

# Group Management to Realize

In April 2023, the 110th anniversary of the Company's founding, Taikisha appointed a new President, Mr. Osada. Under a new management and executive structure, the Company began its next leap forward. The three Outside Directors and the newly appointed President Osada sat down for a roundtable discussion to talk about the behind-the-scenes process of selecting the President, as well as the future direction of the Group's management and the challenges that lie ahead in achieving this goal.



President and Representative Director  
**Masashi Osada**

Joined Taikisha Ltd. in 1983. Previously worked as Senior General Manager, Global Business Management Dept., Paint Finishing System Division; Managing Corporate Officer, Chief Executive, Corporate Planning Headquarters; Director, Executive Corporate Officer, Chief General Manager, Green Technology System Division. In the current position since April 2023.



Outside Director  
**Hirokazu Hikosaka**

Mr. Hikosaka had worked as Audit & Supervisory Board Member since 2015 and was appointed as an Outside Director in 2017. He has abundant experience and a high level of insight regarding internal control and governance, etc., through his long tenure as an attorney. He chairs the Governance Committee.

# Our Long-term Vision



Outside Director  
**Kiyotaka Fuke**

Mr. Fuke had worked as Audit & Supervisory Board Member since 2017 and was appointed as an Outside Director in 2019. He has served as a manager of a leading life insurance company for many years, and has abundant experience and a high level of insight regarding internal control, governance, human resources development, personnel and labor management, etc. Leveraging his experience as a corporate leader, he chairs the Board of Directors and the Nomination Advisory Committee.



Outside Director  
**Masasuke Kishi**

Mr. Kishi was appointed as an Outside Director in 2021. He has years of experience as a manager of a leading business corporation, and has abundant expertise and experience regarding the information and communications sector, internal control, and governance. He chairs the Compensation Advisory Committee.



(Facilitator)  
Deloitte Touche Tohmatsu LLC  
Partner CPA

**Tatsuo Yamauchi**

After joining Deloitte Touche Tohmatsu LLC, he was engaged in auditing and IPO support, and from 2012 he worked for the Economic and Industrial Policy Bureau of the Ministry of Economy, Trade and Industry, where he was involved in the revision of the Act on Strengthening Industrial Competitiveness and corporate governance policies. Currently, he is engaged in consulting services regarding development of business management structures utilizing non-financial information such as corporate governance, development of risk management structure, business strategies, and business risks.

For details, please see the Management Structure section on P.41 and P.42. ● Management Structure

Round table discussion held: August 10, 2023

## Evaluation of the President selection process and expectations for the new structure

**Yamauchi:** Mr. Osada assumed the position of President and Representative Director in FY2023, and we renewed the structure for the executive side. First, I would like to hear from you all about what discussions took place in the Nomination Advisory Committee, which includes all Outside Directors as members, during the process of selecting a new President. Chairperson Fuke, could you please start?  
**Fuke:** First, I would like to explain the selection process. Selection is based on the CEO succession plan, which was introduced in 2019,

four years ago, under the leadership of the Nomination Advisory Committee in order to make the rules for selection more transparent. While deciding on the personnel requirements for CEO, we conducted various assessments of the executive directors of the Company ahead of time. In the selection process this time around, after confirming former President Kato's intent to retire, the Nomination Advisory Committee received the Board of Directors' request for opinion regarding the appointment of a successor, and Outside Directors conducted individual interviews with the candidates. After the interviews, each candidate was evaluated based on a designated assessment form to check how well they met the personnel requirements, while referring to the results of 360-degree evaluations

conducted on the executive side by their superiors, colleagues, and subordinates. That was the overall selection process.

However, not much time had passed since the introduction of the succession plan, so we did not yet have a sufficient pool of talents. In order to ensure the suitability of the candidates and the comprehensiveness of the selection process, the committee decided to select two additional promising candidates besides those who had been referred and conducted interviews and evaluations. The Outside Directors first deliberated on the evaluation results among themselves, and then discussion was opened up to all members of the Nomination Advisory Committee at that time, which included former President Kato. The committee then submitted their

recommendation to the Board of Directors regarding the presidential candidate they deemed most suitable. At a later date, we had an outside consultant perform third-party verification of this selection process and received the results of verification that the process was conducted in an appropriate and fair manner.

In order for the Group to advance to the next growth stage, the new President will be required to play a role in creating a new business model and fostering innovation. In this regard, we selected the new President while keeping in mind the long-term vision that had been discussed by the Board of Directors and focusing on both the careers and personalities of candidates.

