Risk Management

Integrated Risk Management for Supporting Global Business Activities

OMRON is implementing integrated risk management in order to manage the risks of the Group via a common framework. This is prompted by recognition that in order to rapidly respond to the faster pace of change in the operating environment and rising levels of uncertainty, we need to become more attuned to risk, detecting and addressing risks before they materialize. We are additionally considering how to equip ourselves with mechanisms enabling efficient, effective, and prompt risk decisions while still adhering to the OMRON Principles and relevant business rules in order to achieve our long-term vision SF2030.

Integrated Risk Management System and Structure

OMRON has established a PDCA cycle that is conducted throughout the year to identify changes in the business environment, analyze risks, respond to significant risks, and engage in crisis management. To promote initiatives on a global scale through concerted effort of management and all employees, risk managers are appointed for each of headquarters, divisions, regional headquarters, and Group companies across the world.

Risks Surrounding Management and Businesses, and Risk Analysis

OMRON considers risks to be significant factors that must be addressed in carrying out the two transformations in SF 1st Stage: “business transformation” and “transformation of corporate management and organizational capabilities.” OMRON regularly, at least once a year, conducts comprehensive analyses of the appropriateness/sufficiency of the Group’s countermeasures for major risks and actual risk cases that have occurred and ranks these risks accordingly. OMRON classifies risks that may jeopardize the Group’s survival or bring severe social liability and risks of insufficiency of the Group’s countermeasures for major risks and actual risk cases that have occurred and ranks these risks accordingly. OMRON classifies risks that may jeopardize the Group’s survival or bring severe social liability and risks of insufficiency of the Group’s countermeasures for major risks and actual risk cases that have occurred and ranks these risks accordingly. OMRON classifies risks that may jeopardize the Group’s survival or bring severe social liability and risks of insufficiency of the Group’s countermeasures for major risks and actual risk cases that have occurred and ranks these risks accordingly.

The updates of implementation of countermeasures and changes in risk status are monitored.
Addressing Significant Group Risks

The following are the significant Group risks that the Group has designated as S-rank risks and is currently focusing on.

(1) Stable Supply of Products (S Rank)

External Environment and Risk Scenario
The diffusion of digital transformation equipment, the increasing dispersal of production locations, and growing social demands for conservation of the global environment have led to continued growth in consumption and investment globally. Meanwhile, supply chain disruptions due to shortages of semiconductors and other parts and components, as well as container shortages and customs clearance delays, have persisted. There are also concerns about the deteriorating Russia-Ukraine situation and the impact of lockdowns due to China's zero-COVID-19 policy. If the range of parts and materials in short supply expands and the procurement volume does not reach the required level or if the logistics lead times for products become significantly longer, product supply capacity may decline.

The Group’s Business and Countermeasures
The Group will respond to expanding demand for capital investment in semiconductor manufacturing, electric vehicles, plastic-free products and packaging, and renewable energy-related industries, as well as steady demand for blood pressure monitors and other health equipment in line with population aging and growing health consciousness, to achieve strong growth. In fiscal 2021, despite the shortages of parts and materials, we strove to reduce the impact through flexible design changes, procurement of alternative parts and materials, and expansion of airfreight to fulfill our responsibility for supply to customers. Furthermore, under SF2030, we will continue to expand our procurement sources, particularly for semiconductors, and accelerate our transition to parts and materials with low procurement risk by means of design changes. At the same time, we will formulate a supply chain strategy for greater resilience from a medium- to long-term perspective.

(2) Business Continuity (COVID-19 and Natural Disasters) (S Rank)

External Environment and Risk Scenario
As for business continuity risks, outbreaks of mass infection due to the spread of infectious diseases such as COVID-19, their persistence for long periods of time, and lockdowns as part of strict quarantine policies against infectious diseases in various countries will also have a significant impact on business activities. Specifically, the supply of products to customers may stagnate for long periods of time due to production stoppages at OMRON plants, delays in quickly ascertaining information about parts supply stoppages from key suppliers, etc. In addition, in the event of unforeseen disasters such as large-scale natural disasters caused by recent climate change, major earthquakes, or major fires at our business partners, there is a possibility of partial suspension or reduction of business activities due to large-scale suspension of social infrastructure and economic activities, long-term suspension of parts supply from key suppliers, etc.

