

(1) Review and revision of the overall personnel system with an awareness of incentives

After fully recognizing the impact of the personnel system on the organizational culture, the Dentsu Group should examine the systemic and operational issues that the current personnel system faces from various perspectives and link these to ongoing efforts for improvement. From this perspective, it is worth considering establishing a system in which those who have made efforts to conduct business in a fair and transparent process and those who have proactively raised issues or taken actions with the intention of following such process are positively recognized in personnel evaluations as well as provided with benefits, including commendations, even if raising issues or taking actions would slow the progress of a project and sometimes make it difficult.

(2) Consideration of personnel measures against those who are involved in the Issues

In order for the personnel system to provide an incentive for employees to work in a manner that emphasizes compliance and pay sufficient attention to the fairness and transparency of processes, it is inevitable to implement appropriate personnel measures, including disciplinary measures, for those who engage in compliance violations. If this point is left ambiguous and left unexamined without sufficient consideration, it could send a message to officers and employees of the Dentsu Group, etc., as well as to external stakeholders that “they will not be held accountable if they engage in violations of laws as long as it is for the company.” Needless to say, such a message would be an obstacle to the Dentsu Group’s efforts to reform its organizational culture from hereon. Therefore, the Dentsu Group, etc. should consider taking appropriate personnel measures, such as disciplinary action, with due process against those involved in the Issues and those who failed to fulfill the responsibility to supervise them²⁸.

²⁸ With regard to management responsibility for this Issue, according to the press release on February 28, 2023, requests for returning remuneration have been made to Group Executive Management members who oversee the Japanese region of the Dentsu Group and officers in charge of Dentsu’s Tokyo 2020 Olympic and Paralympic Games business at the time of 2018.

<https://www.group.dentsu.com/en/news/release/000930.html>

(3) Ensuring diversity and flexibility in respect of human resource diversity and flexibility

Under the closed human resources system that defers to frontline staff (see III-2(6) above), there is an increased risk that distortions in the values of a particular division may not be corrected or that compliance issues that exist in previous work may be overlooked as a result of the increased homogeneity of organization members. In addition, it can be said that frontline staff are less likely to raise issues openly because of the higher risk of their own evaluations being lowered in the organization or being excluded from the organization. It is desirable to create an environment in which things can be observed from diverse perspectives, ensure diversity and flexibility in respect of human resources for the purpose of further improving the organization, businesses, and decision-making processes, and ensure psychological safety so that people with diverse cognitive assets can state what they consider in a straightforward way while maintaining, as an organization, expertise and human relationships, which are Dentsu's strengths, by strengthening knowledge management and other measures.

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