The newly appointed President Osada has served in both the Green Technology System Division and the Paint Finishing System Division in positions ranging from customer relations to site manager and division head. In addition, he has also worked in the corporate departments of the Head Office, and most importantly, he has many years of overseas experience. We found that this career background made him well-suited to take charge of the future management of the Company, which is faced with the challenge of reforming its business portfolio. In terms of personality, in addition to the impressions we received through exchanging opinions at Board meetings and various other meetings, as well as the opinions of those around him, we determined through the interview that we can expect bold and quick decision-making from him, as well as leadership to drive new changes that depart from the status quo.

**Hikosaka:** While building on the work of Taikisha's past Presidents and taking over the efforts of the most recent President, Mr. Kato, we have to not only carry on their work but also advance the Company even further. Taking into account the will of the former President regarding this transition, we have listened to presentations from all the candidates on their perspectives, held discussions among the members of the Nomination Advisory Committee, and selected the presidential candidate the committee deemed most suitable.

In terms of management, we must continue to strengthen governance and improve the Board effectiveness. In our future business development, we must proceed with a long-term and global perspective. Mr. Osada was chosen as the most suitable leader in this regard.



Holding onto the conviction that only top management can handle a disruptive change, I will strive to provide leadership that meets your expectations.

**Kishi:** We feel that Taikisha has been blessed with a business environment that will allow it to grow even more. In the course of our conversations with Mr. Osada and the other candidates, they said that they would make the Company grow further. Mr. Osada, in particular, went a step further to touch on the need to promote globalization and further enhance design capabilities in order to sustainably grow the Company and increase corporate value. I completely agree with his view on promoting globalization and improving design capabilities, and I sensed his fervent desire to make the Company grow further and increase corporate value. For these reasons, I thought Mr. Osada would be our best choice for President. I am confident that he will meet our expectations.

**Yamauchi:** President Osada, how do you feel hearing these hopes and expectations?

**Osada:** As Mr. Fuke mentioned, I have gained a lot of experience since joining the Company. In fact, I feel that I almost know too much about the Company, which has made it difficult for me to take a leadership role in handling a disruptive change, including innovation. However, when I was a department head, I often said to my subordinate site managers, "Only top management can make decisions for disruptive growth, so keep your aspiration high." And that is what I have continued to tell myself. I will hold onto that sentiment and strive to expand our corporate value in order to meet your expectations.

### Strengths and challenges that open up opportunities for further growth

**Yamauchi:** Now that we have marked the 110th anniversary of Taikisha's founding, what strengths should we develop and how should we expand our business in the future? What are your thoughts on this, and what challenges are we facing?

**Osada:** Over its long 110-year history, the Company has experienced various fluctuations in society, including wars. I appreciate the great impact and significance of the managers and employees of each era who worked together to overcome unimaginable changes in the business environment. In the 40 years since I joined the Company, we have always faced difficult circumstances. However, if we look at the external environment in recent years, the world has undergone more fundamental changes recently than it did in the past 40 years.

One such change is the energy revolution, driven by the trend



I hope that by redefining the Company's purpose, we can create a group culture that takes on the challenge of growth.

toward decarbonization. Since the Group handles energy, air, and water, and we are an engineering company, this is an area that we are heavily involved in. Another recent change is the digital revolution, which is the result of the evolution of information and communication technology and AI technology. These two revolutions are happening at the same time, and while it is an opportunity for us, it is also a risk so great that if we miss the boat on this transformation, we may never regain our growth. That is how I view the current situation.

On the other hand, over the past 40 years, the Group has been blessed with many customers, mainly Japanese automobile manufacturers, and we have developed our business globally in response to their needs. However, I feel that we have not made enough progress toward proactively promoting globalization of our own volition. Through the process of globalization that we have undertaken alongside our customers, we have established a significant amount of local workforce in many countries and regions and have continued our business activities for many years. I believe that there is an opportunity for further growth as a group, including overseas national staff.

My desire is to create a group culture in which each site becomes more independent and aims to expand business by itself. To this end, we will further strengthen our engineering capabilities, increase customer satisfaction, and expand the circle of support for the Group. These are the areas we need to work on.