The Group’s Business and Countermeasures
The Group operates production sites in China, elsewhere in Asia, and in other regions around the world. We deliver products to our clients globally through sales sites in these countries and regions. The supply chain for parts and other items used by the Group extends globally, from materials procurement to the production assembly process. Continuing from our efforts in fiscal 2019, the Pandemic Response Headquarters, led by the CEO, addresses the COVID-19 pandemic, according the top priority to ensuring health and safety of our employees and the prevention of the spread of infection in regions where we operate. In addition, based on our COVID-19 Business Continuity Plan, we are continuing to take infection control measures in consideration of various national government/regional laws, regulations, and guidance. Based on the premise of the “new normal,” in order to co-exist with COVID-19, the Group has shifted to a work style that optimally and flexibly combines working in the office and remote working and is promoting the practice of the most effective and efficient work style according to business needs. Moreover, the Group has formulated a business continuity plan for not only production, but also purchasing and procurement, logistics, and IT, and is implementing and strengthening actions to put in place necessary safety measures, ensure business continuity, and enable rapid recovery in readiness for natural disasters. Furthermore, we operate an employee safety confirmation system in preparation for disasters, stockpile emergency food and drinking water at sites, and conduct simulations and training drills for emergency situations to improve the effectiveness of the business continuity plan. For an emergency in the supply chain, we are taking measures such as building a mechanism to ascertain parts supply risk immediately after disaster strikes and securing strategic parts inventory according to degree of importance.
External Environment and Risk Scenario
As for geopolitical risks, international relations are changing more rapidly, including bilateral relations between the U.S. and China and multilateral relations concerning the Russia-Ukraine situation. In these circumstances, various countries and regions may strengthen economic and security policies, enforce laws and regulations to prevent the outflow of cutting-edge technology outside the country/region, and import/export transactions and financial settlement with companies subject to sanctions or legal restrictions may be suspended. In addition, if various countries adopt protectionist tariff policies, price competitiveness may decline. In the event of war or conflict, the Group may face a risk of long-term business suspension or withdrawal from business in the relevant region, or other unforeseen changes in policies or laws and regulations that may affect the Group’s business activities. Failure to respond appropriately to these changes in circumstances and policies could lead to legal disputes, administrative penalties, and even damage to social trust in our brands.

The Group's Business and Countermeasures
The Group operates production sites in China, elsewhere in Asia, and in other regions around the world. We deliver products to our clients globally through sales sites in these countries and regions. Under SF2030, we will further accelerate our global expansion, including strengthening our presence in the Chinese and Indian markets. We are also creating new businesses based on cutting-edge technologies, such as AI, IoT, and robotics, and promoting projects related to social infrastructure, such as public transportation and traffic safety, in our social systems business. With regard to geopolitical risks, we regularly monitor global political and economic conditions and trends in laws and regulations, ascertaining changing business environments in each area and their impact on our performance. We are also exploring systems for rapidly analyzing and generating insights concerning optimization of production, research and development, and intellectual property management, as well as concerning the impact of changes in laws and regulations on our various businesses. Export regulations in various countries have become more influential in recent years. Our Global Risk Management and Legal HQ operates a company-wide export control committee, ensuring the appropriate management of security trading. Under SF2030, in order to respond promptly to highly uncertain geopolitical risks, we will promote initiatives such as strengthening our analysis of the situation in each country and region.

