



A Conversation with our Outside Directors

Outside Director
Toru Tokuhiisa

Outside Director
Toshikazu Tanaka

In FY2019 ('18/4-'19/3), a huge loss was recorded in the engineering business, significantly damaging the financial base. The Mitsui E&S Group Business Revival Plan was therefore newly created. Currently, the Group is working to strengthen its financial and profit structures as well as reform its business structure. Against this backdrop, the Group talks with its outside directors about the Company's governance, current issues, and future direction, all from an outside perspective.

What is important in terms of the role an outside director plays?

Tanaka: Firstly, we need to understand the actual situation of the Company through on-site visits and exchanging ideas with executives, keeping in mind a sense of unity with employees while staying objective. On top of that, it's also important that we speak openly and frankly to management, even if they don't want to hear what we have to say, so that we can contribute to improving corporate value over the medium- to long-term as an optimal solution for all stakeholders. I especially try to keep a close eye on management from the shareholder's perspective. Simply because I couldn't fulfill my responsibilities as an outside director through flattery and brown-nosing.

Tokuhiisa: After the bubble burst, the performance of Japanese companies has been sluggish and scandals have become more widespread. Because of this and the need to strengthen supervision from an external perspective over the execution of duties by the Board of Directors, and especially because there are growing calls to defend the interests of general shareholders, the number of independent outside directors has increased. In that sense, we are paying particular attention to whether management are managing in an easy-to-understand way for outside stakeholders, especially general shareholders, in other words, we need to ensure they are being held accountable.

Please tell us how corporate governance is assessed.

Tanaka: The Company's corporate governance has improved significantly with the separation of supervision and execution, and by ensuring fairness and transparency through the establishment of the Personnel and Compensation Advisory Committees. I also get the impression that the Board of Directors have a more balanced approach in tune with the importance of projects. So that meetings don't simply become a briefing session or a ratification meeting, we've done a few things such as changing the seating arrangements and reducing the

number of directors. This way all members are able to actively exchange opinions and ideas. From individual discussions between managers on the best management of the entire Group, we can see that the culture of proactively talking about projects to other departments has started to come about. I do however feel that discussions with outside directors have been a little reserved so I'd like to be able to have more open discussions.



“Get the understanding of stakeholders through easy-to-understand management”

Tokuhisa: I was the Company’s first outside director at the time when the need to introduce a Corporate Governance Code had become apparent. But up until that point, I heard that as with many companies at that time, the Company’s Board of Directors had always been the place where what the executives

decided was ratified. Joining this Board of specialists, somewhat as a novice and outsider, I had plenty of questions and concerns, and I suppose I troubled the Company, who are very good at dealing with the finer details, to explain things to me as a non-specialist. But since the belief was that management issues should be fully understood by external stakeholders, I tried to maintain my position as a novice as best I could. I also emphasized that the role of the director of the Company is not only to oversee execution within their relevant divisions, but it is also to increase the corporate value of the whole Company. Later, the Corporate Governance Code began to be put into practical use, improving the Company’s governance accordingly. Further to this, Mr. Tanaka, who displayed his uncommon shrewdness at Mitsui Chemicals, came on board as an outside director, improving governance even more. Now we see the Company’s governance has reached a level not unfavorable by comparison to that of other companies.

Do you get the impression that the vertical structure has strengthened since becoming a holding company?

Tokuhisa: There are many verticals so if you take a lateral approach the horizontal line becomes too strong and the powers and responsibilities along the horizontal line get blurred. This is a perpetual problem for companies all over the world. In our Company, business divisions were originally in a vertical, hierarchal structure, and within that was an additional vertical line. Whether it was because of specific optimization or sectionalism, there were some situations where the successes and failures of neighboring divisions couldn’t be exploited. By becoming a holding company, I believe that each business division, as independent subsidiary, has been strengthened in its sense of responsibility and maneuverability to management. On top of that, as a holding company it’s important for

everyone to be aware of overall optimization or horizontal cooperation of the subsidiaries as a Group, and I think we are moving in that direction.

Tanaka: I don’t think it’s wrong to have a holding company with both a vertical and horizontal structure in place. Powers and responsibilities can be clearly defined, and each business can make quick decisions making it possible for efficient Group management. It’s difficult to determine the part where the holding company applies its grip on the business, in other words, how to balance the parts that work to have a cohesive, unifying force with those parts that have centrifugal force. This is an issue we face for the future.