**Kishi:** To this end, I think we should consider redefining the Company's purpose. Taikisha's Mission Statement is "Customers

First," but I question if this truly represents its purpose in contributing to a sustainable society as our long-term vision. With "Innovative Engineering" and "Diversity & Inclusion" as the means to fulfill its purpose, the Company should disseminate themes with a stronger social impact, such as solving global environmental problems, to the world. I believe this will cause others to rally around the President and help overseas subsidiaries and sites gain a renewed and profound understanding of the purpose, which will spark excitement across the entire Group.

If a company cannot see its destination or isn't sure if it is on the right path, this uncertainty will negatively affect employee engagement. I would like the Company to clarify its purpose in order to create a group culture that makes employees "hungry for further growth."

**Osada:** You're absolutely right. Incidentally, I visited various domestic and overseas sites last year, and many executives are struggling with "what we should do" rather than "why we should do it", specifically, figuring out which markets to target. I think that the noble cause behind "what we should do", or what is often called "purpose" in recent years, was something we didn't communicate strongly enough in the past. Employees in each country are very serious about how they can grow this Company, so we will strengthen our communication with them to ignite that spark.

**Fuke:** Nowadays, any company aims to solve environmental and social issues, and although they may have different core competencies, they all share a common direction. It is also true that many of our competitors are expressing their intentions to seek growth opportunities in overseas markets in the future, so in a sense, growth themes are being narrowed and becoming in-depth. In this context, I believe that differentiation in business models will become all the more important.

Taikisha has historically been a step or two ahead in terms of its business domains and experience, and I think its employees are proud of that. But what about from now on? It would be helpful if you, as the President, could indicate in your own words what kind of differentiation we are aiming for, and in order to convey your strong commitment to the employees, it may be necessary to continue to express your thoughts in more specific terms.

In particular, customers choose Taikisha for its engineering capabilities and continue to choose it for its customer service. I expect these two aspects will be major pillars of differentiation. I believe that





The Governance Committee will engage in discussions to support the initiatives set forth by the President and help make them successful.

we, as Outside Directors, must more effectively monitor management based on the President's thoughts about how the management side will differentiate the Company, and on what timeline.

**Osada:** Thank you for pointing that out. When it comes to engineering capabilities and customer service, there are two elements that are crucial to the technology we provide, which are drawings and employees. The necessity of improving the overall quality of drawings goes without saying, but at the same time, the competence of our employees is equally important. It is our employees that maintain relationships with customers, and their ability to think about matters and dig deeper will help enhance our engineering capabilities.

Taikisha has long excelled at this kind of in-depth exploration, which has earned the trust of its customers. From now on, however, we will increase the number of employees who can proactively provide proposals in anticipation of customers' needs to set us apart from the competition. Admittedly, this is a somewhat difficult task to envision.

**Hikosaka:** I believe that the current business environment is an opportunity for Taikisha to leverage its strengths, including the differentiation tactics you mentioned. We can expect further growth by systematically implementing human resource initiatives over the next few years, enhancing our engineering capabilities, and instilling a culture of taking on challenges throughout the Group. I believe that engineering and challenge will be the keywords for the future.

### Requirements for improving engineering capabilities

**Yamauchi:** When it comes to strengthening engineering capabilities,

what specific areas do you have in mind?

**Osada:** In the Paint Finishing System Business, the key point to consider is how our customers in the automotive industry view carbon neutrality. So, the development themes and challenges depend entirely on their view. If they decide to go all-electric, carbon neutrality is, in a sense, guaranteed. However, if they go even further and change the manufacture process of their products, we will need to capture those needs and make proactive proposals.

The Green Technology System Business, especially in the industrial HVAC field, is expanding on an extremely large scale, and it is about time for us to make a decision on the range of customers to target as our customers. The direction of our engineering will change depending on where we land on the spectrum between high-end market and mass market. When thinking globally, target customers do vary by region. Some sites may aim for the high-end market, while others may believe they can offer no value unless they operate in the mass market. For this reason, I am actually still wrestling with whether or not we should decide on the scope of things like the market, products, and engineering.

However, a global challenge we are facing in the industrial HVAC field is gaining more technical access to the U.S. and European markets, without which we will be unable to increase our target options. I recognize that efforts in this direction will be necessary.

**Yamauchi:** Next, I would like to hear your opinions on how we should proceed with the people-related aspects of our efforts to enhance engineering capabilities.