Sustainability Issues (Climate Change) (S Rank)
External Environment and Risk Scenario
In view of increasing severity and frequency of extreme weather events and loss of species, tackling climate change has become a social issue on a global level. Companies are required to work to reduce greenhouse gas (GHG) emissions in their value chains and to make their products and services more environmentally friendly toward a decarbonized society. On the other hand, laws and regulations and requirements concerning disclosure of initiatives regarding climate-related action and environmental policies are being tightened in Europe, the U.S., and elsewhere, and society as a whole, including customers and suppliers, is stepping up its demand for decarbonization initiatives. Due to the rise in energy prices as a result of the tightening of regulations in various countries and regions, additional capital investment to address energy saving and the transition to renewable energy, and the impact of the introduction of carbon taxes, there are risks of increasing business costs. Moreover, failure by OMRON or its suppliers to appropriately respond to customer requirements and laws and regulations may result in suspension of customer transactions, administrative penalties, or loss of business opportunities. Furthermore, inadequate systems to deal with climate-related information disclosure may result in damage to social trust in our brands due to failure to meet the standards required by stakeholders.

The Group's Business and Countermeasures
For major countermeasures to climate-related risks, please refer to P78 and P81.

Sustainability Issues (Human Rights) (S Rank)
External Environment and Risk Scenario
Owing to growing interest in the SDGs, consumers are increasingly choosing and purchasing products and services that are fully respectful of human rights. Activities that take human rights into consideration, such as life safety and health considerations, also lead to improved performance by workers. Meanwhile, companies, not only themselves but also throughout the value chain, are required by society to fulfill certain responsibilities for issues such as forced labor, child labor, low wages and nonpayment, long working hours, and working conditions with inadequate safety and hygiene, mainly in developing countries. The enactment of human rights-related laws and regulations is therefore accelerating in many countries. In addition, as emerging technologies such as AI become widespread, ethical issues related to emerging technologies have become a social issue. Addressing these human rights issues has become a “business license” for companies that operate globally. Failure to appropriately address human rights issues in the value chain may result in suspension of customer transactions, administrative penalties, or damage to social trust in our brands. Moreover, inadequate response to laws and regulations in utilizing emerging technologies such as AI may result in the suspension of development themes or reputational risk.

The Group's Business and Countermeasures
For major countermeasures to human rights risks, please refer to P75 and P76.
(5) IT Systems & Information Security (S Rank)

External Environment and Risk Scenario
As society becomes increasingly digitalized, companies are expected to improve productivity and solve social issues through digital transformation and data utilization. On the other hand, the threat of cyberattacks is rapidly increasing, and if countermeasures against such attacks are weak, they may result in the leakage of personal and confidential information or business shutdowns due to server outage, etc. Moreover, reflecting demand for privacy protection and the policies of various countries and regions, personal information and data protection laws and regulations are enacted, revised, or their applications are tightened around the world. Any violation in business operations may result in damage to social trust, the inability to conduct business, and the imposition of large fines. If information management is inadequate in technological development through collaborative creation, etc., business competitiveness may be lost due to unauthorized removal of information from the premises or information leakage.

The Group’s Business and Countermeasures
The Group has established and operates various systems worldwide. Currently, we are promoting the Corporate System Project (CSPJ), whose objective is construction of a management system enabling transition to data-driven corporate management, as one of the most important projects for the Group. CSPJ is an initiative not only to renew the IT infrastructure but also to standardize business processes and utilize data in the future. Moreover, the Group possesses essential business information, as well as personal information and confidential information of business partners obtained in the course of business. Under SF2030, for example, we will promote the construction of a data platform as we transition to a business model that combines “products and services,” including the use of data in the development of a global telemedicine service in the healthcare business. For IT system & information security risks, we hold integrated cybersecurity meetings under the leadership of the CFO to assess the security level and address issues based on a global standard cybersecurity framework. In addition, we have established Group rules on information security and personal information protection and have established management measures for obtaining, using, and disposing of information according to the rank of importance of the information. We have also established and are operating a system that enables smooth and prompt response to incidents. In fiscal 2021, we made progress in transition to a zero trust model (Note 1), including strengthening of measures to monitor suspicious behavior of PCs. In addition, in response to the revised Act on the Protection of Personal Information that came into effect on April 1, 2022, we reviewed our privacy policy, rules and various procedures, and conducted training of all employees. We will continue to strengthen our crisis management system against cyberattacks and rebuild our global system to promptly respond to changes in personal information and data protection regulations in various countries and regions.