How do you feel about the mid-term business plan initiatives?

Tanaka: The biggest aim of the mid-term plan is to boldly change the business portfolio with a focus on profits, taking drastic measures on hugely unprofitable businesses like shipbuilding. Unfortunately, before those results came out, a large-scale overseas EPC project which was sanctioned before the mid-term plan generated massive losses and active investment also did not go our way, which conversely created a mood of gradual decline throughout the whole Group. With regard to the progress of the current mid-term plan, we have been held back by these specific factors, and I must say that not enough bold management decisions or quick actions have been taken.

What we should reflect on here is to further increase the speed of formulating and executing bold strategies, and at the same time to increase the speed at which we can understand actual situations.

Tokuhisa: Since our shipbuilding business, our original business, is an order-receiving industry with high fixed costs, I think there is a tendency to prioritize filling up the building-berths several years ahead, balancing the books only after receiving the orders. I think that this “get the orders first” attitude has been applied to the engineering business in the same way, and as a result has brought about significant risks. On fully

recognizing that such issues exist, the current mid-term plan casts away from such an order first-based structure, changing the direction of the entire company to that with a focus more on profits. Despite the fact that there is stiff competition to win

orders, if you can’t make profits in the first place then it just doesn’t make sense. In the next mid-term plan I’d like to strongly reiterate this point and further accelerate choice and focus on high value-added businesses.

What particular suggestions do you have for developing the business revival plan?

Tanaka: First of all, we must carry out bold structural reforms without hesitation. In addition to this, I propose a cultural shift away from the product-out approach towards a more market-in approach. Although it is fundamental to think about marketing strategies based on our core technological capabilities, customer needs have changed greatly regardless of the Company’s circumstances. So I advise that the Company should perfect a market-in approach, rather than a passive order-receiving mentality, and if there are things which cannot meet future needs then the Company should show caution from a financial perspective but it should also positively work towards building business alliances and carrying out M&A. And one more thing, I said that I would like to see this business revival plan explained in detail to all employees, financial institutions, major shareholders, business partners, and other stakeholders. We in particular should not lose unifying force of employees to affect the Company. There are many things we have including

technologies built up over 100 years, superb customers who we have built a relationship of trust with over many, many years, and we have many promising businesses that other companies want.

Tokuhisa: As Mr. Tanaka has already pointed out, I’m concerned about easy-to-understand management that emphasizes the perspectives of general shareholders. Since the revival plan is an important message for a wide range of stakeholders, the Company can no longer act as one if there is complacency on the side of management, or if the points are not clear, making it difficult to understand what the plan is trying to achieve. Which is why, as I mentioned at the start, I asked them to make the revival plan understood by all stakeholders with simple expression. In times like these I think that outsiders, who aren’t necessarily familiar with the unspoken agreements of the Company, may become useful.

Please tell us about any positive contributions for the future.

Tokuhisa: In the business revival plan, the direction of choice and focus is clearly set out, so if the excellent executives and employees of the Group make progress according to the plan, they should be able to make a great company, hardly recognizable from what it was before. In terms of governance, we recognize the issues of promoting diversity by appointing women or foreign directors, and increasing the ratio of outside directors, but our mission is to increase corporate value over the medium to long term. To that end, as well as contributing to the formulation of the next mid-term plan for the steady implementation of the business revival plan, more recently I want to actively help create an atmosphere where management and employees can exchange more positive opinions and ideas with each other.

Tanaka: For my part, we once recovered from a difficult situation in the management of Mitsui Chemicals, Inc. because the belief that we could always get out of trouble never faltered, we were able to unite the employees as one, and those at the top executed a painful strategy, boldly and fairly, rejecting their own self-interests. This is how I understand it. Every great company

encounters a crisis once every decade or so. At those times, it’s important to act positively without losing pride, believing that the company working so hard as one will bounce back. It’s clear what we need to do. Management is also taking initiative so as to give a good example to employees. Companies that bounce back from the bottom become stronger. We are confident that this will be the case, and it is at times like these that I want to utilize my experience.

“Management leads by giving a good example, moving forward with pride as a unified company”