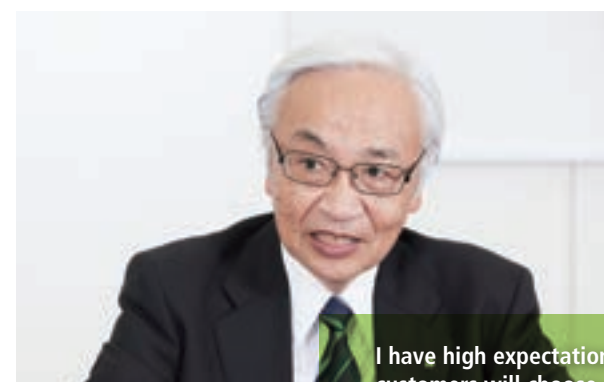
**Kishi:** In the future, Taikisha will require global talents who are not limited to one particular country but can also work in neighboring countries as well as in Japan. What is important in that case would be to set specific KPI targets, such as how many globally competent engineers we should secure in how many years across the entire Company, and work towards them while sharing the progress throughout the whole Group. Additionally, setting goals for each overseas subsidiary and site and aligning them with top-down goals to ensure consistency as a whole would be the best approach. If there are discrepancies, internal discussions should be held to determine the necessary course of action to solidify the Company's purpose. Through such discussions, messages from the top management will be conveyed to the overseas national staff, and the KPI will be shared as priorities of the Company.

**Osada:** When it comes to initiatives based on these KPIs, one thing

we must be careful about is not spending too much time defining criteria, such as what kind of person is the global talent. Rather, we should adopt relatively lenient requirements to rapidly secure the necessary workforce. In addition, in order to secure talented human resources, it is essential to introduce an employment system based on job type, which will facilitate overseas recruitment. Securing and developing global talents and introducing an employment system based on job type are two sides of the same coin, so to speak, and we would like to proceed with both at the same pace.

Another idea is to promote borderless exchange of human resources within the Group. In other words, promoting increased movement of personnel between domestic and overseas sites. For instance, if there is a shortage of personnel in charge of design in Japan, we can have them come from overseas. The projects we are involved in are increasingly beyond the scale of what can be handled in a single country. To deal with such projects, group companies need to help each other. This is precisely one of the strengths of the Group, and global talents are becoming increasingly important for these collaborations. Through this exchange, we can also think about the next steps for our talent development.

I have heard that there aren't many young talents willing to go abroad, so we first need to lower the hurdle for them to go. Those who have never visited foreign countries will find it more and more difficult to take the first step after major life events, so I think it would be a good idea to send them abroad as trainees more frequently to reduce their reluctance. Moreover, I hope that they will have the common sense that what young people once learned in Japan, they will now learn overseas.



I have high expectations that customers will choose us for our engineering and customer service capabilities, which will be major pillars of differentiation to drive growth.

**Fuke:** With the recent trend of placing more emphasis on human capital, it is important to be able to explain externally what kind of human resources Taikisha needs for future growth and what kind of initiatives it is currently undertaking, as this will help investors and analysts evaluate the Company's global and future growth potential. From this perspective, visualizing the desired talent profile and the current initiatives is absolutely vital. Additionally, I believe that as Outside Directors, we should be responsible for regularly monitoring the gap between "As is" (current status) and "To be" (ideals) based on the plan's progress against the prescribed action plan and timeline.

Such visualization of the human resources strategy may bring about a change in group culture for employees, deepening their trust in the Company's commitment and the President's determination. That is my perspective.

**Osada:** You are absolutely right. On the other hand, from my point of view, we unfortunately do not have information about which young talents are interested in gaining international experience or what their ambitions are, so we need to start with the visualization of these aspects. In fact, one problem is that there are people in the Company who want to take on the challenge of going overseas but haven't been given the opportunity.

**Yamauchi:** As Taikisha expands its global operations, I believe that there are companies that will join the Group through M&A. How do you think we should apply governance effectively when dealing with people who have different corporate cultures and values?

**Osada:** About 15 years ago, at the suggestion of the President at the time, I was personally involved in an attempt to initiate projects by connecting peers of the same generation horizontally within the Company. At that time, after analyzing the situation, I realized that Taikisha had a strong inclination towards homogeneity and was resistant to accepting cultural differences. Since then, along with changes in society, the Company's preference for homogeneity has diminished. The people who have joined the Company from the outside have consistently added value, and no significant issues have arisen as a result of M&A.

As for governance, we believe that it is only natural to properly explain the structure of the Group and monitor our responses. In fact, as many of our M&A targets are private companies, they do not always have a robust governance structure in place, so we need to proceed with caution. With such companies, we first seek sufficient understanding

from their top management, and then we work together with them. Otherwise, we may have risks ending up limiting their growth potential.