(6) Quality (S Rank)

External Environment and Risk Scenario
Expectations are growing for companies to provide highly innovative products and services as a means of solving social issues. On the other hand, high standards are required to ensure product safety and accuracy. Regulations and standards related to product safety, such as reporting and countermeasures for product defects, regulations on chemical substances contained in products, such as the European RoHS Directive (Note 1) and Toxic Substances Control Act (TSCA) (Note 2) in the U.S., and product safety-related laws and regulations and standards, such as the UL Certification (Note 3) in the U.S., are becoming more stringent around the world. In addition, products are increasingly networked and the threat of cyberattacks is growing. In these circumstances, in the event that we provide inadequate product design/inspection, inappropriate customer support, or inappropriate reporting, or in the event that we are non-compliant with laws, regulations, and standards, it may result in large-scale recalls, damage to social trust in our brands, or suspension of production and distribution of products.

The Group’s Business and Countermeasures
The Group has been engaged in business with Sensing & Control +Think as its core technologies. Under SF2030, we will continue to evolve Sensing & Control +Think to realize new value through the combination of “products and services” rather than just “products.” Examples include i-BELT, a service that utilizes data from manufacturing sites in the Industrial Automation Business, and the development of a global telemedicine service in the Healthcare Business. Regarding quality risks, in order to maximize customer satisfaction, we have established a basic quality policy based on the principle of quality first. We have also established a quality management system based on international standard requirements. In addition, in order to further our quality governance, the Global Procurement, Quality and Logistics HQ, which conducts top-level oversight of quality, holds company-wide quality managers meetings. Furthermore, we have established and enforce Group rules regarding our quality assurance system, quality assurance activities, and management in the event of a serious quality issue. With respect to quality compliance, we are strengthening our management system by ascertaining trends worldwide in environmental and safety-related laws, regulations, and standards related to products and other areas. With regard to product security, we have established a response system for when we receive vulnerability information on our products and services from external sources. Under SF2030, in addition to the above, for technologies with high quality risk, such as lithium-ion batteries and power devices used in each of our businesses, we aim to establish quality technologies to prevent such risks from occurring according to the respective risks. With regard to product security, we will work to strengthen our systems throughout the product and service lifecycle, including the supply chain, while utilizing outside consulting firms. Furthermore, we will establish a quality management system adapted to the service business, taking into account the shift from “products” to “products and services.” We aim to establish a mechanism to accumulate and utilize knowledge (risk management and quality initiatives in the service business) to harmonize quality sensitivity and values.

(1) Zero trust model: A security model based on the concept, “never trust, always verify,” meaning that people, networks, or devices should not be trusted.
(2) UL Certification: Certification for reliability and safety of raw materials and products by Underwriters Laboratories, a third-party safety science organization in the U.S.
(7) Global Compliance (S Rank)

External Environment and Risk Scenario
With the growing influence of corporations in society, social demands for fair trade are increasing. Global laws and regulations, such as antitrust laws and anti-bribery laws, will become stricter. At the same time, new laws and regulations and operations are being considered in light of the evolution of IT, AI, etc. and in order to address social issues such as climate change. If relevant authorities discover or determine that OMRON has violated these laws and regulations, OMRON may be subject to fines or other administrative penalties, criminal punishment, or damage suits, which could have a negative impact on its reputation in society.