**Hikosaka:** Improving the governance of our overseas sites has been a challenge for some time, and there are ways of doing this intensively. However, unless overseas local staff understand and implement the initiatives, it will be impossible to raise the overall level of governance. That's why we should delegate authority to them while promoting the initiatives.

Now that video conferencing systems are being utilized both in Japan and overseas, it may be possible to create a borderless communication environment through such a system. In addition to disseminating messages from top management and implementing educational initiatives, it could also be used to promote governance improvement. As Outside Directors, we would also like to be involved in strengthening governance through various efforts.

**Kishi:** Last year, I visited a subsidiary in India and got the impression that they have made various improvements in terms of the general working environment, especially in the area of digitalization, which is quite advanced. Not only India, but also other major sites in various countries have R&D systems in place. I wondered if we can bring them together we would be able to achieve even greater results.

**Fuke:** I inspected a subsidiary in Thailand. They had their own Paint Finishing System Division and Green Technology System Division, but even taking into account the differing nature of their respective work, I felt there was not much mutual communication between the two divisions. The lack of collaboration between the two seemed like a missed opportunity, as it would be a chance to achieve differentiation in responding to market needs.

**Osada:** The same can be said for Japan. The old mindsets about efficiency led to vertical divisions between business divisions with little mutual interaction and that model has brought directly transferred to our overseas sites, and operations are still being carried out in that way. We need to work on improvement in this regard, starting from Japan.

**Kishi:** I would like to see those who are serving as directors of overseas subsidiaries from Japan, either in the form of secondment or concurrently, play an even more active role. President Osada's opportunities to visit overseas sites and the scope of his visits are inevitably limited, so I would like the directors of overseas subsidiaries to confirm at their respective board meetings whether



the growth strategy and policies of the Japanese side are correctly delivered, and conversely, that the local situation is appropriately communicated to the Japanese side. I believe their role will become very important in the future.

**Osada:** I think so, too. That is another aspect I would like to work on. Starting from this year, we are implementing a specific rule that we have individuals with experience in the corporate departments serve as directors at our overseas subsidiaries. Based on that rule, we will ensure that corporate personnel are always on the board of directors of overseas affiliates.

### Enhancing the achievability of transformation

**Yamauchi:** Can you share your thoughts about what kind of discussions the Board of Directors and its committee should have so as to make it more likely that the future transformation we discussed today will become a reality?

**Fuke:** The lesson we have learned is that, above all, it is necessary to keep having discussions like the one we had today in order to thoroughly grasp the President's point of view and come to a shared understanding of the challenges we face. In the Board operations as well, we need to focus on improving the effectiveness of monitoring in line with the ideas and issue awareness of President Osada, our new leader.

I would also like to add a final word on the message of "excitement" that President Osada has repeatedly expressed. When looking ahead to the future of Taikisha, it is of utmost importance that our customers and shareholders can be excited, and also that our employees be excited to work and create value. I believe this is a wonderful message and symbol for our management to aim for. I

would like to keep this sense of excitement in the Board of Director's meetings and committee meetings as we continue to have lively discussions.

**Hikosaka:** As for the Governance Committee, which I chair, I believe that it should be a committee that supports the initiatives set forth by the President, and its role is to help the Company advance with confidence. For example, when considering the possibility of M&A, instead of deciding not to proceed because of the risks involved, we should create a way to proceed safely despite the potential risks. In this way, I would like to continue discussions this year to encourage the President to take on challenges.

**Kishi:** Strengthening of engineering capabilities and globalization, which were at the center of today's discussion, can be considered the very essence of human capital management. I regret that we have not had much discussion on human resource strategies until now, so I think we need to work on this issue in the future. Going forward, if we do not advance our human resource strategy at a speed similar to

that of top-down decision-making, five or ten years will fly when we notice it. If we do not incorporate our human resource strategy into the fabric of the Company, it will never become part of our corporate culture. I would like to continue our discussions at Board meetings from a medium- to long-term perspective, with a focus on monitoring.

**Osada:** In terms of human resource strategies, the Nomination Advisory Committee's succession plan led by Mr. Fuke has started to take shape. I would like to further expand our discussions in the future. Until now, the Group tends to leave the balance sheet aspect of human resources for the individual business divisions to handle, but I hope that the Board of Directors will take up the discussion of how to develop a certain level of human resources in the future. I appreciate all your support.

**Yamauchi:** Thank you all for taking the time today to provide us with your opinions and views.