The Group's Business and Countermeasures
The Group offers products and services globally, including those licensed by the governments of various countries. Under SF2030, we will promote the development of innovative products and new business models through collaborative creation with various business partners. We will also actively work to solve global social issues, including those in emerging countries. As part of our socially responsible corporate management, we consider corporate ethics and compliance to be one of the most important issues in our activities. Particular emphasis is placed on preventing the occurrence of cartels and other anti-competitive activities, bribery, and other significant risks. Specifically, we have established the OMRON Group Management Policy. We also have established and disseminated the OMRON Group Rules for Ethical Conduct as specific guidelines for the conduct of executives and employees of the Group to ensure thorough compliance with laws and regulations. Furthermore, we have appointed a person responsible for promoting corporate ethics and compliance and established a Corporate Ethics and Risk Management Committee to promote corporate ethics and compliance. The president regularly issues instructions regarding corporate ethics and thorough compliance and takes opportunities to raise awareness. In addition, we conduct periodic training for executives and employees on corporate ethics and compliance, including anti-competitive behavior, such as cartels, and bribery. In addition, we have established an internal and external whistleblower hotline. We accept reports of any conduct that violates or may violate the OMRON Group Rules for Ethical Conduct, employment regulations, or laws and regulations. In accordance with laws, regulations, and internal rules, the content of reports will be kept confidential, and whistleblowers will not be treated unfairly.

Example of Information Security Measures: Email Security Awareness Training to Enhance Information Security Strength of “People”
In recent years, cyberattacks have become increasingly sophisticated and complex, and there have been many incidents that have had a significant impact on corporate activities, making implementation of further security measures an urgent necessity. We are implementing various system security measures to prevent cyberattacks. However, attacks that attempt to penetrate through “people” (employees), which have been a weak point in security, especially those via email, are becoming increasingly sophisticated. To this end, we are conducting email security awareness training throughout the OMRON Group, including overseas, as part of our initiatives to increase the sensitivity of “people” to security. The purpose of this training is to have employees experience simulated email attacks by sending simulated threat emails, thereby enhancing their ability to prevent attacks. Training content is modified by changing the timing and the number of times such emails are sent, randomly selecting employees who will be the recipients, and changing the text of the emails to express a variety of content. In addition, interviews and follow-up training are conducted with employees who opened attachments or clicked on links in simulated emails to ascertain the reasons why they did so, and the results of the training are disclosed internally to create a sense of urgency. As a result of these initiatives, the number of inappropriate responses to threat emails in training has steadily decreased, and individual employees’ awareness about email attacks has increased, as evidenced by an increase in requests from employees for more challenging training and inquiries about suspicious emails. We will continue to build a safer and more secure security system by strengthening our technical security measures as well as the information security strength of “people.”

Fiscal 2021 Global Corporate Ethics Month: Raising Ethical Awareness of Employees Globally
Since 2016, the OMRON Group has designated October of each year as Global Corporate Ethics Month and has been implementing initiatives to raise employees’ ethical awareness and enhance their relevant knowledge. During this month, all employees receive training and learn about the OMRON Group Rules for Ethical Conduct, which stipulate actions to be taken by employees in accordance with the OMRON Principles and laws and regulations. In fiscal 2021, the CEO message for the Corporate Ethics Month was delivered in 11 languages (Japanese, English, Chinese, Korean, Spanish, French, Portuguese, Thai, Indonesian, Vietnamese, and Malay). Also, the training, centering on e-learning, was tailored to the actual situation in each region, reflecting the risks inherent in daily operations. In Japan, the training programs covered cybersecurity, intellectual property protection, insider trading, and bribery. In the U.S. and Europe, lectures were provided on how a whistle-blower system works and how to use the web platform that protects the privacy of whistle-blowers. Quizzes and games were incorporated in the training to enhance the level of understanding, and manuals in local languages were distributed to inculcate the whistle-blower system. Through these activities, more than 99% of eligible employees participated in the training globally during the Global Business Ethics Month in fiscal 2021, resulting in higher employees’ awareness of ethics.